



EVERYBODY'S
Favorite



CALAVO GROWERS, INC. 1141A CUMMINGS ROAD SANTA PAULA, CALIFORNIA 93060

WWW.CALAVO.COM

CALAVO GROWERS, INC. 2019 ANNUAL REPORT



More and fresher reasons than ever for being everybody's favorite—from growing partners to valued customers to consumers everywhere who enjoy the Calavo family of brands.



We weren't always this popular. There was a time that the avocado was just a curiosity—a regional legend of indescribably good taste. But then something happened on our way to good health and better eating, this odd-looking, bumpy-skinned fruit starting turning up in all sorts of different cuisines, and more and more on grocery store shelves. People everywhere were suddenly eating and ordering everything with avocados. What in the avocado was happening!?

Guacamole happened, for one. California rolls happened, for another. But there was something more creating this huge and growing appetite for avocados—something else that was feeding this frenzy—and, as it turns out, it was right in front of our faces every time we picked up an avocado to slice into its buttery goodness. It was the label on each and every perfect piece of fruit. **THE CALAVO LABEL.**

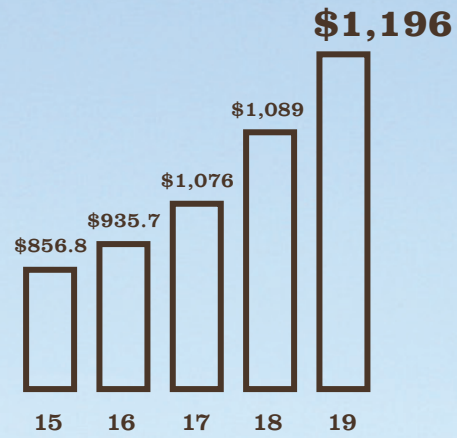
You see, these weren't just any avocados. These were Calavo avocados, which meant they were suddenly in season, every season. Our well-planned growth and continued advancements in sourcing, distribution, and ripening changed people's perception and palate for avocados. Now, people could eat them everyday, and people are!

Today, Calavo avocados are everybody's favorite, and it's not just because of all the delicious ways you can enjoy them, or as importantly the incredible health benefits packed into every one. More so, it's the assurance that comes from that Calavo label—a promise from our brand and our company—that everything we're producing now—from the fresh fruits and vegetables to our delicious salsas, fresh salads, prepared foods and more—will be your favorite. Consumers, grocers, food-service providers, chefs and, as a result, our investors, all wholeheartedly agree—

BECAUSE CALAVO MAKES EVERYTHING BETTER.

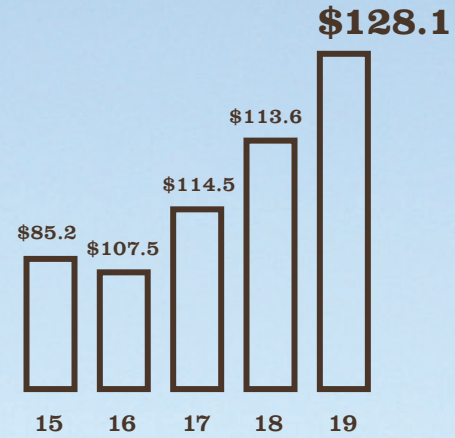
REVENUE

(Dollars in Millions)



GROSS PROFIT

(Dollars in Millions)



ADJUSTED NET INCOME

(Dollars in Millions)



ADJUSTED EARNINGS PER SHARE

(Dollars)



(*) 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.

(***) Adjusted Annual Net Income before non-cash losses recognized from FreshRealm (\$14.1 million), non-cash, unrealized loss on ownership interest in Limoneira Company (\$9.7 million), gain (\$1.6 million, net of commission) on sale of Temecula packinghouse, and tax impact of adjustments (\$5.8 million). After amounts, net income totaled \$36.6 million.

(†) 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.

(†††) After non-cash losses recognized from FreshRealm, non-cash, unrealized loss on ownership interest in Limoneira company, gain on sale of Temecula packinghouse and tax impact of adjustments described above, diluted EPS totaled \$2.08.

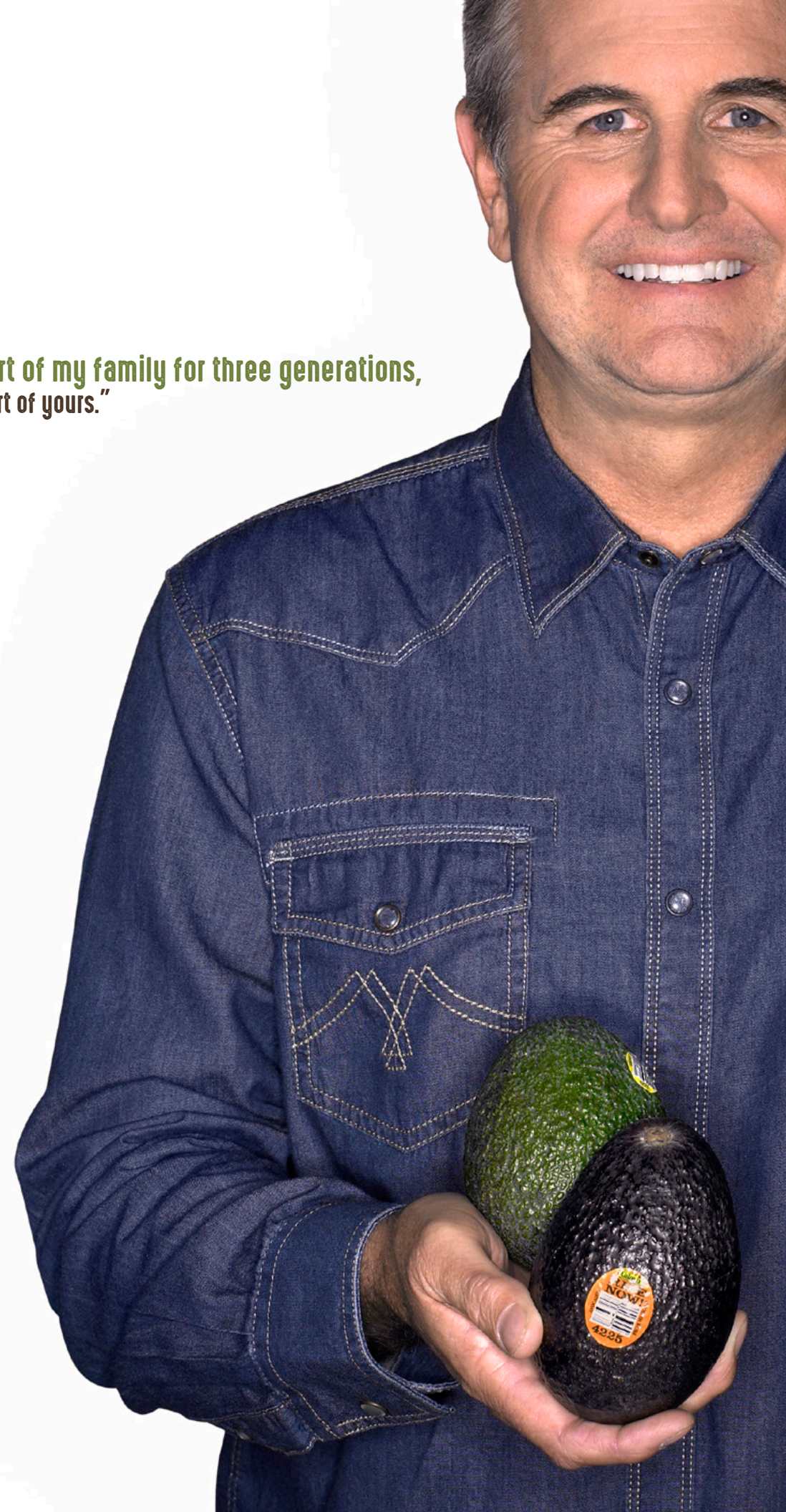
“Because avocados are a super food, Calavo year after year posts super operating results.”



"Because my kids fight over anything with avocados, that's one less fight to eat healthy."



"Because Calavo's been part of my family for three generations, our fresh avocados can be a part of yours."



CALAVO FRESH Everybody's jumping aboard the "Avocado Express." It's no wonder that this super food is the super favorite in homes and restaurants in the U.S. and around the globe. With the all-source U.S. avocado supply reaching nearly 2.6 billion pounds last year—and growing—it provides continued expansion opportunities for the company. We're working tirelessly to make everybody's favorite avocado—Calavo—the industry leader domestically and for export to markets across Asia and Europe.

"AVOCADO FACIALS MAKE MY SKIN GLOW."



"AVOCADO SMOOTHIES—
SO RICH, SO DELICIOUS."



"TODAY'S BUSY FAMILIES DEMAND CONVENIENCE AND FRESH, HEALTHY EATING OPTIONS."
 RFG's meal kits and fresh, prepared fruits and vegetables deliver on all counts.



Thinking up new recipes daily in RFG's prep kitchen.

RENNAISSANCE FOOD GROUP Consumer demand for convenience and healthy eating options are driving the refrigerated fresh packaged goods category—the fastest-growing segment of the retail grocery industry estimated at \$12-14 billion in sales. Since its acquisition by Calavo, the RFG business unit has leveraged our vast resources to build a national manufacturing footprint that can meet the just-in-time distribution requirements of grocery customers anywhere. Two new production facilities added in 2019—in Oregon and Georgia—round out these capabilities and will propel future profitable growth.





TOMATOES BURSTING WITH FLAVOR!

CALAVO FOODS Our fresh prepared guacamole and salsas are so delicious and flavorful that we've staked our sterling name they're as good as homemade...and maybe better. These terrific products complement our fresh avocados, tomatoes and papayas, as well as the RFG family of products, while extending the company's brand presence, especially at the retail grocery level. Beyond great taste and brand-building, our Foods unit delivers solid incremental contribution to Calavo's total sales and gross profit, too.



"FOR THE PERFECT SALAD!"



"FOR HEALTH AND ENERGY!"



**"BECAUSE MY CUSTOMERS DEMAND FRESH
and Calavo delivers on that daily."**



"Sweet papaya that will make anyone smile."

**"BECAUSE WE KNOW GAME-DAY GUACAMOLE
ALWAYS SCORES BIG POINTS."**



“Because Calavo products fit our active lifestyle and its shares round out our portfolio.”



“Because my busy schedule makes healthy eating an important investment, too.”



CVGW // 12-13

SHAREHOLDER RETURNS We maintain dual of objectives of reinvesting profit in Calavo, which has been instrumental to our growth, and delivering the highest possible returns to our shareholders in the form of the annual cash dividend on our common stock. We are highly successful on both fronts. Last year, while posting record operating results once again, we also returned more than \$19 million to owners via a \$1.10 per share payout, the eighth consecutive annual increase and a 450 percent rise since 2002.



“CVGW IS A WALLSTREET FAVORITE—admired for its strong, consistent financial performance.”

CALAVO—EVERYBODY'S FAVORITE!



LUCIOUS AVOCADOS!
 "A super food unlike any other."

YUMMY TOMATOES!
 "Rich in lycopene and nutrients."

TASTY GRAB 'N GO SALADS!
 "Must-haves for my on-the-go lifestyle."

SUN-KISSED PAPAYAS!
 "One bite transports me to Hawaii."

ADDICTIVE GUACAMOLE!
 "The crowds go wild for it at all my parties."

FRESH-CUT FRUIT AND VEGGIES!
 "Training-table staples for a future Hall of Famer."

DELICIOUS MEAL KITS!
 "Time-saving convenience, especially for a busy power couple like us."



AN INVESTOR FAVORITE
FROM A DECADE OF ACHIEVEMENTS

It isn't just Calavo's top-quality avocados, diversified produce and outstanding fresh products that make us Everybody's Favorite. We're widely admired across the industry for our operating execution and performance, and by Wall Street for the company's stellar investor returns. Consider the decade in review and just a few of our many accomplishments during the 10-year stretch from 2010 through 2019.

REVENUES ROCKETED, tripling from just under \$400 million in 2010 to about \$1.2 billion last year, a compound annual growth rate of 13.0 percent and 10 consecutive years of posting new all-time company highs.

EARNINGS PER SHARE SOARED to \$3.02 (on an adjusted basis) in 2019 from \$1.22 in 2010. This translates compound annual growth in earnings of 10.6 percent.

SHAREHOLDER VALUE CREATED. Calavo's market capitalization stood at more than \$1.5 billion at the most recent fiscal year end, climbing nearly four-fold from \$320 million in 2010.

INVESTOR RETURNS DELIVERED. Our 2019 annual cash dividend totaled \$1.10 per share—the company's eighth straight increase and 18th consecutive payout—a two-fold rise from 55 cents per share awarded in 2010. A \$10,000 investment in Calavo shares at the start of fiscal 2010, including reinvested dividends, would have increased in value by about 500 percent over 10 years to \$59,657.

ACQUISITIONS COMPLETED. The company's 2011 purchase of Renaissance Food Group (RFG) diversified Calavo into the refrigerated fresh packaged goods category—the fastest-growing segment of the retail grocery category. Leveraging our breadth of resources, RFG revenues have nearly quintupled from a run rate of \$110 million at the time of the deal to nearly \$500 million last year.

FACILITIES LAUNCHED. We grew fresh avocado production capacity with a new packinghouse in Jalisco, Mexico for export to markets outside the U.S. Calavo added new RFG production facilities in Florida, Southern California, Oregon and Georgia—as well as expanded operations in Texas—to build a seamless national footprint with just-in-time distribution capabilities.

TO OUR SHAREHOLDERS

I am pleased to report that fiscal 2019 was another outstanding year for your company, capping a decade that was arguably the most transformational in Calavo's long and productive history. Among the notable achievements during the year were:

Record operating results, with nearly all key metrics reaching new company highs, including revenues, gross profit, operating income, adjusted net income and adjusted earnings per share;

Strong performance in our Fresh business segment as we successfully navigated a challenging avocado market environment thanks to our ability to operate profitably even in the face of industry crosscurrents; and,

Expanding the national manufacturing footprint of our Renaissance Food Group business segment, with new production facilities in Georgia and Oregon that enhance distribution capabilities and lessen reliance on co-packing partners.

FY2019 ACHIEVEMENTS

For the fiscal year ended October 31, 2019, Calavo reported net income 14 percent above the preceding year, rising to \$36.6 million or \$2.08 per diluted share, from \$32.3 million or \$1.84 per diluted share one year earlier. Excluding certain items impacting comparability, adjusted net income rose 22 percent to a record \$53.1 million or \$3.02 per diluted share, from \$43.7 million or \$2.49 per diluted share in fiscal 2018. These results were substantially enhanced by the strong performance in our core avocado business, which I will discuss in more detail below.

Our revenues registered double-digit growth to \$1.2 billion, a 10 percent increase over \$1.1 billion in the preceding year. We take special satisfaction that this was the tenth consecutive year—from beginning to end of decade—that Calavo's top line reached a new company high. Gross profit climbed to a new record of \$128.1 million or 10.7 percent of revenues, from \$113.6 million or 10.4 percent of revenues in fiscal 2018. Operating income grew 26 percent to \$71.0 million from \$56.5 million a year earlier.

If that's not enough to qualify Calavo as Everybody's Favorite—the theme of this year's annual report—consider our performance in terms of delivering shareholder returns. In recognition of our record-setting performance and the Board of Directors' confidence about the company's prospects moving forward, Calavo announced a \$1.10 per share cash dividend on its common stock, a 10 percent increase over the preceding year. We have consistently rewarded our share owners with a cash dividend for the 18 consecutive years since we became publicly traded in 2002, and that dividend has increased by 450 percent over that time.

The tent pole of our operating performance last year was our fresh avocado business, where year-in and year-out we have demonstrated Calavo's ability to execute across a range of market conditions to deliver both growth and consistent profitability.

The past decade was one of extraordinary expansion for the avocado industry, with the all-source U.S. supply more than doubling to nearly 2.6 billion pounds last year from about 1.2 billion pounds in 2010.

"WHO WOULD HAVE EVER THOUGHT?"

LEE E. COLE
CHAIRMAN, PRESIDENT AND CEO

This translates to per-capita annual consumption of about eight pounds of fruit today, compared to about three pounds ten years ago.

This upward trend continues. Early industry forecasts estimate the 2020 avocado supply, and matching consumption, will rise again by at least 10 percent. Much has been written—including in these reports to you—about the reasons for this surging growth: shifting demographics, increased understanding of avocados' myriad health benefits, and on-point industry marketing strategies.

Less discussed, but in my view an equally important driver of increasing demand, is the improved quality of fresh avocados across the industry over the past decade. Calavo has been at the forefront of this charge. Distribution methods continue to advance, as do ripening and pre-conditioning technologies; increasingly, these make better and even more appealing fruit available to our customers.

As consumption rises and consumers grow more discerning, their demand for the highest quality product increases, too. That is both a challenge for the industry and an advantage for Calavo which, as the industry leader, has built its brand on delivering excellence. We think that our position as quality leader, along with our vast resources, provide our company with great future prospects in the fresh avocado segment, both domestically and abroad, and that Calavo is uniquely well positioned to capitalize upon this opportunity.

The RFG segment delivered steady top line growth in fiscal 2019, even as it navigated a number of broader industry and co-pack partner circumstances—respectively, raw materials availability and product recalls—that challenged the business segment last year. Despite those conditions, RFG registered notable achievements in fiscal 2019 that will provide solid support as it moves forward.

The business segment opened two additional production facilities—in Oregon to serve the Pacific Northwest, where RFG had relied on co-packing partners, and in Georgia to better penetrate customer opportunities in the southern U.S. These additions extend our national distribution capabilities, and increasingly bring RFG production under direct company control. In our continuing efforts to gain operating efficiencies and enhance margins, while ramping up these new facilities RFG also continued to optimize manufacturing at production centers added in recent years.

Since being acquired by Calavo in 2011, RFG has achieved exceptional top line performance, with revenues virtually quintupling over that time. While continuing to pursue additional customer acquisition and sales growth, RFG is putting additional focus in the current year on improved gross profit performance across our company-controlled manufacturing footprint, and we are confident about its ability to achieve these goals.

Turning to the Calavo Foods segment, we have always been—and remain—highly enthusiastic about this strong business unit and its prospects.

Foods produces outstanding fresh prepared guacamole and products, is complementary to our other two business segments, and extends the Calavo brand at the retail levels, all while delivering solid incremental revenue and profit contributions to overall results.

However, with fresh avocados as the segment's principal raw ingredient, Foods' profitability does run counter-cyclically to fruit prices in the marketplace. That proved to be the case for most of last year, when market pricing for fresh avocados dampened Foods' typically strong gross profit and margin. Those unusually high fruit prices did moderate by the fourth quarter, whereupon profit in the Foods segment began an uptick toward historic norms. Looking ahead, we see revenues re-accelerating in 2020 to the double-digit levels of past years, and sharp improvements in gross profit thanks to the larger fruit supply and a series of internal operating initiatives.

Being the steward of Calavo and its legacy, presiding over its transformation from grower-owned cooperative to publicly traded status, and leading this great company to new heights year after year after year, are among the proudest achievements of my professional life. I have always had unwavering optimism and confidence in Calavo's potential and still do. Now, after 21 years as president and CEO and serving as board chairman since 1988, it is time for me to turn the reins over to the next generation of leadership of this great company. I am not going far, though—just down the road from Calavo back to the ranch, where my ties to the company will continue to run deep as a member of the Board of Directors, one of Calavo's largest growers, and a significant shareholder.

I am pleased that our company will be led by Jim Gibson, a co-founder of our RFG business segment and until now its president. In Jim we have an outstanding individual who will marshal Calavo's vast resources as the company heads toward its 100th anniversary. Jim's track record shows him to be uniquely qualified for his new role, and he has impressed all of us who have worked with him with his intelligence, steady guiding hand, and sound judgment. I look forward to his success as guardian of this great company, and wish him Godspeed.

Jim will not be alone in executing the company's strategic agenda. He will be supported—just as I was—by an outstanding senior management team, a dedicated rank-and-file workforce, and the wisdom of his Board for guidance and sound counsel. I thank and am grateful to them all.

I am equally appreciative to our customers and their customers for their patronage, and to you, my fellow shareholders, for your support and confidence of Calavo on my watch.

Sincerely,



LEE E. COLE

CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

OUR BOARD OF DIRECTOR



(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, 2019, 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, 2019 2018 2017 2016 2015

(In thousands, except per share data)

INCOME STATEMENT DATA: (1)(2)(4)(6)

Net sales	\$ 1,195,777	\$ 1,088,758	\$ 1,075,565	\$ 935,679	\$ 856,824
Gross profit	128,082	113,616	114,544	107,534	85,227
Selling, general and administrative	59,113	57,081	56,651	46,440	41,558
Net income attributable to Calavo Growers, Inc.	36,646	32,281	37,270	38,022	27,199
Basic net income per share	\$ 2.09	\$ 1.85	\$ 2.14	\$ 2.19	\$ 1.57
Diluted net income per share	\$ 2.08	\$ 1.84	\$ 2.13	\$ 2.18	\$ 1.57

BALANCE SHEET DATA AS OF END OF PERIOD:

Working capital	\$ 36,886	\$ 29,567	\$ 3,661	\$ 25,612	\$ 18,964
Total assets ⁽⁴⁾⁽⁵⁾	390,360	367,736	364,117	327,933	284,945
Accrued expenses	39,629	38,521	39,946	31,095	21,311
Current portion of long-term obligations ⁽⁴⁾⁽⁵⁾	762	118	129	138	2,206
Long-term obligations, less current portion ⁽⁴⁾⁽⁵⁾	5,412	314	439	445	586
Shareholders’ equity	285,869	264,959	244,122	215,069	185,982

CASH FLOWS PROVIDED BY (USED IN):

Operations	\$ 72,099	\$ 48,426	\$ 62,140	\$ 61,968	\$ 37,283
Investing activities ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	(31,850)	(30,204)	(53,668)	(21,731)	(21,054)
Financing activities ⁽³⁾	(33,796)	(23,327)	(15,689)	(33,566)	(15,802)

OTHER DATA:

Cash dividends declared per share	\$ 1.10	\$ 1.00	\$ 0.95	\$ 0.90	\$ 0.80
Net book value per share	\$ 16.23	\$ 15.11	\$ 13.92	\$ 12.33	\$ 10.70
Pounds of California avocados sold	32,097	65,428	53,875	109,545	75,538
Pounds of non-California avocados sold	322,657	291,585	245,463	278,200	312,710
Pounds of processed avocados products sold	32,016	32,333	29,911	26,773	27,182

FINANCIAL SECTION

(1) During fiscal 2019 and 2018, we have recognized \$14.1 million and \$12.0 million in losses from FreshRealm, which has been recorded as losses from unconsolidated entities.

(2) During 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 \$5.8 million, \$19.9 million, \$28.4 million and \$21.0 million in FreshRealm as of October 31, 2019, 2018, 2017 and 2016, has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

(3) During fiscal 2019 and 2018, we loaned \$23.8 million and \$9.0 million as notes receivable from FreshRealm. For fiscal 2019, we have recorded \$2.4 million as interest related to the notes receivable balance from FreshRealm.

(4) In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).

(5) During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

(6) 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 Company adopted this new standard at the beginning of fiscal 2019. For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Limoneira’s stock price at October 31, 2019, and October 31, 2018 equaled \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.6 million for the year ended October 31, 2019 in our consolidated condensed statements of income.

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 2019, 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 38% and 41% of total processed segment sales for the years ended October 31, 2019 and 2018. Net sales of our refrigerated products represented approximately 62% and 59% of total processed segment sales for the years ended October 31, 2019 and 2018.

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

Dividend Payment

On October 1, 2019, the Company declared a \$1.10 per share cash dividend to shareholders of record on November 15, 2019. On December 6, 2019, the Company paid this cash dividend, which totaled \$19.4 million.

Litigation

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

Mexico tax audits

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a 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 (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (“the 2011 Assessment”) totaling approximately \$2.2 billion Mexican pesos (approx. \$114.4 million USD at October 31, 2019) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM’s fiscal 2011 assessment on June 12, 2019. 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 MFM 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. Furthermore, in August 2018, we received a favorable ruling from Mexico’s Federal Tax Administration Service, Servicio de Administracion Tributaria’s (the “SAT”) central legal department in Mexico City on another tax matter (see Note 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019. We believe we have the legal arguments and documentation to sustain the positions challenged by the MFM.

Additionally, we also received notice from the SAT, that CDM 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. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT’s local office in Uruapan issued to CDM a final tax assessment (the “2013 Assessment”) totaling approximately \$2.6 billion Mexican pesos (approx. \$135.1 million USD at October 31, 2019) related to Income Tax, Flat Rate Business

Tax, and Value Added Tax, corresponding to the fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe an employee’s profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$6.1 million USD at October 31, 2019).

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 that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT’s central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT’s central legal department in Mexico City on another tax matter (see Note 15 regarding IVA 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 believe we have the legal arguments and documentation to sustain the positions challenged by the SAT.

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.

Unrealized and realized net loss on Limoneira Stock

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 Company adopted this new standard at the beginning of fiscal 2019. With the adoption of this new standard, we reclassified unrealized gains of \$12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. Additionally, for the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Limoneira’s stock price at October 31, 2019, and October 31, 2018 equaled \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.8 million for the year ended October 31, 2019 in our consolidated condensed statements of income.

Amendment to Credit Agreement

Effective March 1, 2019, we entered into a Second Amendment to Credit Agreement (the “Second Amendment”) with Farm Credit West, PCA, and Bank of America, N.A., relating to our Credit Agreement dated as of June 14, 2016 and the First Amendment to Credit Agreement dated as of August 29, 2016. The Second Amendment, among other things, excludes financial results of FreshRealm from Calavo’s financial reporting requirements and covenant calculations and provides flexibility in making investments in joint ventures and non-wholly owned subsidiaries of Calavo.

Sale of Temecula, California Packinghouse

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash (\$6.7 million, net of transaction costs (primarily sales commissions) totaling \$0.4 million) and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers

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substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease (i.e. straight-line over 15 years). We recognized \$0.2 million of the deferred gain for fiscal 2019.

In connection with the leaseback of this packinghouse, we calculated the present value of the minimum lease payments related to the building and have capitalized \$3.3 million as a capital lease in our property, plant and equipment and recorded \$3.3 million as a lease obligation.

RFG Georgia facility

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

Michael Browne’s retirement

On September 20, 2019, Michael Browne advised Calavo, of his intention to retire as Calavo’s Vice President of Fresh Operations effective December 15, 2019. Effective December 15, 2019, Mr. Browne’s responsibilities at Calavo will be transitioned to Calavo’s Director of Fresh Operations who has reported to Michael Browne for the last 14 years.

Lecil Cole’s retirement

On October 24, 2019, Lecil E. Cole advised Calavo of his intention to retire as Calavo’s President and Chief Executive Officer, during the first quarter of calendar year 2020. Calavo’s Board of Directors is in the process of interviewing and evaluating several, qualified Chief Executive Officer candidates. Mr. Cole’s retirement will become effective on the date that his successor as Chief Executive Officer begins service in that capacity, following selection and appointment by the Board of Directors. Mr. Cole also advised Calavo that he intends to continue to serve as Calavo’s Chairman of the Board of Directors, with a focus on maintaining and enhancing Calavo’s business relationships with its investors and suppliers of avocados and other products.

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, IVA tax 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 \$0.1 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, 2019, 2018 or 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 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.

Notes receivable from FreshRealm

As of October 31, 2019, and October 31, 2018, we had notes receivable (including interest) from FreshRealm totaling \$35.2 million and \$9.09 million. At October 31, 2018, notes receivable from FreshRealm of \$9.09 million was included in prepaids and other current assets. The notes to FreshRealm, as of October 31, 2019, bear interest at the rate of 10% annually, with monthly interest payments scheduled to begin on October 31, 2020. This first interest payment would represent interest due for the month of October 2020 only, with similar monthly payments scheduled to follow afterwards. The due date of the notes is November 1, 2021, with the Company having the

option of up to two, one-year extensions (i.e. first to November 1, 2022, then to November 1, 2023). At October 31, 2019, we have a receivable of \$2.4 million related to interest that we have recorded within Note receivables to FreshRealm on the balance sheet. We assess the collectability of these notes from FreshRealm based on their financial results and, primarily, their cash projections. We have concluded no reserve is necessary as of October 31, 2019. See Notes 8 and 16 in our consolidated financial statements for further information.

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,	2019	2018	2017
Net sales	100.0%	100.0%	100.0%
Gross profit	10.7%	10.4%	10.6%
Selling, general and administrative	4.9%	5.2%	5.3%
Operating income	5.9%	5.2%	5.4%
Interest income	0.2%	0.0%	0.0%
Interest expense	(0.1)%	(0.1)%	(0.1)%
Other income, net	0.0%	0.1%	0.0%
Unrealized and realized net loss on Limoneira shares	(0.8)%	0.0%	0.0%
Net income	3.1%	3.0%	3.5%

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 consumption in 2018/19 reaching 8.0 pounds per person, up 7 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 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

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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 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 2019, 2018 and 2017, on behalf of avocado growers, we remitted approximately \$1.1 million, \$1.5 million and \$1.7 million to the California Avocado Commission. During fiscal 2019, 2018 and 2017, we remitted approximately \$7.2 million, \$6.9 million and \$5.8 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 2019, 2018 and 2017, we remitted approximately \$5.4 million, \$4.7 million and \$3.5 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 consumption of tomatoes has been on the rise due primarily to the enduring popularity of salads, salad bars, and submarine sandwiches. Perhaps of greater importance has been the introduction of new and improved 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, 2019				YEAR ENDED OCTOBER 31, 2018			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	\$ 569,779	\$ —	\$ —	\$ 569,779	\$ 511,730	\$ —	\$ —	\$ 511,730
Tomatoes	40,879	—	—	40,879	31,608	—	—	31,608
Papayas	10,931	—	—	10,931	11,699	—	—	11,699
Other fresh products	1,353	—	—	1,353	498	—	—	498
Prepared avocado products	—	100,842	—	100,842	—	99,635	—	99,635
Salsa	—	3,252	—	3,252	—	3,423	—	3,423
Fresh-cut fruit & vegetables and prepared foods	—	—	488,373	488,373	—	—	451,203	451,203
Total gross sales	622,942	104,094	488,373	1,215,409	555,535	103,058	451,203	1,109,796
Less sales incentives	(1,759)	(9,360)	(2,310)	(13,429)	(2,327)	(11,412)	(2,273)	(16,012)
Less inter-company eliminations	(2,246)	(3,957)	—	(6,203)	(1,554)	(3,472)	—	(5,026)
Net sales	\$ 618,937	\$ 90,777	\$ 486,063	\$ 1,195,777	\$ 551,654	\$ 88,174	\$ 448,930	\$ 1,088,758

	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

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2019, 2018 and 2017, inter-segment sales and cost of sales of \$2.2 million, \$1.6 million and \$1.3 million between Fresh products and RFG were eliminated. For fiscal year 2019, 2018 and 2017, inter-segment sales and cost of sales of \$4.09 million, \$3.5 million and \$3.2 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

(Dollars in thousands)	2019	CHANGE	2018	CHANGE	2017
NET SALES:					
Fresh products	\$ 618,937	12.2%	\$ 551,654	(5.3)%	\$ 582,662
Calavo Foods	90,777	3.0%	88,174	18.5%	74,395
RFG	486,063	8.3%	448,930	7.3%	418,508
Total net sales	\$ 1,195,777	9.8%	\$ 1,088,758	1.2%	\$ 1,075,565

AS A PERCENTAGE OF NET SALES:

Fresh products	51.8%	50.7%	54.2%
Calavo Foods	7.6%	8.1%	6.9%
RFG	40.6%	41.2%	38.9%
	100%	100%	100%

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Summary

Net sales for the year ended October 31, 2019, as compared to 2018, increased by \$107.09 million, or 9.8%. The increase in sales, when compared to the same corresponding prior year periods, is related to growth from all reporting segments.

For fiscal year 2019, our Fresh products segment had our largest percentage increase in sales, followed by our RFG segment and Calavo Foods segment. The increase in Fresh products sales was due primarily to an increase in the per unit selling price of avocados. 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. 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 2019 vs. Fiscal 2018:

Net sales delivered by the Fresh products business increased by approximately \$67.2 million, or 12%, for the year ended October 31, 2019, when compared to the same period for fiscal 2018. This increase in Fresh product sales during the year ended 2019 was primarily related to increased sales of avocados and tomatoes.

Sales of avocados increased \$57.8 million, or 11%, for the year ended October 31, 2019, when compared to the same prior year period. The increase in avocado sales was primarily due to a 12% increase in the average sales price per carton, compared to fiscal 2018. We attribute much of the increase in price to the strong consumer demand throughout the year, which exceeded available industry supply, as well as an increase in our percentage of value-added cartons sold. The increase in sales price per carton was partially offset by an approximately 1%, or 2.3 million pound decrease in the volume of avocados sold.

Sales of tomatoes increased to \$39.9 million for the year ended October 31, 2019, compared to \$30.5 million for the same period for fiscal 2018. The increase in sales for tomatoes is primarily due to a 33% increase in volume of tomatoes sold during the year.

We anticipate that our sales volume of avocados will increase in fiscal 2020, due to a larger expected all-source avocado crop, when compared to the same prior year period.

Fiscal 2018 vs. Fiscal 2017:

Net sales delivered by the Fresh products business decreased by approximately \$31.09 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 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.

Calavo Foods

Fiscal 2019 vs. Fiscal 2018:

Sales for Calavo Foods for the year ended October 31, 2019, when compared to the same period for fiscal 2018, increased \$2.6 million, or 3%. Sales of prepared avocado products increased by approximately \$2.9 million, or 3%, primarily related to an increase in the average selling price per pound, partially offset by a slight decrease in the volume of products sold. Partially offsetting this gain were sales of salsa products, which decreased by approximately \$0.3 million during the year.

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.

RFG

Fiscal 2019 vs. Fiscal 2018:

Sales for RFG for the year ended October 31, 2019, when compared to the same period for fiscal 2018, increased \$37.1 million, or 8%. The overall increase in sales is primarily due to higher sales from expanded retail partnerships in multiple geographies, most notably around RFG’s new fresh food plant in Georgia (opened in April 2019). Partially offsetting these gains were lower sales in one specific geographic region related to issues that an RFG co-packer experienced during our second quarter.

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.

Gross Profit

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

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
GROSS PROFIT:					
Fresh products	\$ 86,350	59.4%	\$ 54,160	(25.2)%	\$ 72,376
Calavo Foods	20,164	(23.4)%	26,313	97.1%	13,353
RFG	21,568	(34.9)%	33,143	15.0%	28,815
Total gross profit	\$ 128,082	12.7%	\$ 113,616	(0.8)%	\$ 114,544

GROSS PROFIT PERCENTAGES:

Fresh products	14.0%	9.8%	12.4%
Calavo Foods	22.2%	29.8%	17.9%
RFG	4.4%	7.4%	6.9%
Consolidated	10.7%	10.4%	10.6%

Summary

Our cost of goods sold consists predominantly of ingredient costs (primarily fruit and other whole foods), packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Gross profit increased by approximately \$14.5 million, or 13%, for the year ended October 31, 2019, when compared to the same period for fiscal 2018. The increase was primarily attributable to a gross profit increase in our Fresh products segment, partially offset by decreases in our Calavo Foods and RFG segments.

Fresh products

Fiscal 2019 vs. Fiscal 2018:

During our year ended October 31, 2019, 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. For the year ended October 31, 2019, the gross profit percentage for avocados increased to 14.3% from 9.7% in fiscal year 2018. The increase during fiscal 2019 was related to improved efficiency in several key areas across our production and distribution footprint, which helped to complement the favorable market supply conditions experienced in which consumer demand exceeded market supply. Note that significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Fresh products segment.

For the year ended October 31, 2019 we generated gross profit of \$4.3 million from tomato sales, up from \$3.2 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 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 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.

Calavo Foods

Fiscal 2019 vs. Fiscal 2018:

Calavo Foods gross profit percentage decreased to 22.2% of net sales, during the year ended October 31, 2019 compared to 29.8% during the same prior year period. The decrease in Calavo Foods gross profit percentage was due primarily to decreased gross profit of our prepared avocado products. The decrease in gross profit and margin for our prepared avocado products was due primarily to higher

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raw material input costs during the year. Calavo Foods gross profit percentage improved to 20.8% sequentially of net sales in the fourth quarter of fiscal 2019 compared to 11.4% of net sales in the third quarter of fiscal 2019. This improvement is primarily due to a decrease in raw material input costs. Note that 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 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.

Selling, General and Administrative

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Selling, general and administrative	\$ 59,113	3.6%	\$ 57,081	0.8%	\$ 56,651
Percentage of net sales	4.9%		5.2%		5.3%

Selling, general and administrative expenses of \$59.1 million for the year ended October 31, 2019 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased by \$2.09 million, or 3.6%, for the year ended October 31, 2019, when compared to the same period for fiscal 2018. This increase was primarily related to an increase in accrued management bonuses (approximately \$1.5 million), increase in salaries and benefits (approximately \$0.8 million due primarily to higher headcount), and transaction costs, including sales commission, related to the sale of the Temecula packinghouse (approximately \$0.4 million), partially offset by a decrease of \$1.09 million due to senior management transition expenses recognized in the first quarter of fiscal 2018 related to the stock grant issued to two officers who retired.

Selling, general and administrative expenses of \$57.1 million for the

Income (loss) from Unconsolidated Entities

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Income (loss) from unconsolidated entities	\$ (14,082)	(18.8)%	\$ (11,850)	(3,055.1)%	\$ 401
Percentage of net sales	(1.2)%		(1.1)%		—%

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, 2019 and 2018, we recognized \$0.1 million and \$0.2 million of income related to Don Memo. For the year ended October 31, 2019 and 2018, we recognized \$14.1 million of losses

RFG

Fiscal 2019 vs. Fiscal 2018:

RFG's gross profit percentage for the year ended October 31, 2019 was 4.4%, compared to 7.4% in the same prior year period. The raw material issues described in detail during our first fiscal quarter continued into a portion of our second fiscal quarter. In general, raw material conditions improved during our third and fourth fiscal quarters, and profitability in our second half far exceeded results from the first half of our fiscal year, especially within RFG's pre-existing manufacturing operations (facilities opened more than one year). Additionally, sales and gross profit in one specific geographic region were significantly impacted as a result of issues experienced at RFG's co-packer servicing that region.

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.

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.

and \$12.09 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 2020. See Note 16 in our consolidated financial statements for more information.

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Interest income	\$ 2,675	741.2%	\$ 318	1,225.0%	\$ 24
Percentage of net sales	0.2%		—%		—%

The increase in interest income in fiscal 2019 as compared to 2018 is primarily due to the loans to FreshRealm in fiscal 2019. 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.

Interest Expense

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Interest expense	\$ 948	14.1%	\$ 831	(18.8)%	\$ 1,023
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). For fiscal 2019, as compared to fiscal 2018, the increase in interest expense was primarily related to higher LIBOR

interest rates, offset by a lower average debt balance. 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.

Other Income, Net

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Other income, net	\$ 499	(10.7)%	\$ 559	16.7%	\$ 479
Percentage of net sales	0.0%		0.1%		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 2019, 2018 and 2017, we received \$0.5 million, \$0.4 million and \$0.4 million as dividend income from Limoneira.

Provision for Income Taxes

	2019	CHANGE	2018	CHANGE	2017
(Dollars in thousands)					
Provision for income taxes	\$ 12,882	1.3%	\$ 12,719	(37.8)%	\$ 20,450
Effective tax rate	26.0%		28.4%		36.3%

Our tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. We recognize 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.

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 was 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, did not apply until our 2019 fiscal year.

In the prior fiscal period 2018, the most significant impacts included: 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. 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 (approximately \$1.4 million) and the transition tax on the deemed repatriation of foreign earnings (approximately \$0.3 million). In addition, we recorded an income tax benefit of approximately \$0.4 million for the first quarters of fiscal 2018, pursuant to ASU 2016-09, *Improvements to Employee Share-based Payment Accounting*. 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. Many of these one-time charges did not recur in 2019.

Additionally, we recorded approximately \$0.2 million of tax expense related to return to provision differences upon the filing of the 2018 and 2017 tax returns during our third quarter of fiscal quarters of 2019 and 2018.

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Net loss (income) attributable to noncontrolling interest	2019	CHANGE	2018	CHANGE	2017
<small>(Dollars in thousands)</small>					
Net loss (income) attributable to noncontrolling interest	\$ 60	(77.7)%	\$ 269	598.1%	\$ (54)
Percentage of net sales	0.0%		0.0%		0.0%

For fiscal years 2019 and 2018, the net losses attributable to noncontrolling interest is due to losses from Avocados de Jalisco.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2019. 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, 2019	JULY 31, 2019	APR. 30, 2019	JAN. 31, 2019	OCT. 31, 2018	JULY 31, 2018	APR. 30, 2018	JAN. 31, 2018
<small>(in thousands, except per share amounts)</small>								
STATEMENT OF INCOME DATA								
Net sales	\$ 292,176	\$ 359,333	\$ 286,236	\$ 258,032	\$ 280,005	\$ 296,419	\$ 264,405	\$ 247,928
Cost of sales	267,543	323,558	249,399	227,195	257,738	263,349	232,436	221,618
Gross profit	24,633	35,775	36,837	30,837	22,267	33,070	31,969	26,310
Gain on sale of Temecula packinghouse	75	75	1,927	—	—	—	—	—
Selling, general and administrative	14,885	14,295	15,657	14,276	14,796	13,893	12,875	15,517
Operating income	9,823	21,555	23,107	16,561	7,471	19,177	19,094	10,793
Gains (losses) on Limoneira shares	(1,460)	(5,116)	1,359	(4,505)	—	—	—	—
Other income (expense), net	741	708	521	256	(131)	271	11	(105)
Income before provision for income taxes and income (loss) from unconsol. entities	9,104	17,147	24,987	12,312	7,340	19,448	19,105	10,688
Provision for income taxes	1,789	3,987	5,573	1,533	250	3,403	4,764	4,302
Income (loss) from unconsolidated entities	(2,138)	(2,510)	(3,136)	(6,298)	(8,451)	(3,677)	(325)	603
Net income	5,177	10,650	16,278	4,481	(1,361)	12,368	14,016	6,989
Add: Net (income) loss – noncontrolling interest	34	(47)	67	6	31	(18)	106	150
Net income (loss) – Calavo Growers, Inc	\$ 5,211	\$ 10,603	\$ 16,345	\$ 4,487	\$ (1,330)	\$ 12,350	\$ 14,122	\$ 7,139
Basic	\$ 0.30	\$ 0.61	\$ 0.93	\$ 0.26	\$ (0.08)	\$ 0.71	\$ 0.81	\$ 0.41
Diluted	\$ 0.30	\$ 0.60	\$ 0.93	\$ 0.26	\$ (0.08)	\$ 0.70	\$ 0.80	\$ 0.41
Number of shares used in per share computation:								
Basic	17,525	17,525	17,530	17,500	17,482	17,481	17,481	17,446
Diluted	17,604	17,605	17,609	17,558	17,581	17,581	17,580	17,525

LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2019, 2018 and 2017 provided cash flows of \$72.1 million, \$48.4 million and \$62.1 million. Fiscal year 2019 operating cash flows reflect our net income of \$36.6 million, net increase of noncash charges (depreciation and amortization, income/ (loss) from unconsolidated entities, provision for losses on accounts receivable, deferred income taxes, loss on disposal of fixed assets, net losses on Limoneira stock, and stock compensation expense) of \$37.8 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately \$2.3 million.

Fiscal year 2019 decreases in operating cash flows, caused by working capital changes, includes an increase in other assets of \$5.09 million, an increase in prepaid expenses and other current assets of \$2.5 million, an increase in inventory of \$1.8 million, an increase in advances to suppliers of \$1.09 million, and a decrease in payable to growers of \$0.5 million, partially offset by, an increase in trade accounts payable, accrued expenses, and other long-term liabilities of \$4.2 million, a decrease in accounts receivable of \$2.7 million, an increase in deferred rent of \$1.09 million and a decrease in income tax receivable of \$0.7 million.

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 increase in our inventory balance is primarily related to an increase in the volume of avocado pounds on hand at October 31, 2019 as compared to the same prior year period, as well as increased RFG raw material inventories as a greater percentage of production moves to in-house facilities. The increase in advances to suppliers is mainly due to an increase in advances to our tomato growers in fiscal 2019 compared to fiscal 2018. The decrease in payable to our growers primarily reflects a decrease in our Peruvian avocado grower payable due to an earlier end to the Peruvian season in 2019 compared to 2018. The increase in accounts payable and accrued expenses is primarily related to an increase in our payables related to RFG, as well as higher accrued bonuses. The decrease in our accounts receivable, as of October 31, 2019 when compared to October 31, 2018, primarily reflects an improvement in days of sales outstanding in October 2019, as compared to October 2018.

Cash used in investing activities was \$31.9 million, \$30.2 million and \$53.7 million for fiscal years 2019, 2018, and 2017. Fiscal year 2019 cash flows used in investing activities include notes to FreshRealm of \$23.8 million, and property, plant and equipment purchases of \$16.7 million, partially offset by proceeds received on the sale of the

Temecula packinghouse of \$7.1 million, by proceeds received on the sales of Limoneira stock of \$1.2 million and proceeds received from the repayment of the San Rafael note of \$0.4 million.

Cash used in financing activities was \$33.8 million, \$23.3 million and \$15.7 million for fiscal years 2019, 2018 and 2017. Cash used during fiscal year 2019 primarily relates to the payment of our \$17.6 million dividend, payments on our credit facilities totaling \$15.09 million, the payment of minimum withholding taxes on net share settlement of equity awards of \$1.09 million and payments on long-term debt.

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, 2019 and 2018 totaled \$8.09 million and \$1.5 million. Our working capital at October 31, 2019 was \$36.9 million, compared to \$29.6 million at October 31, 2018.

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 at least 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 3.8% and 3.4% at October 31, 2019 and 2018. Under this credit facility, there was nothing outstanding as of October 31, 2019 and we had \$15.09 million outstanding as of October 31, 2018.

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, 2019.

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, 2019:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
<small>(in thousands)</small>					
Long-term debt obligations (including interest)	\$ 7,340	\$ 907	\$ 1,823	\$ 1,448	\$ 3,162
Defined benefit plan	119	34	68	17	—
Operating lease commitments	87,476	8,627	15,856	15,359	47,634
Total	\$ 94,935	\$ 9,568	\$ 17,747	\$ 16,824	\$ 50,796

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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 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 Company adopted this new standard at the beginning of fiscal 2019. With the adoption of this new standard, we reclassified unrealized gains of \$12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. Additionally, for the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Limoneira’s stock price at October 31, 2019, and October 31, 2018 equaled \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.6 million for the year ended October 31, 2019 in our consolidated condensed statements of income.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which superseded previous existing revenue recognition guidance. The standard is intended to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The standard also requires expanded disclosures surrounding revenue recognition. During fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The Company adopted this new standard at the beginning of fiscal 2019 using the modified retrospective transition method, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings on the first day of our 2019 fiscal year. The adoption of the amendment did not have an impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years beginning after December 15, 2019. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the 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 September 2018, the FASB issued an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software and deferred over the non-cancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the 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 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 do not expect that the adoption of this ASU to have an impact 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. We do not expect that the adoption of this ASU to have an impact on our financial statements.

In January 2017, the FASB issued an ASU, *Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The ASU permits an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning the first day of our 2021 fiscal year and is not expected to have a significant impact upon adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Measurement of Credit Losses on Financial Instruments, and subsequent amendments to the guidance, ASU 2018-19 in November 2018 and ASU 2019-05 in May 2019 including codification improvements to Topic 326 in ASU 2019-04. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. The standard will replace today’s “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The amendment will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial

assets not excluded from the scope that have the contractual right to receive cash. ASU 2018-19 clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments. ASU 2019-05 provides entities that have certain instruments with an option to irrevocably elect the fair value option. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. This ASU will be effective for us beginning the first day of our 2021 fiscal year. Early adoption is permitted. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In February 2016, the FASB issued an ASU, *Leases*, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset (ROU) 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.

The new standard provides a number of optional practical expedients in transition. We expect to elect the ‘package of practical

expedients’, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We expect to elect all of the new standard’s available transition practical expedients.

We will elect the alternative modified retrospective approach, applying ASC 840 to all comparative periods, including disclosures, and recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of the effective date. Upon adoption, the most significant effects are expected to relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our operating leases, which is expected to be between \$60 million and \$70 million at the beginning of fiscal 2020; and (2) providing significant new disclosures about our leasing activities.

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, 2019.

	EXPECTED MATURITY DATE OCTOBER 31,								
	2020	2021	2022	2023	2024	THEREAFTER	TOTAL	FAIR VALUE	
(All amounts in thousands)									
ASSETS									
Cash and cash equivalents ⁽¹⁾	\$ 7,973	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,973	\$ 7,973	
Accounts receivable ⁽¹⁾	63,423	—	—	—	—	—	63,423	63,423	
Notes receivable from FreshRealm ⁽²⁾	—	—	35,241	—	—	—	—	35,241	
LIABILITIES									
Payable to growers ⁽¹⁾	\$ 13,463	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13,463	\$ 13,463	
Accounts payable ⁽¹⁾	17,421	—	—	—	—	—	17,421	17,421	
Current borrowings pursuant to credit facilities ⁽¹⁾	—	—	—	—	—	—	—	—	
Fixed-rate long-term obligations ⁽³⁾	762	803	795	749	527	2,538	6,174	6,249	

(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) The notes to FreshRealm, as of October 31, 2019, bear interest at the rate of 10% annually, with monthly interest payments scheduled to begin on October 31, 2020. This first interest payment would represent interest due for the month of October 2020 only, with similar monthly payments scheduled to follow afterwards. The due date of the notes is November 1, 2021, with the Company having the option of up to two, one-year extensions (i.e. first to November 1, 2022, then to November 1, 2023).

(3) Fixed-rate long-term obligations bear interest rates ranging from 3.5% to 3.6% with a weighted-average interest rate of 3.6%. 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 \$310,000.

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 2019, 2018, and 2017, net of gains, were \$0.3 million, \$0.8 million and \$0.3 million.

Consolidated Balance Sheets

OCTOBER 31,	2019	2018
(in thousands)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,973	\$ 1,520
Accounts receivable, net of allowances of \$3,366 (2019) \$3,227 (2018)	63,423	66,143
Inventories, net	36,889	35,044
Prepaid expenses and other current assets	9,027	16,727
Advances to suppliers	7,338	5,555
Income taxes receivable	2,865	3,521
Total current assets	127,515	128,510
Property, plant, and equipment, net	132,098	122,143
Investment in Limoneira Company	31,734	42,609
Investments in unconsolidated entities	10,722	24,805
Deferred income taxes	3,447	4,377
Goodwill	18,262	18,262
Notes receivable from FreshRealm	35,241	—
Other assets	31,341	27,030
	\$ 390,360	\$ 367,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to growers	\$ 13,463	\$ 14,001
Trade accounts payable	17,421	13,735
Accrued expenses	39,629	38,521
Short-term borrowings	—	15,000
Dividend payable	19,354	17,568
Current portion of long-term obligations	762	118
Total current liabilities	90,629	98,943
Long-term Liabilities:		
Long-term obligations, less current portion	5,412	314
Deferred rent	3,681	2,678
Other long-term liabilities	4,769	842
Total long-term liabilities	13,862	3,834
Commitments and contingencies		
Shareholders' Equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 17,595 (2019) and 17,567 (2018) shares issued and outstanding)	18	18
Additional paid-in capital	161,606	157,928
Accumulated other comprehensive income	—	12,141
Noncontrolling interest	1,688	1,748
Retained earnings	122,557	93,124
Total shareholders' equity	285,869	264,959
	\$ 390,360	\$ 367,736

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

YEAR ENDED OCTOBER 31,	2019	2018	2017
(in thousands, except per share amounts)			
Net sales	\$ 1,195,777	\$ 1,088,758	\$ 1,075,565
Cost of sales	1,067,695	975,142	961,021
Gross profit	128,082	113,616	114,544
Selling, general and administrative	59,113	57,081	56,651
Gain on sale of Temecula packinghouse	2,077	—	—
Operating income	71,046	56,535	57,893
Interest income	2,675	318	24
Interest expense	(948)	(831)	(1,023)
Other income, net	499	559	479
Unrealized and realized net loss on Limoneira shares	(9,722)	—	—
Income before provision for income taxes and loss from unconsolidated entities	63,550	56,581	57,373
Provision for income taxes	12,882	12,719	20,450
Net income (loss) from unconsolidated entities	(14,082)	(11,850)	401
Net income	36,586	32,012	37,324
Less: Net loss (income) attributable to noncontrolling interest	60	269	(54)
Net income attributable to Calavo Growers, Inc.	\$ 36,646	\$ 32,281	\$ 37,270

CALAVO GROWERS, INC.'S NET INCOME PER SHARE:

Basic	\$ 2.09	\$ 1.85	\$ 2.14
Diluted	\$ 2.08	\$ 1.84	\$ 2.13

NUMBER OF SHARES USED IN PER SHARE COMPUTATION:

Basic	17,519	17,477	17,416
Diluted	17,593	17,568	17,514

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

YEAR ENDED OCTOBER 31,	2019	2018	2017
(in thousands)			
Net income	\$ 36,586	\$ 32,012	\$ 37,324
Other comprehensive income, before tax:			
Unrealized investment gains	—	2,247	6,327
Income tax expense related to items of other comprehensive income	—	(540)	(2,437)
Other comprehensive income, net of tax	—	1,707	3,890
Comprehensive income	36,586	33,719	41,214
Less: Net loss (income) attributable to noncontrolling interest	60	269	(54)
Comprehensive income – Calavo Growers, Inc.	\$ 36,646	\$ 33,988	\$ 41,160

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	COMMON STOCK SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	NON- CONTROLLING INTEREST	TOTAL
(in thousands)							
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	—	—	—	—	—	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	—	—	—	—	—	(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
Exercise of stock options and income tax benefit	4	—	85	—	—	—	85
Stock compensation expense	—	—	3,593	—	—	—	3,593
Restricted stock issued	24	—	—	—	—	—	—
Unrealized gains on Limoneira investment reclassified to retained earnings	—	—	—	(12,141)	12,141	—	—
Dividend declared to shareholders	—	—	—	—	(19,354)	—	(19,354)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(60)	(60)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	36,646	—	36,646
Balance, October 31, 2019	17,595	\$ 18	\$ 161,606	\$ —	\$ 122,557	\$ 1,688	\$ 285,869

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED OCTOBER 31,	2019	2018	2017
(in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 36,586	\$ 32,012	\$ 37,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,633	13,042	10,691
Provision for losses (gains) on accounts receivable	35	(10)	1,230
Net loss from unconsolidated entities	14,082	11,851	(401)
Unrealized and realized net loss on Limoneira shares	9,722	—	—
Interest income on notes to FreshRealm	(2,435)	—	—
Stock-based compensation expense	3,593	4,633	4,320
Gain on sale of Temecula packinghouse	(2,077)	—	—
Loss on disposal of property, plant, and equipment	304	121	74
Deferred income taxes	930	4,866	2,725
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable, net	2,685	3,617	(879)
Inventories, net	(1,845)	(4,186)	991
Prepaid expenses and other current assets	(2,508)	(729)	(1,447)
Advances to suppliers	(983)	(1,009)	79
Income taxes receivable/payable	656	(2,144)	(1,043)
Other assets	(4,991)	(3,118)	(2,362)
Payable to growers	(538)	(2,524)	(4,239)
Deferred rent	1,004	(54)	425
Trade accounts payable, accrued expenses and other long-term liabilities	4,246	(7,942)	14,652
Net cash provided by operating activities	72,099	48,426	62,140
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of and deposits on property, plant, and equipment	(16,721)	(15,004)	(44,510)
Investment in unconsolidated entities	—	(3,500)	(9,067)
Proceeds received for repayment of San Rafael note	417	436	409
Proceeds received from Limoneira stock sales	1,154	—	—
Proceeds from sale of Temecula packinghouse	7,100	—	—
Infrastructure advance to Agricola Belher	—	(3,000)	—
Notes receivables advanced to FreshRealm	(23,800)	(11,500)	—
Proceeds received for repayment of loan to FreshRealm	—	2,500	—
Investment in Agricola Don Memo	—	(136)	(500)
Net cash used in investing activities	(31,850)	(30,204)	(53,668)

See accompanying notes to consolidated financial statements.

YEAR ENDED OCTOBER 31,	2019	2018	2017
(in thousands)			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividend to shareholders	(17,568)	(16,657)	(15,696)
Proceeds from revolving credit facility	212,500	278,500	163,500
Payments on revolving credit facility	(227,500)	(283,500)	(162,500)
Payments of minimum withholding taxes on net share settlement of equity awards	(1,008)	(1,587)	—
Purchase of noncontrolling interest of Salsa Lisa	—	—	(1,000)
Payments on long-term obligations	(305)	(136)	(58)
Proceeds from stock option exercises	85	53	65
Net cash used in financing activities	(33,796)	(23,327)	(15,689)
Net increase (decrease) in cash and cash equivalents	6,453	(5,105)	(7,217)
Cash and cash equivalents, beginning of period	1,520	6,625	13,842
Cash and cash equivalents, end of period	\$ 7,973	\$ 1,520	\$ 6,625

SUPPLEMENTAL INFORMATION:

Cash paid during the year for:

Interest	\$ 1,108	\$ 874	\$ 1,094
Income taxes	\$ 10,224	\$ 9,262	\$ 17,011

NONCASH INVESTING AND FINANCING ACTIVITIES:

Declared dividends payable	\$ 19,354	\$ 17,568	\$ 16,657
Acquisitions of property, plant, and equipment with capital lease	\$ 2,827	\$ —	\$ 8,368
Capital lease related to Temecula packinghouse	\$ 3,306	\$ —	\$ —
Property, plant, and equipment included in trade accounts payable and accrued expenses	\$ 2,059	\$ 946	\$ 1,833
Collection for Agricola Belher Infrastructure Advance	\$ 800	\$ 200	\$ 200
Unrealized investment gain	\$ —	\$ 2,247	\$ 6,326

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 valuation allowances for accounts and notes 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 \$5.3 million and \$4.9 million at October 31, 2019 and 2018. Included in non-trade receivables are \$1.9 million and \$1.5 million related to the current portion of non-CDM Mexican IVA (i.e. value-added) taxes at October 31, 2019 and 2018 (See Note 15). Infrastructure advances are discussed below. In addition, at October 31, 2018, loans of \$9.09 million to FreshRealm are included in prepaid expenses and other current assets (See Note 8). Prepaid expenses totaling \$3.4 million and \$2.8 million at October 31, 2019 and 2018, are primarily for insurance, rent and other items.

Inventories

Inventories are stated at the lower of cost or 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.

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 2019, 2018 and 2017, 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, 2019 and 2018.

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 2019 and 2018, we performed our annual assessment of long-lived assets and determined that no impairment existed as of October 31, 2019 and 2018.

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, we contributed \$0.1 million as investments in Don Memo. This investment contribution 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, 2019 and 2018, we have an investment of \$4.9 million and \$4.9 million in Don Memo.

As of October 31, 2019 and 2018, we have an investment of \$5.8 million and \$19.9 million in FreshRealm, LLC (“FreshRealm”). We record the amount of our investment in FreshRealm in “Investment in unconsolidated entities” on our Consolidated 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. As of October 31, 2018, our ownership percentage in FreshRealm was approximately 37%. In fiscal 2019, certain FreshRealm employees left the company surrendering their ownership units. This changed Calavo’s ownership percentage slightly to 38%.

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.

On November 1, 2018 we adopted a new accounting standard, 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. With the adoption of this new standard, we reclassified unrealized gains of \$12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. Additionally, for the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Limoneira’s stock price at October 31, 2019, and October 31, 2018 equaled \$18.92 per share, and \$24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.6 million for the year ended October 31, 2019 in our consolidated condensed statements of income.

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.

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, 2019 and 2018.

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

Notes To Consolidated Financial Statements

to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. These advances will be collected through settlements by the end of each year. For fiscal 2019 and 2018, we agreed to advance \$4.5 million and \$4.09 million for preseason advances. As of October 31, 2019 and 2018, we have total advances of \$4.5 million and \$4.09 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, 2019 and 2018, we have total advances of \$3.7 million and \$2.5 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 \$3.09 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, 2019, we have advanced a total of \$2.6 million (\$0.8 million included in prepaid expenses and other current assets and \$1.8 million included in other long-term assets). 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). 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 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately \$18.7 million and \$20.9 million for the year ended October 31, 2019 and 2018.

Revenue Recognition

Effective at the beginning of our fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers,” and all the related amendments (Accounting Standards Codification (ASC) 606) using the modified retrospective method of adoption. ASC 606 consists of a comprehensive revenue recognition standard, which requires the recognition of revenue when control of promised goods are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of net consideration expected to be received

in exchange for transferring products. Revenue from product sales is governed primarily by customer pricing and related purchase orders (“contracts”) which specify shipping terms and certain aspects of the transaction price including rebates, discounts and other sales incentives. Contracts are at standalone pricing. The performance obligation in these contracts is determined by each of the individual purchase orders and the respective stated quantities, with revenue being recognized at a point in time when obligations under the terms of the agreement are satisfied. This generally occurs with the transfer of control of our products to the customer and the product is delivered. The Company’s customers have an implicit and explicit right to return non-conforming products. A provision for payment discounts and product return allowances, which is estimated, is recorded as a reduction of sales in the same period that the revenue is recognized.

Sales Incentives and Other Promotional Programs

The Company routinely offers sales incentives and discounts through various regional and national programs to our customers and consumers. These programs include product discounts or allowances, product rebates, product returns, one-time or ongoing trade-promotion programs with customers and consumer coupon programs that require the Company to estimate and accrue the expected costs of such programs. The costs associated with these activities are accounted for as reductions to the transaction price of the Company’s products and are, therefore, recorded as reductions to gross sales at the time of sale. The Company bases its estimates of incentive costs on historical trend experience with similar programs, actual incentive terms per customer contractual obligations and expected levels of performance of trade promotions, utilizing customer and sales organization inputs. The Company maintains liabilities at the end of each period for the estimated incentive costs incurred but unpaid for these programs. Differences between estimated and actual incentive costs are generally not material and are recognized in earnings in the period such differences are determined. Reserves for product returns, accrued rebates and promotional accruals are included in the condensed consolidated balance sheets as part of accrued expenses.

Principal vs. Agent Considerations

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. We evaluate whether its performance obligation is a promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. This evaluation determined that the Company is in control of establishing the transaction price, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on the Company’s evaluation of the control model, it determined that all of the Company’s major businesses act as the principal rather than the agent within their revenue arrangements and such revenues are reported on a gross basis.

Practical Expedients

The Company elected the following practical expedients upon its adoption of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606).

- *Shipping and handling costs* – The company elected to account for shipping and handling activities that occur before the customer has obtained control of a good as fulfillment activities rather than as a promised service.
- *Measurement of transaction price* – The Company has elected to exclude from the measurement of transaction price all taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue-producing transaction and collected by the Company from a customer for sales taxes.
- *Contract costs* – The Company has elected to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period is one year or less. The adoption of ASC 606 did not have an impact on our consolidated results of operations for the year ended October 31, 2019.

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 59% of our consolidated net sales in fiscal years 2019, 2018 and 2017. Sales to our largest customer, Kroger (including its affiliates), represented approximately 21%, 20%, and 19% of net sales in each of fiscal years 2019, 2018, and 2017. Additionally, Wal-Mart (including its affiliates) represented approximately 13% and 10% of net sales in fiscal years 2019 and 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.

Notes receivable from FreshRealm

As of October 31, 2019, and October 31, 2018, we had notes receivable (including interest) from FreshRealm totaling \$35.2 million and \$9.09 million. At October 31, 2018, notes receivable from FreshRealm of \$9.09 million was included in prepaids and other current assets. The notes to FreshRealm, as of October 31, 2019, bear

interest at the rate of 10% annually, with monthly interest payments scheduled to begin on October 31, 2020. This first interest payment would represent interest due for the month of October 2020 only, with similar monthly payments scheduled to follow afterwards. The due date of the notes is November 1, 2021, with the Company having the option of up to two, one-year extensions (i.e. first to November 1, 2022, then to November 1, 2023). At October 31, 2019, we have a receivable of \$2.4 million related to interest that we have recorded within Note receivables to FreshRealm on the balance sheet. We assess the collectability of these notes from FreshRealm based on their financial results and, primarily, their cash projections. We have concluded no reserve is necessary as of October 31, 2019. See Notes 8 and 16 in our consolidated financial statements for further information.

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, 2019, 2018 and 2017 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2019	2018	2017
Sales	\$ 64,510	\$ 43,490	\$ 25,891
Cost of Sales	57,061	38,186	22,784
Gross Profit	\$ 7,449	\$ 5,304	\$ 3,107

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 \$0.3 million, \$0.2 million and \$0.1 million for fiscal years 2019, 2018, and 2017.

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 2019, 2018 and 2017 were less than \$0.1 million.

Other Income

Included in other income is dividend income totaling \$0.6 million for fiscal year 2019. Dividend income totaled \$0.6 million and \$0.5 million for fiscal years 2018 and 2017. See Note 8 for related party disclosure related to other income.

Notes To Consolidated Financial Statements

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,	2019	2018	2017
Numerator:			
Net Income attributable to Calavo Growers, Inc.	\$ 36,646	\$ 32,281	\$ 37,270
Denominator:			
Weighted average shares – Basic	17,519	17,477	17,416
Effect on dilutive securities – Restricted stock/options	74	91	98
Weighted average shares - Diluted	17,593	17,568	17,514
Net income per share attributable to Calavo Growers, Inc:			
Basic	\$ 2.09	\$ 1.85	\$ 2.14
Diluted	\$ 2.08	\$ 1.84	\$ 2.13

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, 2019, 2018 and 2017, we recognized compensation expense of \$3.6 million, \$4.6 million, and \$4.3 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 2019, 2018 and 2017, net of gains, were \$0.3 million, \$0.8 million, and \$0.3 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 nearly the same fair value and carrying value of approximately \$6.2 million and \$0.4 million as of October 31, 2019 and 2018.

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 Issued Accounting Standards

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The new guidance is effective for fiscal years beginning after December 15, 2019. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the 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 September 2018, the FASB issued and ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software and deferred over the non-cancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. This ASU will be effective for us beginning the first day of our 2021 fiscal year. We are evaluating the impact of the 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 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 do

not expect that the adoption of this ASU to have an impact 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. We do not expect that the adoption of this ASU to have an impact on our financial statements.

In January 2017, the FASB issued an ASU, *Simplifying the Test for Goodwill Impairment*, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The ASU permits an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning the first day of our 2021 fiscal year and is not expected to have a significant impact upon adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Measurement of Credit Losses on Financial Instruments*, and subsequent amendments to the guidance, ASU 2018-19 in November 2018 and ASU 2019-05 in May 2019 including codification improvements to Topic 326 in ASU 2019-04. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. The standard will replace today’s “incurred loss” approach with an “expected loss” model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The amendment will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2018-19 clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments. ASU 2019-05 provides entities that have certain instruments with an option to irrevocably elect the fair value option. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. This ASU will be effective for us beginning the first day of our 2021 fiscal year. Early adoption is permitted. We are evaluating the impact of the adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In February 2016, the FASB issued an ASU, *Leases*, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing

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a right-of use asset (ROU) 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.

The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We expect to elect all of the new standard's available transition practical expedients.

We will elect the alternative modified retrospective approach, applying ASC 840 to all comparative periods, including disclosures, and recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of the effective date. Upon adoption, the most significant effects are expected to relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our operating leases, which is expected to be between \$60 million and \$70 million at the beginning of fiscal 2020; and (2) providing significant new disclosures about our leasing activities.

Comprehensive Income

Comprehensive income 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.

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 Company adopted this new standard at the beginning of fiscal 2019. Limoneira's stock price at October 31, 2019, and October 31, 2018 equaled \$18.92 per share, and \$24.65 per share. Our shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.6 million for the year ended October 31, 2019 in our consolidated condensed statements of income.

Noncontrolling Interest

The following tables reconcile shareholders' equity attributable to noncontrolling interest related to Avocados de Jalisco (in thousands).

AVOCADOS DE JALISCO NONCONTROLLING INTEREST	YEAR ENDED OCTOBER 31, 2019	YEAR ENDED OCTOBER 31, 2018
Noncontrolling interest, beginning	\$ 1,748	\$ 1,016
Noncash transfer of noncontrolling interest	—	1,001
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(60)	(269)
Noncontrolling interest, ending	\$ 1,688	\$ 1,748

3. INVENTORIES

Inventories consist of the following (in thousands):

OCTOBER 31,	2019	2018
Fresh fruit	\$ 15,874	\$ 12,902
Packing supplies and ingredients	11,370	10,889
Finished prepared foods	9,645	11,253
	\$ 36,889	\$ 35,044

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. No adjustment was necessary as of October 31, 2019 and 2018.

4. PROPERTY, PLANT, AND EQUIPMENT

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

OCTOBER 31,	2019	2018
Land	\$ 11,008	\$ 11,569
Buildings and improvements	45,614	44,828
Leasehold improvements	26,267	26,004
Equipment	99,237	89,451
Information systems – hardware and software	10,822	10,752
Construction in progress	10,351	5,867
	203,299	188,471
Less accumulated depreciation and amortization	(71,201)	(66,328)
	\$ 132,098	\$ 122,143

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

	OCTOBER 31, 2019				OCTOBER 31, 2018			
	WEIGHTED-AVERAGE USEFUL LIFE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE	
Customer list/relationships	—	\$ 7,640	\$ (7,640)	\$ —	\$ 7,640	\$ (7,106)	\$ 534	
Trade names	—	2,760	(2,760)	—	2,760	(2,672)	88	
Trade secrets/recipes	9.3 years	630	(470)	160	630	(418)	212	
Brand name intangibles	indefinite	275	—	275	275	—	275	
Intangibles, net		\$ 11,305	\$ (10,870)	\$ 435	\$ 11,305	\$ (10,196)	\$ 1,109	

We recorded amortization expense of approximately \$0.7 million, \$1.1 million, and \$1.2 million for fiscal years 2019, 2018, and 2017. We anticipate recording amortization expense of approximately \$0.1 million for each fiscal years 2020 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). For our line of credit the weighted-average interest rate was 3.8% and 3.4% at October 31, 2019 and 2018. Under this credit facility, there was nothing outstanding as of October 31, 2019 and we had \$15.09 million outstanding as of October 31, 2018.

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%.

5. OTHER ASSETS

Other assets consist of the following (in thousands):

OCTOBER 31,	2019	2018
Mexican IVA (i.e. value-added) taxes receivable (see note 15)	\$ 27,592	\$ 21,859
Infrastructure advance to Agricola Belher	1,800	2,600
Intangibles, net	435	1,109
Other	1,514	1,462
	\$ 31,341	\$ 27,030

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, 2019 and 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

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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 leases expiring at various dates through 2031. We are committed to make minimum cash payments under these agreements as of October 31, 2019, as follows (in thousands):

2020	\$	9,534
2021		9,007
2022		8,672
2023		8,603
2024		8,203
Thereafter		50,796
	\$	94,815

Total rent expense amounted to approximately \$10.7 million, \$6.4 million and \$6.09 million for the years ended October 31, 2019, 2018, and 2017. Rent to Limoneira, for our corporate office, amounted to approximately \$0.3 million for fiscal years 2019, 2018, and 2017.

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

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. No amounts have been accrued in the accompanying financial statements related to these indemnifications.

Litigation

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

Mexico tax audits

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a 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 (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM ("the 2011 Assessment") totaling approximately \$2.2 billion Mexican pesos (approx. \$114.4 million USD at October 31, 2019) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM's fiscal 2011 assessment on June 12, 2019. 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 MFM 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. Furthermore, in August 2018, we received a favorable ruling from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") central legal department in Mexico City on another tax matter (see Note 15 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019. We believe we have the legal arguments and documentation to sustain the positions challenged by the MFM.

Additionally, we also received notice from the SAT, that CDM 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. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (approx. \$135.1 million USD at October 31, 2019) related to Income Tax, Flat Rate Business Tax, and Value Added Tax, corresponding to the fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe an employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$6.1 million USD at October 31, 2019).

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 that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see Note 15 regarding IVA 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 believe we have the legal arguments and documentation to sustain the positions challenged by the SAT.

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. No amounts have been accrued in the accompanying financial statements related to these Mexico tax audits.

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, 2019, 2018, and 2017, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$11.9 million, \$11.2 million and \$19.8 million. We did not have any amounts due to Board members as of October 31, 2019 and 2018.

During fiscal years 2019, 2018, and 2017, we received \$0.5 million, \$0.4 million and \$0.4 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 2019, 2018, and 2017. 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 was 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, 2019, 2018, and 2017, Calavo Growers, Inc. paid fees totaling approximately \$0.4 million, \$0.2 million and \$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, Calavo is no longer a guarantor for Don Memo's indebtedness.

As of October 31, 2019, 2018 and 2017, we have an investment of \$4.9 million, \$4.9 million and \$4.6 million, representing Calavo Sub's 50% ownership in Don Memo, which is included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission and aforementioned advances. 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, 2019, 2018 and 2017, we had outstanding advances of \$3.7 million, \$2.5 million and \$1.6 million to Don Memo. During the year ended October 31, 2019, 2018 and 2017 we purchased \$14.1 million, \$11.1 million and \$8.9 million of tomatoes from Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of \$4.5 million, \$4.09 million and \$4.09 million as of October 31, 2019, 2018 and 2017. In August 2018, we entered into an amended infrastructure agreement with Belher and advanced \$3.09 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 \$2.6 million, \$3.4 million and \$0.6 million as of October 31, 2019, 2018 and 2017. Of these infrastructure advances \$0.8 million was recorded as receivable in prepaid and other current assets and \$1.8 million is included in other assets. During the year ended October 31, 2019, 2018 and 2017, we purchased \$19.5 million, \$14.1 million, and \$13.9 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 built a packinghouse located in Jalisco, Mexico and such packinghouse began operations in June of 2017. As of October 31, 2019, we have made an insignificant amount of preseason advances to various partners of Avocados de Jalisco. As of October 31,

Notes To Consolidated Financial Statements

2018 and 2017, we have made preseason advances of approximately \$0.1 million to various partners of Avocados de Jalisco. During the year ended October 31, 2019, 2018 and 2017, we purchased approximately \$2.5 million, \$1.8 million and \$1.9 million of avocados from the partners of Avocados de Jalisco. In January 2018, we transferred \$1.09 million of interest to the Avocados de Jalisco noncontrolling members.

As of October 31, 2019 and 2018, we have an equity investment of \$5.8 million and \$19.9 million in FreshRealm, LLC (“FreshRealm”). We record the amount of our investment in FreshRealm in “Investment in unconsolidated entities” on our Consolidated Condensed Balance Sheets and recognize losses in FreshRealm in “Income/(loss) in unconsolidated entities” in our Consolidated Condensed Statement of Income. See Note 16 for additional information. As of October 31, 2018, our ownership percentage in FreshRealm was approximately 37%. In fiscal 2019, certain FreshRealm employees left the company surrendering their ownership units, as a result, this increased our ownership percentage in FreshRealm slightly to approximately 38%.

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

During our first quarter of fiscal 2019, we loaned FreshRealm \$7.5 million in unsecured notes receivable. During our second quarter of fiscal 2019, we loaned an additional \$4.2 million on an unsecured basis to FreshRealm under similar terms. During our third quarter of fiscal 2019, we loaned an additional \$5.4 million on an unsecured basis to FreshRealm under similar terms. During our fourth quarter of fiscal 2019, we loaned an additional \$3.7 million to FreshRealm for a total outstanding principal amount of \$32.8 million, not including accrued interest. At such time, we entered into an agreement with FreshRealm wherein all of the outstanding loan amount owed by Fresh Realm to us would be secured in the assets of FreshRealm.

As of October 31, 2019, we have \$35.2 million in note receivables (including interest) from FreshRealm, and as of October 31, 2018, we had \$9.09 million. At October 31, 2018, note receivables from FreshRealm of \$9.09 million was included in prepaids and other current assets. The notes to FreshRealm, as of October 31, 2019, bear interest at the rate of 10% annually, with monthly interest payments scheduled to begin on October 31, 2020. This first interest payment would represent interest due for the month of October 2020 only, with similar monthly payments scheduled to follow afterwards. The due date of the notes is November 1, 2021, with the Company having the option of up to two, one-year extensions (i.e. first to November 1, 2022, then to November 1, 2023). At October 31, 2019 we have a receivable of \$2.4 million related to interest that we have recorded with Note receivables to FreshRealm on the balance sheet.

As of November 25, 2019, we converted approximately \$2.7 million of the outstanding secured loan to FreshRealm and applied it to

unsecured debt as part of a convertible note round offered by FreshRealm to its existing equity holders. Such \$2.7 million unsecured note will be converted into additional equity of FreshRealm if not repaid by January 31, 2020. Such convertible note accrues interest at the rate of 10%.

Three officers and five members of our board of directors have investments in FreshRealm. In addition, as of October 31, 2019 and 2018, we have a loan to FreshRealm members of approximately \$0.2 million. In October 2017 and December 2017, our Chairman and Chief Executive Officer invested \$7.09 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. In October 2019, our Chairman and Chief Executive Officer invested \$0.5 million in FreshRealm. In October 2019, one of our non-executive directors invested \$0.2 million into FreshRealm.

We provide storage services to FreshRealm from select Value-Added Depots and RFG facilities. We received \$0.5 million, \$0.3 million and \$0.2 million in storage services revenue from FreshRealm for the year ended October 31, 2019, 2018 and 2017. For the year ended October 31, 2019, 2018 and 2017, RFG sold \$2.09 million, \$9.9 million and \$7.3 million of products to FreshRealm.

The previous owners of RFG, one of which is currently an officer of Calavo, have a majority ownership of certain entities that provide various services to RFG, specifically LIG Partners, LLC and THNC, LLC. One of RFG’s California operating entities leases a building from LIG Partners, LLC (LIG) pursuant to an operating lease. This lease with LIG was renewed in April 2019, through May 2026. RFG’s Texas operating entity leases a building from THNC, LLC (THNC) pursuant to an operating lease. In the first quarter of fiscal 2020, these facilities have been sold to a third party and our lease has transferred to the new owners. See the following tables for the related party activity for fiscal years 2019 and 2018:

YEAR ENDED OCTOBER 31,	2019	2018
(in thousands)		
Rent paid to LIG	\$ 579	\$ 603
Rent paid to THNC, LLC	\$ 795	\$ 819

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”). In the prior fiscal period, the Company considered a number of changes from the Tax Act, most notably reducing the U.S. federal corporate tax rate, a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and accelerated depreciation for certain assets acquired and placed in service after September 27, 2017. Effective January 1, 2018, the Tax Act reduced the U.S. federal corporate tax rate from 35.0% to 21.0%. Because the Company has an October 31 fiscal year-end, the lower corporate federal income tax rate was phased in, resulting in a blended U.S. federal statutory tax rate of 23.3% for our fiscal period 2018, and 21% for the fiscal period 2019.

Effective beginning in fiscal period 2019, the Company is subject to additional requirements of the Tax Act including the repeal of

the deduction for domestic production activities, a tax on global intangible low-taxed income (GILTI), a tax determined by base erosion tax benefits (BEAT) from certain payments between a U.S. corporation and foreign subsidiaries, a limitation of certain executive compensation, a deduction for foreign derived intangible income (FDII) and interest expense limitations. The Company has considered these new requirements, the most significant of which being the limitation of executive compensation of \$0.2 million and the repeal of the domestic production deduction. The domestic production deduction generated a tax benefit of \$0.8 million in fiscal period 2018.

The Tax Act created new rules that allow the Company to make an accounting policy election to either treat taxes due on future GILTI inclusions in taxable income as either a current period expense or reflect such inclusions related to temporary basis differences in the Company’s measurement of deferred taxes. The Company is not expecting to be subject to GILTI and therefore has not yet made a policy election regarding the tax accounting treatment of the GILTI tax. The Company also continues to evaluate the impact of the GILTI provisions under the U.S. tax law changes which are complex and subject to continuing regulatory interpretation by the IRS. The impact of GILTI was not material for the fiscal period 2019.

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. As of fiscal period 2019, the company has completed its accounting for the act.

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):

	2019	2018	2017
CURRENT:			
Federal	\$ 9,146	\$ 7,115	\$ 14,875
State	2,516	1,582	2,561
Foreign	290	(844)	290
Total current	11,952	7,853	17,726
DEFERRED:			
Federal	516	3,328	2,567
State	209	690	335
Foreign	205	848	(178)
Total deferred	930	4,866	2,724
Total income tax provision	\$ 12,882	\$ 12,719	\$ 20,450

At October 31, 2019 and 2018, gross deferred tax assets totaled approximately \$18.5 million and \$19.1 million, while gross deferred tax liabilities totaled approximately \$15.0 million and \$14.8 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):

	2019	2018
Property, plant, and equipment	\$ (10,407)	\$ (7,715)
Intangible assets	11,805	13,886
Unrealized gain, Limoneira investment	(2,352)	(4,777)
Investment in FreshRealm	(1,513)	(1,283)
Stock-based compensation	857	899
State taxes	(437)	(690)
Credits and incentives	1,109	1,641
Allowance for accounts receivable	834	825
Inventories	445	353
Accrued liabilities	3,423	1,533
Other	(317)	(295)
Long-term deferred income taxes	\$ 3,447	\$ 4,377

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:

	2019	2018	2017
Federal statutory tax rate	21.0%	23.3%	35.0%
State taxes, net of federal effects	3.7	3.6	2.9
Foreign income taxes greater than U.S.	0.4	0.7	0.1
Revaluation of deferred taxes	—	4.5	—
Section 199 deduction	—	(1.9)	(2.2)
Provision to return	0.7	(1.2)	—
Transition Tax	—	0.6	—
State rate change	(0.2)	0.2	0.3
Other	0.4	(1.4)	(0.7)
	26.0%	28.4%	35.4%

For fiscal years 2019, 2018 and 2017, income before income taxes related to domestic operations was approximately \$47.9 million, \$45.8 million, and \$57.5 million. For fiscal years 2019, 2018 and 2017, income (loss) before income taxes related to foreign operations was approximately \$1.6 million, \$(1.1) million and \$0.2 million.

As of October 31, 2019 and 2018, we had liability of \$0.1 million and \$0.1 million for unrecognized tax benefits related to various foreign income tax matters.

Notes To Consolidated Financial Statements

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, 2016, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2015.

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

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

	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
(All amounts are presented in thousands)				
YEAR ENDED OCTOBER 31, 2019				
Net sales before intercompany eliminations	\$ 621,183	\$ 94,734	\$ 486,063	\$ 1,201,980
Intercompany eliminations	(2,246)	(3,957)	—	(6,203)
Net sales	618,937	90,777	486,063	1,195,777
Cost of sales before intercompany eliminations	534,600	73,735	465,563	1,073,898
Intercompany eliminations	(2,013)	(3,122)	(1,068)	(6,203)
Cost of sales	532,587	70,613	464,495	1,067,695
Gross profit	\$ 86,350	\$ 20,164	\$ 21,568	\$ 128,082

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

For fiscal year 2019, 2018 and 2017, inter-segment sales and cost of sales of \$1.8 million, \$1.6 million and \$1.3 million between Fresh products and RFG were eliminated. For fiscal year 2019, 2018 and 2017, inter-segment sales and cost of sales of \$4.09 million, \$3.5 million and

performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared avocado products, including guacamole, and salsa. The RFG segment represents 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.

\$3.2 million between Calavo Foods and RFG were eliminated. For the year ended October 31, 2019 and 2018, inter-segment sales and cost of sales of \$0.5 million and \$0.4 million between Fresh products and Calavo Foods were eliminated.

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

	YEAR ENDED OCTOBER 31, 2019				YEAR ENDED OCTOBER 31, 2018			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	\$ 569,779	\$ —	\$ —	\$ 569,779	\$ 511,730	\$ —	\$ —	\$ 511,730
Tomatoes	40,879	—	—	40,879	31,608	—	—	31,608
Papayas	10,931	—	—	10,931	11,699	—	—	11,699
Other fresh products	1,353	—	—	1,353	498	—	—	498
Prepared avocado products	—	100,842	—	100,842	—	99,635	—	99,635
Salsa	—	3,252	—	3,252	—	3,423	—	3,423
Fresh-cut fruit & vegetables and prepared foods	—	—	488,373	488,373	—	—	451,203	451,203
Total gross sales	622,942	104,094	488,373	1,215,409	555,535	103,058	451,203	1,109,796
Less sales incentives	(1,759)	(9,360)	(2,310)	(13,429)	(2,327)	(11,412)	(2,273)	(16,012)
Less inter-company eliminations	(2,246)	(3,957)	—	(6,203)	(1,554)	(3,472)	—	(5,026)
Net sales	\$ 618,937	\$ 90,777	\$ 486,063	\$ 1,195,777	\$ 551,654	\$ 88,174	\$ 448,930	\$ 1,088,758

	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

Sales to customers outside the U.S. were approximately \$42.5 million, \$41.8 million and \$29.8 million for fiscal years 2019, 2018, and 2017.

RFG segment sales included sales to one customer who represented more than 10% of total consolidated revenues for fiscal 2019, 2018 and 2017. Additionally, the Fresh products segment had sales to one customer that represented more than 10% of total consolidated revenues for fiscal 2019 and 2018.

Our goodwill balance of \$18.3 million is attributed by segment to Fresh products for \$3.9 million and RFG for \$14.3 million as of October 31, 2019 and 2018.

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

	UNITED STATES	MEXICO	CONSOLIDATED
2019	\$ 98,224	\$ 33,874	\$ 132,098
2018	\$ 88,600	\$ 33,543	\$ 122,143

Notes To Consolidated Financial Statements

11. LONG-TERM OBLIGATIONS

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

	2019	2018
Capital leases	\$ 6,174	\$ 432
Less current portion	(762)	(118)
	<u>\$ 5,412</u>	<u>\$ 314</u>

In April 2019, we sold our Temecula, California packinghouse for \$7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of \$6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately \$1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of \$4.5 million, which will be recognized over the life of the lease. In connection with the capital lease we capitalized \$3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of \$3.2 million (\$0.1 million in current portion and \$3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates \$0.9 million and \$0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized \$2.8 million as a capital lease in property, plant and equipment and recorded \$2.8 million as a lease obligation.

At October 31, 2019, capital lease payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2020	\$ 907
2021	915
2022	908
2023	900
2024	548
Thereafter	3,162
Minimum lease payments	<u>7,340</u>
Less interest	(1,166)
Present value of future minimum lease payments	<u>\$ 6,174</u>

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, 2018	4	\$ 19.20	
Exercised	(2)	\$ 19.20	
Outstanding at October 31, 2019	<u>2</u>	<u>\$ 19.20</u>	<u>\$ 174</u>
Exercisable at October 31, 2019	<u>2</u>	<u>\$ 19.20</u>	<u>\$ 174</u>

The weighted average remaining life of such outstanding options is 0.8 years and the total intrinsic value of options exercised during fiscal 2019 was \$0.2 million. The weighted average remaining life of such exercisable options is 0.8 years. The fair value of vested shares as of October 31, 2019, and 2018 was approximately \$0.2 million and \$0.4 million.

The 2011 Management Incentive Plan

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

In January of fiscal 2019, 2018, and 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 were \$71.56, \$85.90 and \$62.65 for each respective year. After one year since the grant date, 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 were \$1.6 million and \$1.8 million for the year ended October 31, 2019 and 2018.

On December 14, 2018, our executive officers were granted a total of 14,522 restricted shares. On December 18, 2017, our executive officers were granted a total of 25,241 restricted shares. 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 dates were \$85.67, \$75.45 and \$56.20, respectively. These shares vest in one-third increments, on an annual basis, beginning December 14, 2019, December 18, 2018 and December 19, 2017. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were \$2.09 million and \$2.9 million for the year ended October 31, 2019 and 2018.

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.

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 GRANT PRICE	AGGREGATE INTRINSIC VALUE
Outstanding at October 31, 2018	85	\$ 68.82	
Vested	(51)	\$ 70.48	
Granted	<u>35</u>	<u>\$ 77.33</u>	
Outstanding at October 31, 2019	<u>69</u>	<u>\$ 71.74</u>	<u>\$ 5,996</u>

The total recognized stock-based compensation expense for restricted stock was \$3.6 million and \$4.6 million for the years ended October 31, 2019 and 2018.

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, 2018	20	\$ 40.07	
Exercised	(2)	\$ 23.48	
Outstanding at October 31, 2019	<u>18</u>	<u>\$ 41.91</u>	<u>\$ 815</u>
Exercisable at October 31, 2019	<u>12</u>	<u>\$ 25.10</u>	<u>\$ 745</u>

The weighted average remaining life of such outstanding options is 3.7 years. The weighted average remaining life of such exercisable options is 2.2 years. The fair value of vested shares as of October 31, 2019 and 2018, was \$0.7 million and \$0.8 million.

13. DIVIDENDS

On October 1, 2019, the Company declared a \$1.10 per share cash dividend to shareholders of record on November 15, 2019. On December 6, 2019, the Company paid this cash dividend which totaled \$19.4 million. On December 7, 2018, the Company paid a \$1.00 per share dividend in the aggregate amount of \$17.6 million to shareholders of record on November 16, 2018.

Notes To Consolidated Financial Statements

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, 2019 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
<small>(All amounts are presented in thousands)</small>				
Investment in Limoneira Company ⁽¹⁾	\$ 31,734	—	—	\$ 31,734
Total assets at fair value	\$ 31,734	—	—	\$ 31,734

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own less than 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, 2019 and October 31, 2018 equaled \$18.92 per share and \$24.65 per share (level 1). For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of \$0.1 million in our consolidated statements of income. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to \$18.92 per share at October 31, 2019 and, as a result, we recorded a loss of \$9.6 million for the year ended October 31, 2019 in our consolidated condensed statements of income. For the year ended October 31, 2018 and 2017, we recognized losses of Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the years ended October 31, 2018, and 2017 were \$2.2 million and \$6.3 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, 2019 and 2018, CDM IVA receivables totaled \$27.6 million and \$21.9 million. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2019, 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 and/or administrative appeals.

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, 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 CDM's 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, in October 2018, CDM filed a substance-over-form annulment suit in the Federal Tax Court

to recover its full refund for IVA over the subject period, which is currently pending resolution.

In spite of the favorable ruling from the SAT's central legal department in Mexico City, as discussed above, the local SAT office continues to believe that CDM is not properly documented relative to its declared tax structure. As a result, they believe CDM cannot claim certain refundable IVA balances, specifically regarding our IVA refunds related to January through December of 2013, January through November of 2014, January through November 2015 and January 2017. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. With assistance of our internationally recognized tax advisory firm, during 2019 CDM has filed (or has plans to file shortly) administrative appeals for the IVA related to the preceding months. A response to these administrative appeals is currently pending resolution.

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 was a variable interest entity (VIE) as of October 31, 2019 and 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 concluded that we were not the primary beneficiary of FreshRealm at October 31, 2019 and 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 \$5.8 million and \$19.9 million at October 31, 2019 and 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, 2019 and 2018, FreshRealm incurred losses totaling \$30.6 million and \$29.4 million, of which we recorded \$14.1 million and \$12.09 million of non-cash losses during fiscal 2019 and 2018. Effective December 16, 2018, FreshRealm completed a "check the box" tax election to change their entity classification for tax purposes to that of a corporation. To effect this change, FreshRealm, among other things, amended its operating agreement to eliminate the appropriate language related to the flow-through tax consequences of its prior tax status (Seventh Amended and Restated LLC Agreement) and checked the appropriate box on Form 8832 which it then filed with the Internal Revenue Service (IRS). As a result, losses incurred by FreshRealm from November 1, 2018 to December 15, 2018 were recorded in accordance with FASB Accounting Standards Codification ("ASC") 810, ASC 323, and ASC 970, which 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. As such, we recorded 100% of FreshRealm's losses from November 1, 2018 through December 15, 2018 totaling \$4.2 million. Losses incurred by FreshRealm from December 16, 2018 to October 31, 2019 (after the change in tax status was effective) were recorded to reflect our proportionate share of FreshRealm losses. We recorded losses from December 16, 2018 through October 31, 2019 totaling \$9.9 million. As a result of FreshRealm's recent change in tax status (described above), future operating results for FreshRealm will be allocated to its owners based on ownership percentage.

In fiscal 2019, certain FreshRealm employees left the company surrendering their ownership units. This changed Calavo's ownership percentage slightly to approximately 38%.

Unconsolidated Significant Subsidiary

As described above, we own approximately 38% of FreshRealm as of October 31, 2019. 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 \$30.6 million, of which we recorded \$14.1 million of non-cash losses during our fiscal year 2019. 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 2019 Form 10-K is due by December 30, 2019. 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 March 30, 2019).

Note that since Rule 3-09 of Regulation S-X financial statements are not filed at the same time as our 2019 Form 10-K, we must include Rule 4-08(g) summarized financial information in our 2019 Form 10-K.

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

Balance Sheet:

OCTOBER 31,	2019	2018
ASSETS:		
Cash and cash equivalents	\$ 961	\$ 814
Accounts receivable, net of allowances	1,493	1,903
Inventories, net	2,792	3,186
Prepaid expenses and other current assets	732	1,152
Property, plant, and equipment, net	6,076	9,152
Other assets	703	1,500
	\$ 12,757	\$ 17,707

LIABILITIES AND EQUITY:

Current liabilities	\$ 6,533	\$ 6,557
Debt to Calavo	35,241	9,000
Long-term liabilities	—	505
Equity	(29,017)	1,645
	\$ 12,757	\$ 17,707

Income Statement:

12 MONTHS ENDED OCTOBER 31,	2019	2018	2017
Net sales	\$ 24,112	\$ 33,769	\$ 16,933
Gross loss	(5,783)	(10,868)	(7,275)
Selling, general and administrative	(20,196)	(19,512)	(12,733)
Other	(4,621)	1,023	(13)
Net loss	\$ (30,600)	\$ (29,357)	\$ (20,021)

Report of Independent Registered Public Accounting Firm

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

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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2019, in conformity with 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, 2019, 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 19, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Adoption of ASU No. 2016-01

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for certain equity investments by recognizing the change in fair value in net income effective November 1, 2018 due to the adoption of Accounting Standards Update (“ASU”) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Mexican IVA taxes receivable — Refer to Note 15 to the Financial Statements

Critical Audit Matter Description

As of October 31, 2019, the Company has value-added taxes (IVA) receivable of \$27.6 million from the Mexican government. Historically, the Company’s subsidiary, Calavo de Mexico (CDM), received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2019, there have been delays in the processing of the IVA claims by the Mexican tax authorities. The Mexican authorities informed the Company that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. Mexican authorities also questioned refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations.

Given the significant judgments made by management to determine the Company’s ability to recover the IVA taxes receivable, performing audit procedures to evaluate the Company’s interpretation and compliance with international tax laws involved significant auditor judgment and use of a tax specialist with specialized skills and knowledge, which we have determined to be a critical audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management’s judgments related to the collectability of the IVA taxes receivable included the following, among others:

- We tested the effectiveness of the control over the recoverability of the Mexican IVA taxes receivable, along with the review of related disclosures.
- With the assistance of our tax specialists, we evaluated the recoverability of the IVA receivable by evaluating the technical merits including substantiating that the Company’s declared tax structure is in compliance with Mexican tax regulations.

- We obtained a confirmation from the Company’s tax advisors related to the collectability of the IVA receivable, and evaluated case rulings supporting the recoverability of IVA taxes paid to non-compliant vendors.

Uncertain Tax Positions Related to Mexico tax audits — Refer to Note 7 to the Financial Statements

Critical Audit Matter Description

The Company is under audit by the Mexican tax authorities relating to the Company’s 2011 and 2013 fiscal years. The Mexican tax authorities have assessed the Company with an underpayment of tax amounts alleging improper deductions for intercompany funding, deduction for services, and IVA in the Company’s calculation of taxable income. The assessments, including the effect of inflation and penalties, amounted to \$2.2 billion Mexican pesos (approx. \$114.4 million USD at October 31, 2019) and \$2.6 billion Mexican pesos (approx. \$135.1 million USD at October 31, 2019) relating to the 2011 and 2013 audits, respectively. The Company filed administrative appeals to dismiss the assessments made by the Mexican tax authorities, asserting that the positions taken by the Company are in accordance with tax regulations. No amounts have been accrued in the accompanying financial statements related to these Mexico tax audits.

Given the significant judgments made by management in determining its analysis and accounting for the Company’s uncertain tax positions, performing audit procedures to evaluate the Company’s interpretation and compliance with international tax laws involved significant auditor judgment and use of tax specialists with specialized skills and knowledge, which we have determined to be a critical audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of whether it is more likely than not that the Company’s tax positions challenged by the Mexican tax authorities will be realized included the following, among others:

- We tested the effectiveness of the control over the evaluation of Uncertain Tax Positions as it relates to the periods subject to the Mexico tax audits, along with the review of related disclosures.
- We selected and reviewed a sample of source documents supporting management’s position on the Company’s accounting for intercompany funding for product purchases and vendor-provided services.
- With the assistance of our tax specialists, we evaluated management’s assertion that the Company’s tax positions are more likely than not to be realized by evaluating whether the Company’s declared tax structure is in compliance with Mexican tax regulations.
- We obtained a confirmation from the Company’s tax advisors related to understanding the advisor’s current assessment of the tax audits and assessed the technical merits of tax positions taken by the Company.

Collectability of Notes Receivable from FreshRealm — Refer to Note 8 to the Financial Statements

Critical Audit Matter Description

The Company has \$35.2M in notes receivable (including interest) due from FreshRealm, an unconsolidated entity. The notes are due on November 1, 2021 with monthly interest payments scheduled to begin on October 31, 2020. The Company has the option to extend repayment of the note receivable for up to two additional and separate one-year extension periods through to November 1, 2023 (in aggregate). The Company has no allowance on these notes receivable due from FreshRealm as of October 31, 2019.

The Company’s evaluation of the collectability of the FreshRealm notes receivable includes consideration of qualitative factors, including economic and business conditions, current operations, new customer agreements, and projections related to future operations. We identified management’s evaluation of these factors as a critical audit matter as it required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the collectability of the FreshRealm notes receivable included the following, among others:

- We tested the effectiveness of the control over the evaluation of items used to determine the need for an allowance, including management’s consideration and judgments related to the qualitative and quantitative assessment of the relevant facts and circumstances.
- We compared FreshRealm’s revenue and operating profit forecasts to:
 - FreshRealm’s current business plan and nature of relationships with existing customers.
 - Periodic operational communications from FreshRealm management to the Company’s management and the Board of Directors.
 - Industry forecasts.
- We evaluated FreshRealm’s projections of future results that are based on expected growth by obtaining and reviewing select executed customer contracts and purchase orders with large retailers and the related trend of purchase orders.



Costa Mesa, California
December 19, 2019

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

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, 2019. Our internal control over financial reporting as of October 31, 2019 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

Report of Independent Registered Public Accounting Firm

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

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, 2019, 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, 2019, 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, 2019, of the Company and our report dated December 19, 2019, 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 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.



Costa Mesa, California
December 19, 2019

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 2019	HIGH	LOW	FISCAL 2018	HIGH	LOW
First Quarter	\$ 99.90	\$ 70.57	First Quarter	\$ 89.40	\$ 69.35
Second Quarter	\$ 94.57	\$ 75.59	Second Quarter	\$ 98.50	\$ 82.75
Third Quarter	\$ 97.65	\$ 84.88	Third Quarter	\$ 97.85	\$ 83.85
Fourth Quarter	\$ 97.24	\$ 84.93	Fourth Quarter	\$ 107.15	\$ 92.70

As of November 30, 2019, there were approximately 776 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.

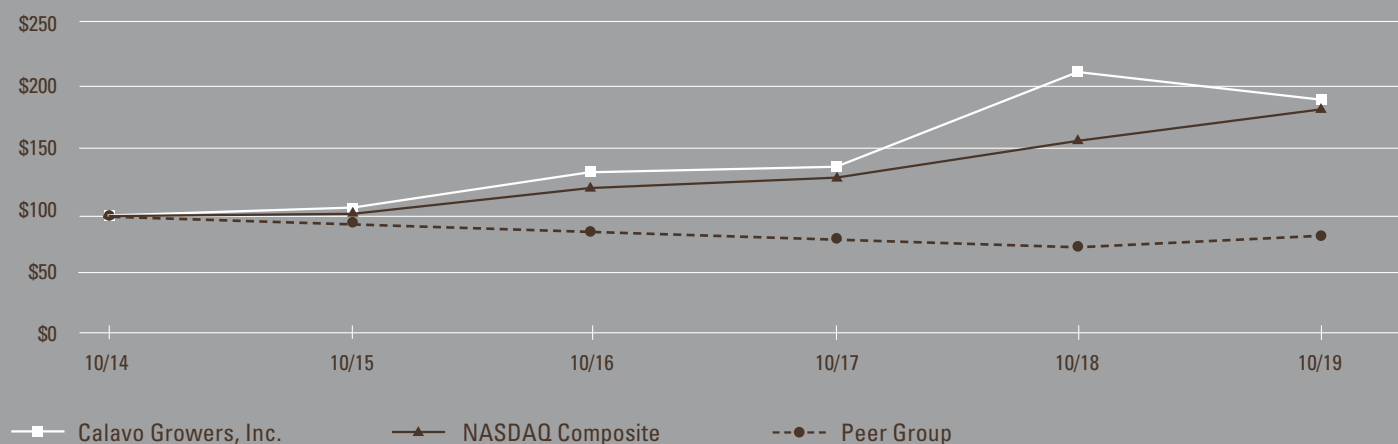
On October 1, 2019, we declared a dividend of \$1.10 per share. On December 6, 2019, we paid the aggregate amount of \$19.4 million to shareholders of record on November 15, 2019. On December 7, 2018, we paid a \$1.00 per share dividend in the aggregate amount of \$17.6 million to shareholders of record on November 16, 2018.

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, 2014 and ending October 31, 2019. 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, 2014. 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 10/31/14 in stock or index, including reinvestment of dividends. Fiscal year ending October 31, 2019.

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. Gvvunther
Director, Fresh Operations Special Projects

Marc Fallini
Director, California Avocado Operations

Joseph Malagone
Packinghouse Manager, Santa Paula

Francisco Orozco
Packinghouse Manager, Jalisco Mexico

HEADQUARTERS

Calavo Growers, Inc.
1141A Cummings Road
Santa Paula, California 93060
Telephone 805.525.1245
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
462 South 4th Street
Suite 1600
Louisville, KY 40202

COMMON STOCK LISTING

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

CALAVO GROWERS, INC.

Calavo Growers, Inc. is a global avocado industry leader and expanding provider of value-added fresh food.

The company serves retail grocery, food service, club stores, mass merchandisers, food distributors and wholesalers worldwide through its three principal operating segments: Fresh, Renaissance Food Group, LLC (RFG) and Calavo Foods.

The Fresh segment procures and markets fresh avocados and other fresh produce (tomatoes and papayas).

The company procures avocados from California, Mexico, and other growing regions around the world to satisfy year-round domestic demand, for export beyond North America to Asia and Europe, as well as for use in Calavo Foods' prepared products.

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

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

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

Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing about 3,700 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);

Eight RFG production and distribution facilities (in Northern and Southern California, Oregon, Texas, Indianapolis, Georgia, Florida and New Jersey);

Two Calavo Foods production facilities (in Michoacán, Mexico and Minnesota); and,

Four Value-Added Depots, distribution and sales (in Santa Paula, Texas, Florida and New Jersey).

OUR SENIOR MANAGEMENT TEAM



(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