Good Taste Is Everything.

CALAVO GROWERS, INC.

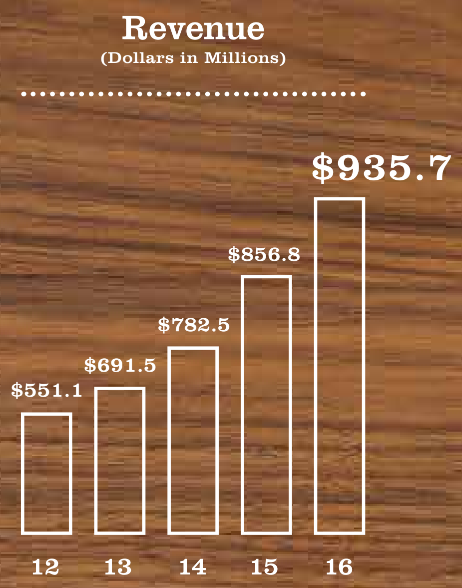
2016 Annual Report

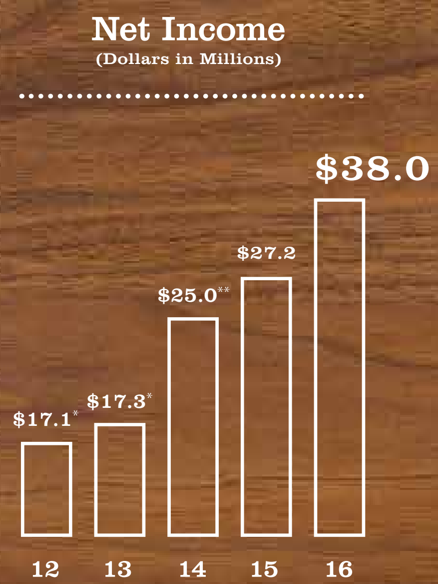
Calavo

Always in Good Taste.

Savor the rich, creamy texture of a Calavo avocado—as good for you as it is just darn delicious. Bite into our ripe golden papayas and feel transported to the eastern slopes of Hawaii's Big Island, where we source only the best. Dip into a bowl of zesty prepared guacamole at gatherings with friends. Enjoy the convenience of Chef Essentials fresh-cut veggie side dishes, so dinner time can be about quality time and not the drudgery of chopping, slicing and dicing.

The Calavo brand promise stands for products that taste great. But we also appeal to the tastemakers, you know, those with good taste. Hipsters have put avocado toast and smoothies on every "hot list." Health and nutrition consciousness make fresh, wholesome eating trendy, as does the need for time-saving convenience. This is no surprise to us; because at Calavo we understand that good taste is everything.





(*) Adjusted Annual Net Income before RFG non-cash contingent consideration expense equal to $1.3 million (2012) and $19.1 million (2013). After amounts, net income totaled $15.8 million (2012) and a net loss of $1.8 million (2013).

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

(†) After RFG non-cash contingent consideration, mentioned above, diluted EPS totaled $1.05 (2012) and a net loss per share of $0.12 (2013).

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

Sourcing only the finest avocados to satisfy demand for exceedingly good taste.

Behind the little Calavo sticker on every avocado stands a big brand promise: only the freshest, best-tasting fruit...always. Our company brings to bear its legacy steeped in quality and built upon expertise in sourcing the finest avocados from California and Mexico—admired Calavo hallmarks. Last year, we completed construction of our avocado packinghouse in Mexico's Jalisco state—an expanding growing region that is expected to be approved for export soon—to extend this sourcing breadth. Domestic avocado consumption continues to expand at double-digit rates. China, a fast-growing emerging market, is doubling avocado imports annually. Sourcing is the cornerstone of meeting this rising demand.

FRESH AVOCADOS

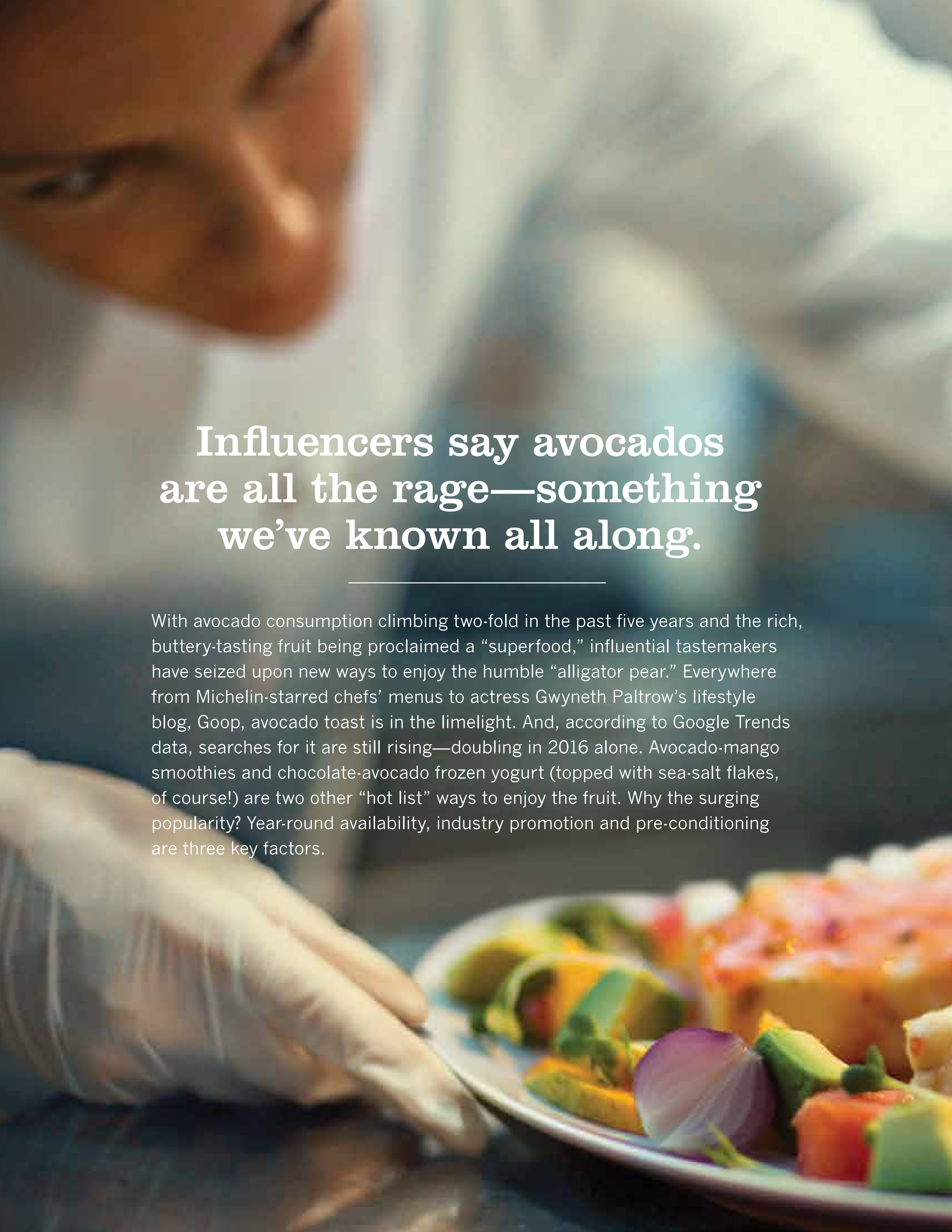
"The avocado industry grew on the back of its star variety (Hass), and consumers continue to demand more."

- Wired Magazine -

2.3
BILLION
POUNDS OF TOTAL 2016 DOMESTIC AVOCADO CONSUMPTION

4x
INCREASE IN DOMESTIC CONSUMPTION SINCE 2000 TO 7 POUNDS PER CAPITA

15.5
MILLION
CARTONS OF CALAVO AVOCADOS PACKED IN FY16



Influencers say avocados are all the rage—something we've known all along.

With avocado consumption climbing two-fold in the past five years and the rich, buttery-tasting fruit being proclaimed a "superfood," influential tastemakers have seized upon new ways to enjoy the humble "alligator pear." Everywhere from Michelin-starred chefs' menus to actress Gwyneth Paltrow's lifestyle blog, Goop, avocado toast is in the limelight. And, according to Google Trends data, searches for it are still rising—doubling in 2016 alone. Avocado-mango smoothies and chocolate-avocado frozen yogurt (topped with sea-salt flakes, of course!) are two other "hot list" ways to enjoy the fruit. Why the surging popularity? Year-round availability, industry promotion and pre-conditioning are three key factors.

★★★★★

"Avocado toast has come to define what makes food trends this decade: It's healthy and yet ever-so-slightly indulgent."

- Washington Post -

500 MILLION
POUNDS OF AVOCADOS CONSUMED IN LOS ANGELES AND NEW YORK CITY ALONE LAST YEAR

5.2 BILLION
TOTAL NUMBER OF AVOCADOS EATEN IN THE U.S IN 2016.

5 MILLION
INSTAGRAM PHOTOS WITH THE HASHTAG #AVOCADO

------------------ **RENAISSANCE FOOD GROUP** ------------------

"The time it takes for food manufacturers to deliver on retailers' orders has been cut by 75 percent from 8 days down to 2 days, an indication of just-in-time distribution's growing importance."

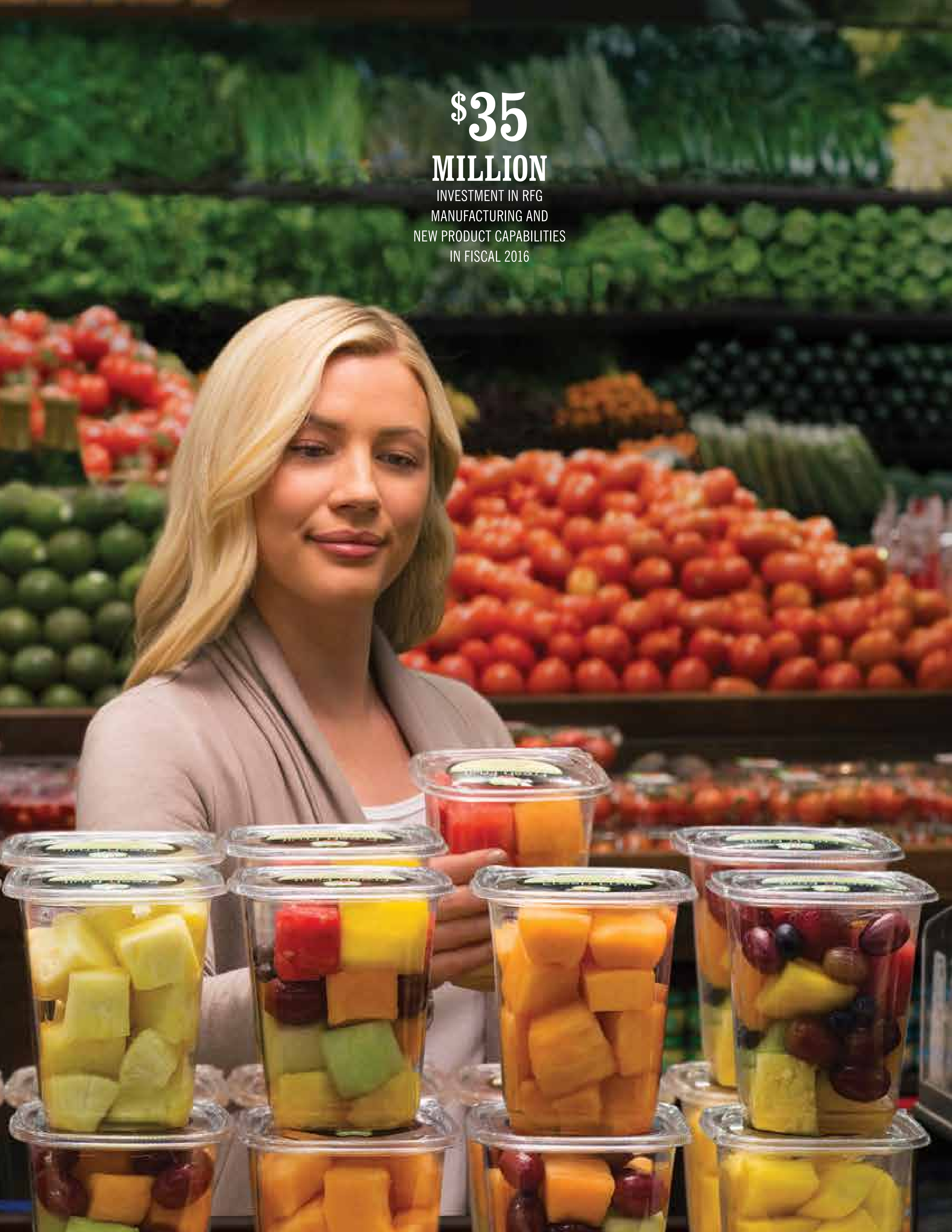
- Council of Supply Chain Management Professionals survey -

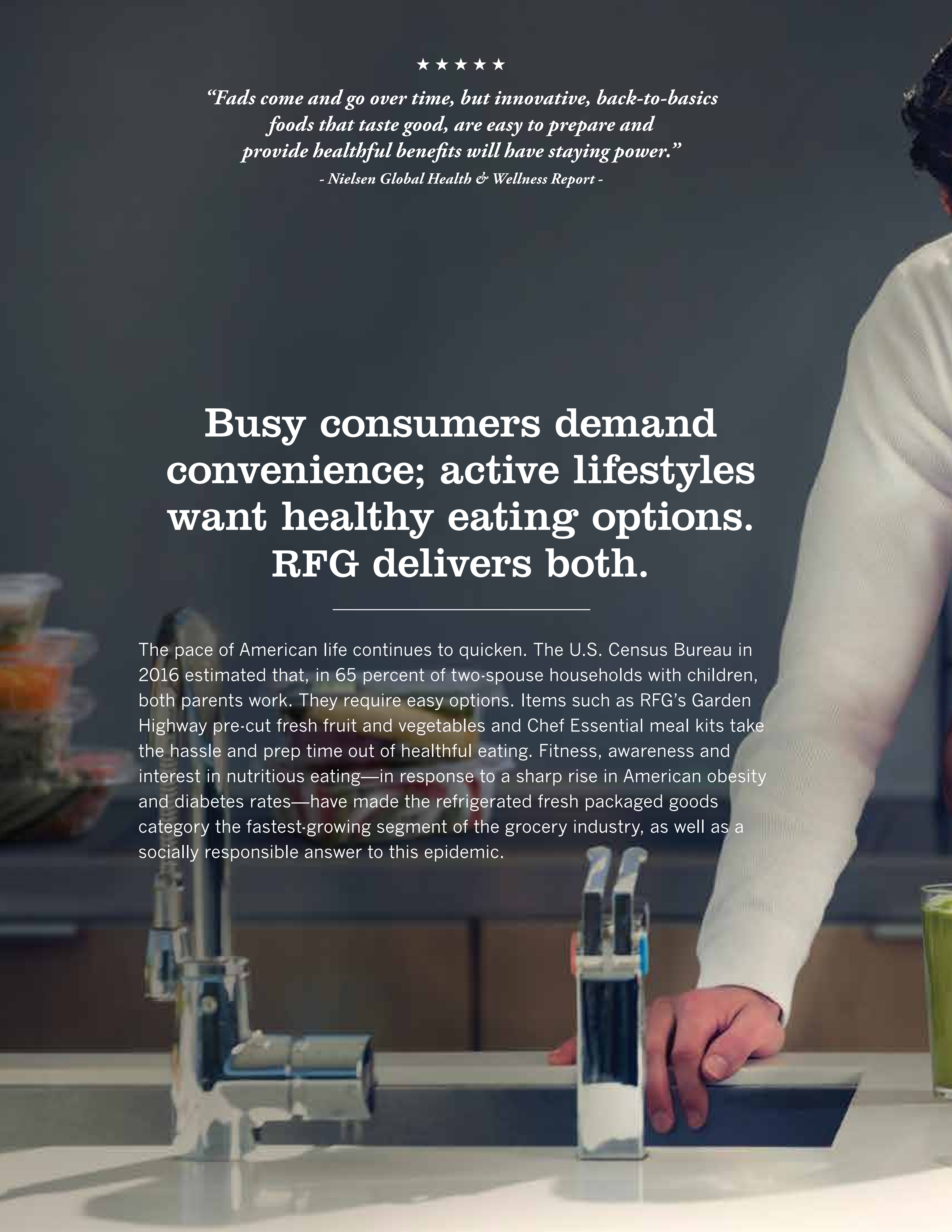
An expanding national presence places RFG's tasty fresh products in closer reach of our customers.

Quick-turn order fulfillment and just-in-time delivery of flavorful, fresh-prepared refrigerated foods are driving growth in the retail grocery channel. Along with a broad, deep, continually growing array of product offerings, Calavo's RFG unit continues to deliver on these three important pillars to build a best-in-class operation that is rapidly growing into an industry leader. Last year, a new 209,000-square-foot production and distribution center near Jacksonville, Florida came fully online. In concert with expansion of an existing Houston, Texas facility, RFG's national reach grew increasingly seamless to better serve a fast-growing customer base.

$35 MILLION

INVESTMENT IN RFG MANUFACTURING AND NEW PRODUCT CAPABILITIES IN FISCAL 2016





★ ★ ★ ★ ★

“Fads come and go over time, but innovative, back-to-basics foods that taste good, are easy to prepare and provide healthful benefits will have staying power.”

- Nielsen Global Health & Wellness Report -

Busy consumers demand convenience; active lifestyles want healthy eating options. RFG delivers both.

The pace of American life continues to quicken. The U.S. Census Bureau in 2016 estimated that, in 65 percent of two-spouse households with children, both parents work. They require easy options. Items such as RFG’s Garden Highway pre-cut fresh fruit and vegetables and Chef Essential meal kits take the hassle and prep time out of healthful eating. Fitness, awareness and interest in nutritious eating—in response to a sharp rise in American obesity and diabetes rates—have made the refrigerated fresh packaged goods category the fastest-growing segment of the grocery industry, as well as a socially responsible answer to this epidemic.

29

PERCENT

MILLENNIALS (AGES 21-34) WHO WILL PAY A PREMIUM FOR HEALTHIER, VALUE-ADDED PRODUCTS

47

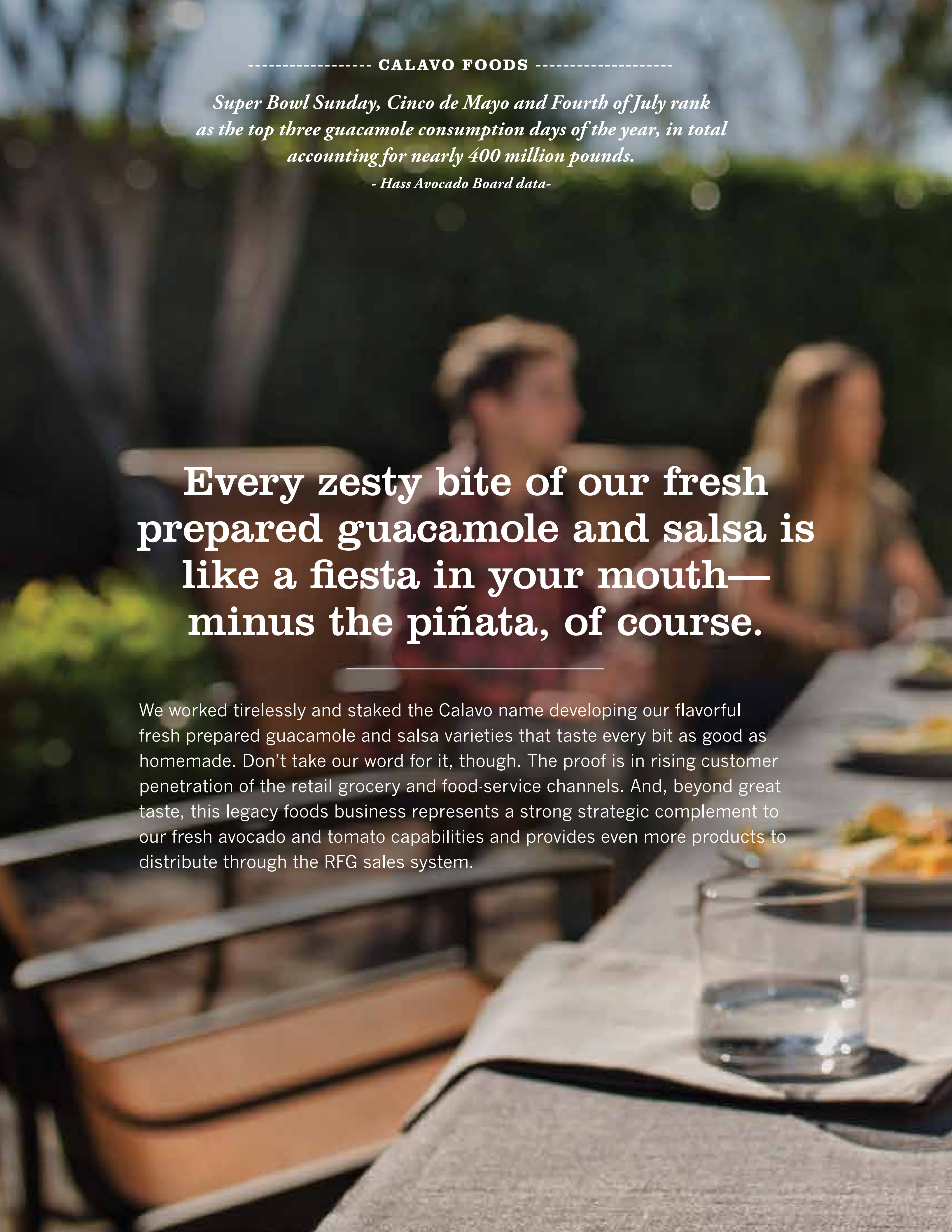
PERCENT

AGES 18-34 IN A SURVEY WHO HAVE CHANGED TO A HEALTHIER DIET IN THE PAST YEAR

80

PERCENT

STUDY RESPONDENTS WHO ARE USING FOODS TO FORESTALL HEALTH ISSUES (INCLUDING DIABETES, OBESITY AND HIGH CHOLESTEROL)



Super Bowl Sunday, Cinco de Mayo and Fourth of July rank as the top three guacamole consumption days of the year, in total accounting for nearly 400 million pounds.

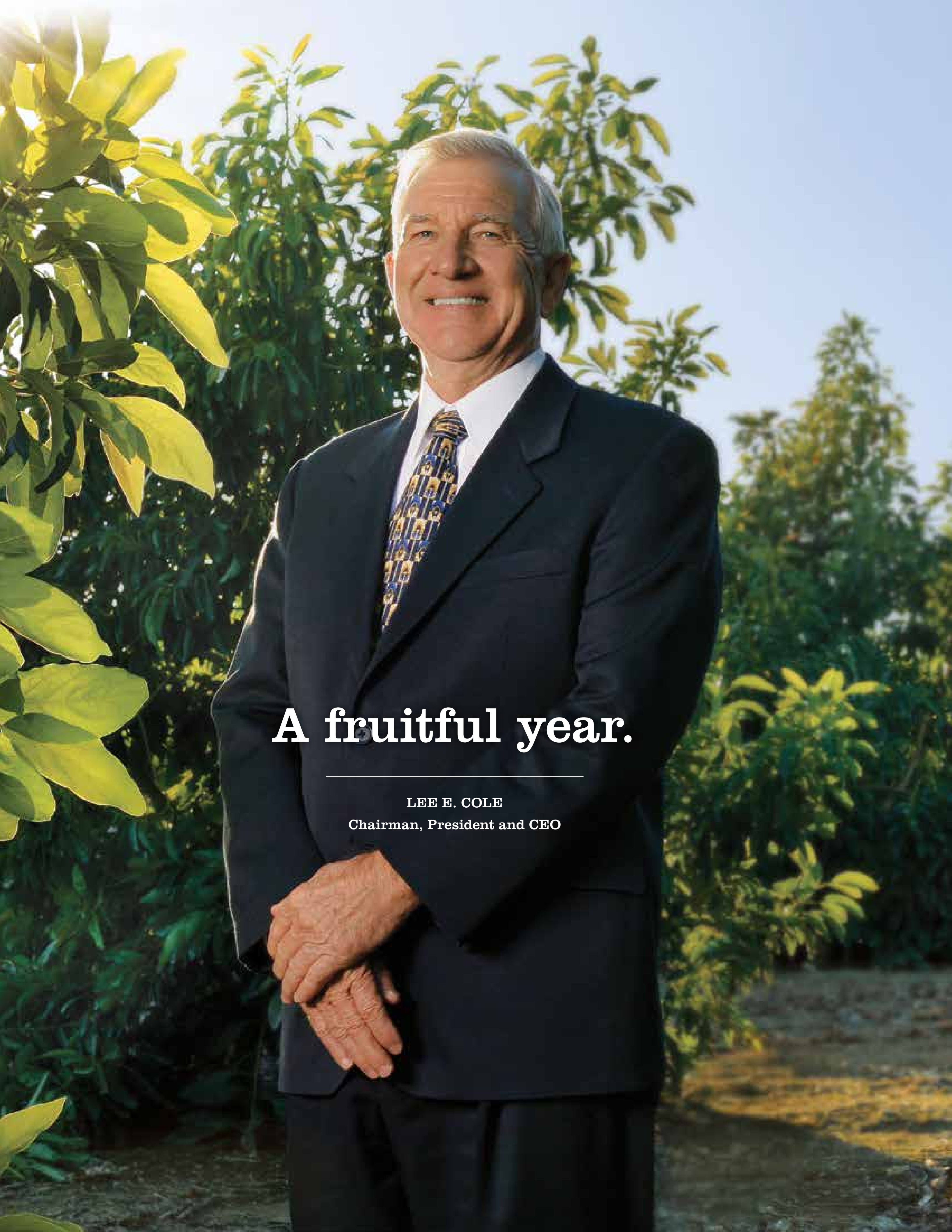
- Hass Avocado Board data-

Every zesty bite of our fresh prepared guacamole and salsa is like a fiesta in your mouth—minus the piñata, of course.

We worked tirelessly and staked the Calavo name developing our flavorful fresh prepared guacamole and salsa varieties that taste every bit as good as homemade. Don't take our word for it, though. The proof is in rising customer penetration of the retail grocery and food-service channels. And, beyond great taste, this legacy foods business represents a strong strategic complement to our fresh avocado and tomato capabilities and provides even more products to distribute through the RFG sales system.

21
PERCENT

OF 2016 COMPANY TOTAL
GROSS MARGIN GENERATED BY
CALAVO FOODS (ON JUST
7 PERCENT OF TOTAL REVENUES)



A fruitful year.

LEE E. COLE

Chairman, President and CEO

SIGNIFICANT FISCAL 2016 ACHIEVEMENTS

Posted record operating results for the sixth consecutive year with revenue, gross margin, net income and earnings per share reaching new all-time highs

Completed construction of a new fresh avocado packinghouse in Jalisco, the second Mexico growing region expected to be approved soon for export to the U.S., as domestic consumption continues to rise and to maintain Calavo's category leadership

Expanded RFG production capacity by 260,000 square feet in Florida and Texas to extend the business segment's national capabilities and drive double-digit growth

It is with unsurpassed pleasure and pride that I report to you that Calavo Growers, Inc. posted record operating results in fiscal 2016, marking our sixth consecutive year registering new all-time highs.

Our achievements last year were once again formidable. The above highlights speak equally to these significant accomplishments, as well as Calavo's opportunities for continuing to leverage these advantages moving forward, which I will discuss in greater detail later in this letter.

Recapping fiscal 2016 operating results, nearly all key metrics reached record highs. For the 12-months-ended October 31, 2016, net income climbed nearly 40 percent to $38.0 million, or $2.18 per diluted share, from $27.2 million, approximating $1.57 per diluted share, in fiscal 2015. Full-year revenue advanced to $935.7 million, an increase of more than nine percent from $856.8 million one year earlier, paced by higher sales in each of the company's three business segments. Gross margin (dollars) rose by 26 percent to $107.5 million, or 11.5 percent of total revenues, from $85.2 million, or 10 percent of total revenues, in fiscal 2015. Operating income jumped nearly 40 percent to $61.1 million from $43.7 million in the preceding year.

In recognition of this outstanding performance, our board of directors declared a $0.90 per share annual cash dividend on Calavo common stock, an increase of 12.5 percent from $0.80 per share awarded in fiscal 2015. By returning $15.7 million to you—our owners—in the form of the cash dividend, we are balancing our dual objectives of delivering the highest possible shareholder returns, while also reinvesting substantial profit back into our businesses to drive Calavo's future growth.

Let me share some perspective that brings our operating performance and, by extension, the above metrics into sharper focus—there is no clearer way to underscore how truly impressive they are. First off, please refer to the charts on page one of this report where you can see that over the past five years, revenue, gross margin, net income and per-share results have each virtually doubled. More significantly, the two-fold growth during that span is entirely internally generated. Consider, for example, gross margin expansion—both in dollars and as a percentage of revenue which rose 150 basis points last year alone. This important measure reflects operating efficiencies realized as we grow across the company, as well as achievements resulting from Calavo's broad and deep expertise in sourcing, production and sales management—capabilities which I believe are unrivaled in our industry.

What has propelled this growth is faithful execution of our company's strategic agenda, which we have done with great success and absolute single-mindedness. Even as we remain deeply committed to the strategic model that has enabled our rapid growth, we are nimble, flexible and highly responsive to fast-changing market conditions. As longtime participants in the commodity produce business, we have come to understand how Mother Nature can be a capricious, sometimes volatile "silent partner" in our businesses. That is where our management expertise and industry knowledge base serve us extremely well. We have not deviated—nor do we plan to—from the Calavo business model with its emphasis on multiple revenue and profit engines in our three principal operating segments. Going forward, expect no change.

"Expect growth and still more growth. Fiscal 2017 will be another record year for Calavo, while fiscal 2018 will be an absolute blockbuster as recent initiatives come to full fruition."

All that said, where will we go from here? Expect growth and still more growth. I am highly confident that fiscal 2017 will be another record year for our company and, looking further ahead, fiscal 2018 will be better still—an absolute blockbuster—as recent initiatives come to full fruition to propel Calavo's top- and bottom-line performance. Let me drill down on these growth drivers.

Total fresh avocado domestic consumption topped 2.3 billion pounds last year—rising four-fold since 2000 and doubling in the last five years alone. Early forecasts peg this year's domestic consumption to rise as high as 2.7 billion pounds. Consumer demand remains very strong and growth shows little sign of abating. The preceding feature spreads speak to the myriad of factors driving consumption, including nonstop avocado "buzz" from influential tastemakers. We have positioned ourselves to capitalize on this uptick, maintain our category leadership, and drive fresh avocado sales higher in fiscal 2017 by as much as 20 percent. Contributing to the top-line growth will be our newest packinghouse in Jalisco—the second Mexico growing region expected to be authorized for export soon to the U.S, as well as other countries—which was completed last year. Building upon our two-decade track record of success in Michoacán state, we are establishing sourcing relationships in Jalisco, where many of our existing Mexican growers also farm avocados.

Achievements on another fresh produce front—Calavo's tomato program—punctuate my earlier point about company initiatives that are (pun intended here) bearing fruit. Several years ago, we established a groundbreaking partnership with Mexico-based tomato grower Agricola Belhar. In choosing them, we have an ideal partner—with outstanding farming capabilities, strong breadth of resources and a commitment to quality that mirrors Calavo's own. Last year's performance in the tomato category is indicative of our success: sales nearly doubled to $36 million from under $19 million in fiscal 2015 on a 60-plus percent increase in unit volume.

Our Renaissance Food Group (RFG) business segment saw its revenues expand by more than 13 percent last year to $333.5 million. Putting this sales growth into perspective, that mid-teen increase is approximately twice the six to seven percent growth rate projected for the fresh-prepared refrigerated products category as a whole. For all its success since becoming part of Calavo in mid-2011, RFG's greatest growth lies ahead. We have made investments exceeding $35 million in RFG over the past year or so, adding or expanding production and distribution capacity near Jacksonville, Florida and in Houston, Texas—a total of 260,000 square feet. Subsequent to fiscal year end, we announced the $19.4 million acquisition of a near-turnkey 128,000-square-foot production facility in Riverside, California, that will come online later in 2017 to serve a growing customer base in the southwest.

The net effect of these investments is an RFG footprint that covers the nation and enables seamless distribution on the just-in-time basis necessary for the retail grocery channel. We anticipate these investments will accelerate the double-digit sales growth rate for RFG, with segment gross margin improvement as we realize the economies of scale and plant-level efficiencies afforded by size. While fiscal 2017 should be excellent for RFG, its prospects into fiscal 2018 appear even more formidable, as newer facilities ramp up to full capacity.

Not to be overshadowed by our two larger business segments, Calavo Foods is a steady incremental contributor to company revenue and gross margin. While Calavo Foods represented less than seven percent of total revenue last year, it accounted for 21 percent of company gross profit. Gross margin percentage in the business segment was once again very strong—over 35 percent for the year. Calavo Foods is highly complementary to our other business segments. Avocado availability provides a plentiful raw ingredient source. RFG, on the other hand, represents an outstanding platform for increasing fresh-prepared guacamole and salsa sales to the retail grocery channel. We expect double-digit sales growth in the Calavo Foods segment in fiscal 2017, along with higher gross margin dollars, in part fueled by a strengthening picture in our salsa business, where we have seen performance improve substantially.

The question I am asked most often is: "Lee, when can we expect to see Calavo make another acquisition?" The answer is, we are always on the lookout but our criteria are exacting. As I said at the outset, we have no plans of deviating from our tried-and-true business model, so any acquisition must fit our current Calavo blueprint. We are not interested in transactions of less than $100 million, as they would be immaterial to the company's current size. Most significantly, we are judicious and there will be no deal-for-deal's sake; any transaction must be immediately accretive to earnings. That said, if the right one comes along, with our strong, flexible balance sheet, ample borrowing capacity and proven ability to integrate acquisitions, we are in a position to move quickly.

In closing, I wish to extend thanks to our senior management team and employees for their dedication, to our board of directors for its wise counsel and unflagging support, and to Calavo's customers for their patronage. To you, our fellow owners, I express deep appreciation for your loyalty and confidence. If you think the past five years have been something, I encourage you to keep watching. As the old expression goes, you ain't seen nothin' yet.

Sincerely,

Lee Cole

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2017

Board of Directors

(from left to right)

GEORGE H. "BUD" BARNES Avocado Grower, Valley Center, California **LECIL E. COLE** Chairman 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

Financial Section

Selected Consolidated Financial Data

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2016, 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,	**2016**	2015	2014	2013	2012
(In thousands, except per share data)					
INCOME STATEMENT DATA:(1)(2)(5)(6)					
Net sales	**$ 935,679**	$ 856,824	$ 782,510	$ 691,451	$ 551,119
Gross margin	**107,534**	85,227	71,228	59,448	60,665
Selling, general and administrative	**46,440**	41,558	36,605	33,485	32,714
Net income attributable to Calavo Growers, Inc.	**38,022**	27,199	97	(1,795)	15,802
Basic net income per share	**$ 2.19**	$ 1.57	$ 0.01	$ (0.12)	$ 1.07
Diluted net income per share	**$ 2.18**	$ 1.57	$ 0.01	$ (0.12)	$ 1.05
BALANCE SHEET DATA AS OF END OF PERIOD:					
Working capital	**$ 25,612**	$ 18,964	$ 22,047	$ (3,252)	$ 1,287
Total assets	**327,933**	284,945	283,464	239,810	207,787
Accrued expenses	**31,095**	21,311	25,303	36,541	30,554
Current portion of long-term obligations	**138**	2,206	5,099	5,258	5,416
Long-term obligations, less current portion	**445**	586	2,791	7,792	13,039
Shareholders' equity	**215,069**	185,982	179,406	119,093	102,719
CASH FLOWS PROVIDED BY (USED IN):					
Operations	**$ 61,968**	$ 37,283	$ 24,547	$ 13,712	$ 22,011
Investing(2)(4)	**(21,731)**	(21,054)	(21,753)	(7,746)	(7,449)
Financing(4)	**(33,566)**	(15,802)	(4,069)	(5,050)	(10,233)
OTHER DATA:					
Cash dividends declared per share	**$ 0.90**	$ 0.80	$ 0.75	$ 0.70	$ 0.65
Net book value per share	**$ 12.33**	$ 10.70	$ 10.37	$ 7.58	$ 6.90
Pounds of California avocados sold	**109,545**	75,538	74,438	141,400	127,145
Pounds of non-California avocados sold	**278,200**	312,710	258,940	218,244	174,995
Pounds of processed avocados products sold	**26,773**	27,182	26,451	21,636	17,341

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

(2) In May 2014, we deconsolidated FreshRealm (see above). We recorded a gain on the deconsolidation of FreshRealm of $12.6 million, which has been recorded on the face of the income statement as other income. In September 2016, we contributed an additional $1.6 million as an investment in FreshRealm. Our total investment of $19.4 million in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

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

(4) Cost of Sales for fiscal 2014, 2013, and 2012 include non-cash compensation expense related to the acquisition of RFG totaling $1.8 million, $0.7 million, and an insignificant amount. These non-cash expenses will not continue into fiscal 2015 nor beyond.

(5) Selling, General, and Administrative expenses for fiscal 2014, 2013 and 2012 include non-cash compensation expense related to the acquisition of RFG totaling $0.7 million, $0.3 million, and an insignificant amount. These non-cash expenses will not continue into the future.

(6) Included in accrued liabilities as of October 31, 2013 and 2012 is a non-cash, contingent consideration liability totaling $15.6 million and $11.2 million related to the acquisition of RFG. This liability resolved during fiscal 2014 and will not continue in the future.

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

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks related to our business" included in our Annual Report on From 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 food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California and Mexico. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) process and package fresh cut fruit and vegetables, salads, wraps, sandwiches, fresh snacking products and a variety of behind-the-glass deli items and (iii) produce and package guacamole and salsa. We report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods and (3) RFG. See Note 11 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. During fiscal 2016, we operated two packinghouses and four operating and distributing facilities that handle avocados across the United States. These packinghouses handled approximately 28% of the California avocado crop during the 2016 fiscal year, based on data obtained from the California Avocado Commission. Our operating results are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs are fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model. Additionally, our Fresh products business also procures avocados grown in Mexico, as well as other various perishable foods, including tomatoes and papayas. Based on our estimates, we handled approximately 16% of the Mexican avocado crop bound for the United States market and approximately 7% of the avocados exported from Mexico to countries outside of North America during the 2015-2016 Mexican season through the operation of our packinghouse in Mexico and fruit purchased from co-packers. Our strategy is to increase our market share of currently sourced avocados to help meet anticipated demand. We believe our diversified avocado sources provide a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various perishable foods, such as those mentioned above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

Our Calavo Foods business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products shipped to North America are "cold pasteurized" and include both frozen and fresh guacamole. Due to the long shelf-life of our frozen guacamole and the purity of our fresh guacamole, we believe that we are well positioned to address the diverse taste and needs of today's 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 50% and 52% of total processed segment sales for the years ended October 31, 2016 and 2015. Net sales of our refrigerated products represented approximately 50% and 48% of total processed segment sales for the years ended October 31, 2016 and 2015.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail channel. RFG products include fresh prepared 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 behind-the-deli glass meal and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials as well as store-brand, 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, such as pests and disease, weather patterns, changes in demand by consumers, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, change in the mix of avocados and Calavo Foods and RFG products we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

Recent Developments

Dividend Payment

On September 27, 2016, the Company declared a $0.90 per share cash dividend to shareholders of record on November 17, 2016. On December 8, 2016, the Company paid this cash dividend which totaled $15.7 million.

Houston and Jacksonville Facilities

In fiscal 2016, we expanded and refurbished our plant facilities in Houston, TX and Jacksonville, FL to add additional production capacity and in-plant capabilities. We invested approximately $7.3 million into the Houston facility and $13.3 million into the Jacksonville facility.

Mexico tax audits

We conduct business internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly-owned subsidiary, Calavo de Mexico ("CDM"), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico ("MFM") containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax ("VAT"). During our fourth fiscal quarter of 2016, we provided a written rebuttal to MFM's preliminary observations and requested the adoption of a conclusive agreement before the PRODECON (Local Tax Ombudsman) so that a full discussion of the case between us, the MFM and the PRODECON can occur and so that, as appropriate, the MFM can reconsider their findings. Note that until such discussion occurs, the normal period during which the MFM would issue its final assessment (previously expected no later February 2017) has been suspended. Though a formal meeting date has not yet been determined, the discussion between us, the MFM and the PRODECON is expected to start in calendar 2017.

Additionally, we also received notice from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria (SAT), that our wholly-owned Mexican subsidiary, Calavo de Mexico, is currently under examination related to fiscal year 2013. Under Mexican law, the SAT has until approximately March 2017 to complete their review. In conjunction with their examination, the SAT has requested information though no formal findings have yet been received.

We believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

From time to time, we are also 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.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, 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. A 1% change in the derived percentage for the entire year would impact results of operations by approximately $0.7 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. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. 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. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2016.

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,	2016	2015	2014
Net sales	**100%**	100%	100%
Gross margins	**11.5%**	9.9%	9.1%
Selling, general and administrative	**5.0%**	4.9%	4.7%
Contingent consideration related to RFG acquisition	**0.0%**	0.0%	6.5%
Operating income	**6.5%**	5.1%	(2.1)%
Interest income	**0.0%**	0.0%	0.0%
Interest expense	**(0.1)%**	(0.1)%	(0.1)%
Other income, net	**0.0%**	0.0%	0.1%
Net income	**4.1%**	3.2%	0.0%

Net Sales

We believe that the fundamentals for our products continue to be favorable. Firstly, United States (U.S.) avocado demand continues to grow, with per capita use in 2015/16 reaching 6.9 pounds per person, up 7 percent from the previous year, and approximately double the estimate of a decade ago. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

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

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2016, 2015 and 2014, on behalf of avocado growers, we remitted approximately $2.4 million, $1.7 million and $1.7 million to the California Avocado Commission. During fiscal 2016, 2015 and 2014, we remitted approximately $8.2 million, $8.3 million and $7.1 million to the Hass Avocado Board related to avocados.

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

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

Papayas have become more popular as the consumption in the United States has more than doubled in the past decade. Papayas have high nutritional benefits. They are rich in anti-oxidants, the B vitamins, folate and pantothenic acid; and the minerals, potassium and magnesium; and fiber. Together, these nutrients promote the health of the cardiovascular system and also provide protection against colon cancer.

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 prepared 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 behind-the-deli glass meal and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials as well as store-brand, private label programs.

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

	YEAR ENDED OCTOBER 31, 2016				YEAR ENDED OCTOBER 31, 2015			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 493,440	$ —	$ —	**$ 493,440**	$ 471,178	$ —	$ —	$ 471,178
Tomatoes	35,981	—	—	**35,981**	18,681	—	—	18,681
Papayas	9,514	—	—	**9,514**	9,485	—	—	9,485
Pineapples	1,060	—	—	**1,060**	2,397	—	—	2,397
Other fresh products	536	—	—	**536**	442	—	—	442
Food service	—	50,716	—	**50,716**	—	49,212	—	49,212
Retail and club	—	23,216	336,989	**360,205**	—	22,736	296,697	319,433
Total gross sales	540,531	73,932	336,989	**951,452**	502,183	71,948	296,697	870,828
Less sales incentives	(1,844)	(10,438)	(3,491)	**(15,773)**	(1,472)	(9,792)	(2,740)	(14,004)
Net sales	$ 538,687	$ 63,494	$ 333,498	**$ 935,679**	$ 500,711	$ 62,156	$ 293,957	$ 856,824

	YEAR ENDED OCTOBER 31, 2015				YEAR ENDED OCTOBER 31, 2014			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 471,178	$ —	$ —	$ 471,178	$ 433,581	$ —	$ —	$ 433,581
Tomatoes	18,681	—	—	18,681	19,705	—	—	19,705
Papayas	9,485	—	—	9,485	12,619	—	—	12,619
Pineapples	2,397	—	—	2,397	5,086	—	—	5,086
Other fresh products	442	—	—	442	1,037	—	—	1,037
Food service	—	49,212	—	49,212	—	48,085	—	48,085
Retail and club	—	22,736	296,697	319,433	—	22,334	255,074	277,408
Total gross sales	502,183	71,948	296,697	870,828	472,028	70,419	255,074	797,521
Less sales incentives	(1,472)	(9,792)	(2,740)	(14,004)	(1,079)	(11,140)	(2,792)	(15,011)
Net sales	$ 500,711	$ 62,156	$ 293,957	$ 856,824	$ 470,949	$ 59,279	$ 252,282	$ 782,510

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2016, 2015 and 2014, inter-segment sales and cost of sales of $4.3 million, $1.5 million and $2.2 million between Fresh products and RFG were eliminated. For fiscal year 2016, 2015 and 2014, inter-segment sales and cost of sales of $2.7 million, $1.9 million and $1.7 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
NET SALES:					
Fresh products	**$ 538,687**	7.6%	$ 500,711	6.3%	$ 470,949
Calavo Foods	**63,494**	2.2%	62,156	4.9%	59,279
RFG	**333,498**	13.5%	293,957	16.5%	252,282
Total net sales	**$ 935,679**	9.2%	$ 856,824	9.5%	$ 782,510
AS A PERCENTAGE OF NET SALES:					
Fresh products	**57.6%**		58.4%		60.2%
Calavo Foods	**6.8%**		7.3%		7.6%
RFG	**35.6%**		34.3%		32.2%
	100%		100%		100%

Summary

Net sales for the year ended October 31, 2016, compared to 2015, increased by $78.9 million, or 9.2%. The increase in sales, when compared to the same corresponding prior year periods, is related to growth from all segments.

For fiscal year 2016, our largest percentage increase in sales was RFG, followed by our Fresh products segment and our Calavo Foods segment, as shown above. Our increase in RFG sales was due primarily to increased sales from fresh prepared food and fresh-cut fruit and vegetable products. Our increase in Fresh product sales was due primarily to increased sales of California avocados and tomatoes, partially offset by decreased sales of Mexican avocados. We experienced an increase in our Calavo Foods segment during fiscal year 2016, which was due primarily to an increase in the sales of our salsa 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. All intercompany sales are eliminated in our consolidated results of operations.

Fresh products

Fiscal 2016 vs. Fiscal 2015:

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

Sales of California sourced avocados increased $50.0 million, or 50.6%, for the year ended October 31, 2016, when compared to the same prior year period. The increase in California sourced avocados was primarily due to an increase of 34.0 million pounds of avocados sold, or 45.0%. We attribute most of this increase in volume to the larger California avocado crop in fiscal 2016, compared to the same prior year period. In addition to this increase in pounds sold, is an increase in the sales price per carton. The sales price per carton for California sourced avocados increased by approximately 3.9%. We attribute much of this change in price to a lower overall supply of avocados in the market during the fourth quarter of fiscal 2016.

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

Partially offsetting these increases was a decrease in sales of Mexican sourced avocados, which decreased $22.6 million, or 6.2%, for the year ended October 31, 2016, when compared to the same prior year period. The decrease in Mexican sourced avocados was primarily due to a decrease in pounds sold of Mexican sourced avocados, which decreased approximately 26.7 million pounds or 8.8%. This decrease is primarily due to supply disruptions in July and October which stalled the harvesting of avocados for the entire industry.

Sales of Peruvian sourced avocados decreased $5.4 million for the year ended October 31, 2016, compared to the same period for fiscal 2015. We chose not to sell Peruvian sourced avocados in fiscal 2016.

We anticipate that sales volume of California grown avocados will decrease in fiscal 2017, due to a smaller expected California avocado crop. We anticipate that sales of Mexican grown avocados will increase in fiscal 2017, when compared to the same prior year period.

Fiscal 2015 vs. Fiscal 2014:

Net sales delivered by the Fresh products business increased by approximately $29.8 million, or 6.3%, for the year ended October 31, 2015, when compared to fiscal 2014. As discussed above, this increase in Fresh product sales during fiscal 2015 was primarily related to increased sales of Mexican and Peruvian sourced avocados, partially offset by decreases in sales of California and Chilean sourced avocados, papayas, pineapples, and tomatoes. See details below.

Sales of Mexican sourced avocados increased $39.3 million, or 12.0%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 51.3 million pounds of avocados sold, or 20.1%, when compared to the same prior year period. Partially offsetting this increase in pounds sold, however, is a decrease in the sales price per carton. The sales price per carton for Mexican sourced avocados decreased by approximately 6.7%. We attribute much of this change to a higher supply of avocados in the market.

Sales of Peruvian sourced avocados increased to $5.4 million for the year ended October 31, 2015, compared to $0.8 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 5.2 million pounds.

Partially offsetting such increases was a decrease in sales of California sourced avocados, which decreased $3.7 million, or 3.6% for the year ended October 31, 2015, when compared to the same prior year period. The decrease in California sourced avocados was primarily due to a decrease in the sales price per carton, which decreased approximately 5.0%. Partially offsetting this decrease, however, was an increase pounds sold. California sourced avocados sales reflect an increase in 1.1 million pounds of avocados sold, or 1.5%, when compared to the same prior year period.

Sales of Chilean sourced avocados decreased $3.0 million, or 97.4%, for the year ended October 31, 2015, when compared to the same prior year period. The decrease in Chilean sourced avocados was primarily due to the Company's decision to focus more heavily on sourcing avocados from other growing regions outside the US, namely Mexico and Peru. As a result, Chilean sourced avocados sales reflect a decrease in 2.7 million pounds of avocados sold, when compared to the same prior year period. In addition, we have liquidated our unconsolidated subsidiary Calavo Chile, which further caused the above decrease.

Partially offsetting these increases were decreases in sales of pineapples, papayas and tomatoes. Sales of papayas decreased $2.7 million, or 23.9%, sales of pineapples decreased $2.7 million, or 52.9% and sales of tomatoes decreased $1.0 million, or 5.2%, for the year ended October 31, 2015, when compared to the same period for fiscal 2014. The decrease in sales for pineapples, papayas, and tomatoes are primarily due to decreases in the number of cartons sold. We attribute all of these decreases in cartons sold due primarily to weather related issues effecting the quality and quantity of the fruit.

Calavo Foods

Fiscal 2016 vs. Fiscal 2015:

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

Fiscal 2015 vs. Fiscal 2014:

Sales for Calavo Foods for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased $2.9 million, or 4.9%. This increase is due to an increase in sales of prepared guacamole products which increased approximately $2.3 million, or 3.9%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 0.7 million pounds, or 2.8%. In addition, sales of salsa products increased approximately $0.6 million, or 41.3%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in sales of salsa was primarily related to an increase in overall pounds sold, which increased 0.4 million pounds, or 47.8%.

RFG

Fiscal 2016 vs. Fiscal 2015:

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

Fiscal 2015 vs. Fiscal 2014:

Sales for RFG for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased $41.7 million, or 16.5%. This increase is due primarily to increased sales from cut fruit and deli products, as well as an increase in sales of cut vegetables. The overall increase in sales is primarily due to an increase in sales volume, partially offset by a decrease in the sales price per unit. Collectively, cut fruit, cut vegetable, and deli product sales increased 8.8 million units, or 31.2%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative products that we offer.

Gross Margins

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

	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
GROSS MARGINS:					
Fresh products	**$ 57,997**	56.5%	$ 37,064	2.6%	$ 36,129
Calavo Foods	**22,448**	9.4%	20,511	57.7%	13,010
RFG	**27,089**	(2.0)%	27,652	25.2%	22,089
Total gross margins	**$ 107,534**	26.2%	$ 85,227	19.7%	$ 71,228
GROSS MARGIN PERCENTAGES:					
Fresh products	**10.8%**		7.4%		7.7%
Calavo Foods	**35.4%**		33.0%		21.9%
RFG	**8.1%**		9.4%		8.8%
Consolidated	**11.5%**		9.9%		9.1%

Summary

Our cost of goods sold consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products and other direct expenses pertaining to products sold. Gross margins increased by approximately $22.3 million, or 26.2%, for the year ended October 31, 2016, when compared to the same period for fiscal 2015. These increases were attributable to gross margin increases across the Fresh products and Calavo Foods segments, partially offset by a decrease in our RFG segment.

Note that RFG's Cost of Sales for fiscal 2014, includes a non-cash compensation expense related to the sale/acquisition of RFG totaling $1.8 million.

Fresh products

Fiscal 2016 vs. Fiscal 2015:

During fiscal 2016, as compared to the same prior year period, the increase in our Fresh products segment gross margin percentage was the result of increased margins for Californian and Mexican sourced avocados. For the year ended October 31, 2016, compared to the same prior year period, the gross margin percentage for California sourced avocados increased from a loss of -1.6% in 2015 to a margin of 9.0% in 2016. For fiscal 2016, we were able to effectively manage our fruit costs during select periods within the year and better leverage our fixed handling costs. For the year ended October 31, 2016, compared to the same prior year period, the gross margin percentage for Mexican sourced avocados increased from 9.6% in 2015 to 11.7% in 2016. For fiscal 2016, we were able to manage fruit cost for Mexican sourced avocados effectively. In addition, the U.S. Dollar to Mexican Peso exchange rate continued to strengthen in fiscal 2016. Note that any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Fresh products segment.

The gross margin and/or 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. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such products prior to sale, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of products procured under consignment arrangements. For the year ended October 31, 2016 we generated gross margins of $4.2 million from consigned tomato sales, up 107% from $2.0 million in the corresponding prior year period. This improvement in tomato gross margins, is due to an overall increase in tomato sales, which increased $17.3 million for the year ended October 31, 2016, compared to the same period for fiscal 2015. The increase in sales of tomatoes is due to an increase in cartons sold of approximately 1.1 million cartons or 62.9%. In addition, tomatoes experienced an increase in the sales price per carton of approximately 18.2%, most notable during our fiscal first quarter, primarily resulting from a change in weather patterns. Gross margins of Peruvian sourced avocados decreased $0.5 million for the year ended October 31, 2016, compared to the same period for fiscal 2015. We chose not sell Peruvian sourced avocados in fiscal 2016.

Fiscal 2015 vs. Fiscal 2014:

During fiscal 2015, as compared to the same prior year period, the increase in our Fresh products segment gross margin percentage was primarily the result of increased margins for Mexican sourced avocados that increased from 8.1% in fiscal 2014 to 9.6% in fiscal 2015. In the current year, we were able to manage the spread between the sales price and the fruit cost of Mexican sourced avocados more effectively, as average fruit costs decreased 8.3%, we were able to have the decrease in sales prices to be only approximately 6.7%. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened in fiscal year 2015, more significantly compared to fiscal year 2014. Note that any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Fresh products and Calavo Foods segments.

Partially offsetting this increase in gross margin percentage was a decrease in the gross margin percentage for California sourced avocados for fiscal 2015, as compared to the same prior year periods. This decrease was primarily related to increased fruit cost, in the form of higher grower returns vs. the related selling prices. We believe this is primarily due to California avocado sales prices decreasing for prolonged periods of time during fiscal 2015. This declining market negatively impacted gross margins.

The gross margin and/or gross profit percentage for consignment sales, including certain Peruvian avocados, Chilean avocados, tomatoes and pineapples, 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. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such 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, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal year 2015 we generated gross margins of $3.0 million from consigned sales. This is consistent for consigned sales compared to previous year. Sales of Peruvian sourced avocados increased to $5.4 million for the year ended October 31, 2015, compared to $0.8 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 5.2 million pounds. Sales of Chilean sourced avocados decreased $3.0 million, or 97.4%, for the year ended October 31, 2015 when compared to the same prior year period. The decrease in Chilean sourced avocados was due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 2.7 million pounds of avocados sold when compared to the same prior year period. This decrease in sales is due to the high availability of other avocado sources, and an increased focus on Mexican and California sourced avocados for the year ended October 31, 2015. In addition, we have liquidated our unconsolidated subsidiary Calavo Chile, which further caused the above decrease. Sales of tomatoes decreased to $18.7 million for the year ended October 31, 2015, compared to $19.7 million for the same period for fiscal 2014. The decrease in sales for tomatoes is due to a decrease in the sales price per carton, which decreased 7.2%. We believe this decline in the sales price per carton is due to the higher supply of tomatoes in the marketplace.

Calavo Foods

Fiscal 2016 vs. Fiscal 2015:

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

Fiscal 2015 vs. Fiscal 2014:

The Calavo Foods segment gross margin percentage during our year ended October 31, 2015, when compared to the same prior year period, increased primarily due to a decrease in fruit costs. Fruit costs decreased during our year ended October 31, 2015, by approximately 36.1%. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened for the year ended October 31, 2015, as compared to the same period year period. Note that any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Calavo Foods segments

RFG

Fiscal 2016 vs. Fiscal 2015:

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

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

Fiscal 2015 vs. Fiscal 2014:

RFG's improved gross-margin is reflective of certain economies of scale resulting from significant sales growth (see discussion above), improved labor utilization and improved raw-material quality and yield. Benefits from superior fruit quality/yield extend beyond just lower fruit costs, but also reduce other costs, including the labor needed to process such fruit. Sales for RFG for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased $41.7 million, or 16.5%.

Selling, General and Administrative	**2016**	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Selling, general and administrative	**$ 46,440**	11.7%	$ 41,558	13.5%	$ 36,605
Percentage of net sales	**5.0%**		4.9%		4.7%

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

Selling, general and administrative expenses increased $5.0 million, or 13.5%, for the year ended October 31, 2015, when compared to the same prior year period. This increase was primarily related to higher corporate costs, including, but not limited to, general and administrative costs related to salaries (approximately $1.7 million), stock-based compensation expense (approximately $1.4 million), a write-down of contingent consideration related to Salsa Lisa (approximately $0.5 million), legal/consulting fees (approximately $0.4 million), promotion and advertising (approximately $0.3 million), data processing (approximately $0.3 million), consulting fees (approximately $0.3 million), workers compensation (approximately $0.3 million), employee benefits (approximately $0.2 million), and other admin fees (approximately $0.2 million), partially offset by a decrease in the start-up operations of FreshRealm (approximately $1.0 million) and accrued management bonuses (approximately $0.6 million).

Contingent Consideration Related to RFG Acquisition	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Contingent Consideration Related to RFG Acquisition	**$ —**	NM%	$ —	NM%	$ 51,082
Percentage of net sales	**—%**		—%		6.5%

RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement in fiscal 2014. This caused the significant increase in contingent consideration for fiscal 2014. There was no contingent consideration expense for fiscal year 2016 and 2015. There will be no future expenses related to this acquisition. See the 2014 fiscal year Consolidated Financial Statement for more information.

Interest Income	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Interest income	**$ 132**	71.4%	$ 77	(66.2)%	$ 228
Percentage of net sales	**—%**		—%		—%

Interest income was primarily generated from our loans to growers. The increase in interest income in fiscal 2016 as compared to 2015 is due to the borrowings by California avocado growers increasing in the current year compared to the prior year.

The decrease in interest income in fiscal 2015 as compared to 2014 is due to the borrowings by California avocado growers decreasing in the current year compared to the prior year.

Interest Expense	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Interest expense	**$ 756**	(8.9)%	$ 830	(15.6)%	$ 983
Percentage of net sales	**0.1%**		0.1%		0.1%

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreements with Farm Credit West, PCA (FCW) and Bank of America, N.A. (BoA). For fiscal 2016, as compared to fiscal 2015, the decrease in interest expense was primarily related to the payoff of our term loans with FCW and BoA, and the lower average outstanding balance on our non-collateralized, revolving credit facility.

For fiscal 2015, as compared to fiscal 2014, the decrease in interest expense was primarily related to a lower average outstanding balance on our non-collateralized, revolving credit facilities.

Other Income, Net	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Other income, net	**$ 428**	2.6%	$ 417	(11.8)%	$ 473
Percentage of net sales	**—%**		—%		0.1%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. Other Income stayed relatively consistent in fiscal 2016 compared to fiscal 2015 and 2014. During fiscal 2016, 2015 and 2014, we received $0.3 million as dividend income from Limoneira.

Provision (benefit) for Income Taxes	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Provision (benefit) for income taxes	**$ 21,869**	35.9%	$ 16,093	NM%	$ (3,916)
Effective tax rate	**36.3%**		37.2%		(94.8)%

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

For fiscal year 2015, our provision for income taxes was $16.1 million, as compared to a benefit of $3.9 million recorded for the comparable prior year period. The prior year benefits for income taxes are primarily attributable to the revaluation adjustment related to contingent consideration.

The benefit for income taxes of $3.9 million in fiscal year 2014 is attributable to the revaluation adjustment of $88.1 million related to contingent consideration which was spread between fiscal year 2014 through fiscal year 2011. The prior year revaluation expense drove pre-tax book income into a loss position, thus causing a benefit for income taxes as this revaluation adjustment is capitalized and amortized as goodwill over the remaining useful life for income tax purposes resulting in a taxable income position for the prior year.

Net (income) loss attributable to noncontrolling interest	2016	CHANGE	2015	CHANGE	2014
(Dollars in thousands)					
Net (income) loss attributable to noncontrolling interest	**$ (437)**	NM%	$ —	(100.0)%	$ 312
Percentage of net sales	**—%**		—%		—%

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

QUARTERLY RESULTS OF OPERATIONS

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2016. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially smaller volume of California avocados in our first fiscal quarter.

	THREE MONTHS ENDED							
	OCT. 31, 2016	**JULY 31, 2016**	**APR. 30, 2016**	**JAN. 31, 2016**	OCT. 31, 2015	JULY 31, 2015	APR. 30, 2015	JAN. 31, 2015
(in thousands, except per share amounts)								
STATEMENT OF OPERATIONS DATA								
Net sales	**$ 247,655**	**$ 263,146**	**$ 220,303**	**$ 204,575**	$ 207,994	$ 232,450	$ 221,589	$ 194,791
Cost of sales	**220,570**	**230,502**	**193,496**	**183,577**	187,825	208,172	198,614	176,986
Gross margin	**27,085**	**32,644**	**26,807**	**20,998**	20,169	24,278	22,975	17,805
Selling, general and administrative	**11,574**	**12,287**	**11,658**	**10,921**	11,442	10,620	9,986	9,510
Operating income	**15,511**	**20,357**	**15,149**	**10,077**	8,727	13,658	12,989	8,295
Other income (expense), net	**(553)**	**(325)**	**88**	**24**	(237)	(107)	73	(106)
Income before provision for income taxes	**14,958**	**20,032**	**15,237**	**10,101**	8,490	13,551	13,062	8,189
Provision for income taxes	**5,260**	**7,323**	**5,561**	**3,725**	3,703	4,910	4,590	2,890
Net income	**9,698**	**12,709**	**9,676**	**6,376**	4,787	8,641	8,472	5,299
Add: Net (income) loss – noncontrolling interest	**(459)**	**36**	**13**	**(27)**	—	—	—	—
Net income – Calavo Growers, Inc	**$ 9,239**	**$ 12,745**	**$ 9,689**	**$ 6,349**	$ 4,787	$ 8,641	$ 8,472	$ 5,299
Basic	**$ 0.53**	**$ 0.73**	**$ 0.56**	**$ 0.37**	$ 0.28	$ 0.50	$ 0.49	$ 0.31
Diluted	**$ 0.53**	**$ 0.73**	**$ 0.56**	**$ 0.37**	$ 0.28	$ 0.50	$ 0.49	$ 0.31
Number of shares used in per share computation:								
Basic	**17,355**	**17,351**	**17,348**	**17,322**	17,307	17,301	17,300	17,295
Diluted	**17,447**	**17,447**	**17,445**	**17,386**	17,392	17,386	17,382	17,311

LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2016, 2015 and 2014 provided cash flows of $62.0 million, $37.3 million, and $24.5 million. Fiscal year 2016 operating cash flows reflect our net income of $38.5 million, net increase of noncash charges (depreciation and amortization, income from unconsolidated entities, provision for losses on accounts receivable, interest on deferred compensation, excess tax benefit from stock based compensation, deferred income taxes, and stock compensation expense) of $13.0 million and a net increase from changes in the non-cash components of our working capital accounts of approximately $10.5 million.

Fiscal year 2016 increases in operating cash flows, caused by working capital changes, includes an increase in payable to growers of $18.1 million, an increase in trade accounts payable and accrued expenses of $7.6 million, a decrease in income tax receivable of $6.2 million, an increase in deferred rent of $1.7 million, and a decrease in other assets of $0.6 million, partially offset by an increase in accounts receivable of $11.5 million, an increase in inventory of $5.5 million, an increase in prepaid expenses and other current assets of $5.1 million and an increase in advances to suppliers of $1.6 million.

The increase in payable to our growers primarily reflects an increase in fruit prices for Mexican fruit delivered in the month of October 2016, as compared to the month of October 2015. The increase in accounts payable and accrued expenses is primarily related to increase in fruit or other related cost, and an increase in our accrual for management incentives. The decrease in income tax receivable and the increase in income taxes payable primarily reflects the tax impact of the current year’s net income. The increase in deferred rent is due to the new lease in Jacksonville, Florida. The decrease in other assets is primarily due to the collection of infrastructure through the settlement process of advances to our tomato growers Agricola Belher. The increase in our accounts receivable, as of October 31, 2016 when compared to October 31, 2015, primarily reflects higher sales recorded in the month of October 2016, as compared to October 2015. The increase in our inventory balance is primarily related to an increase in Mexico avocado inventory on hand at October 31, 2016 and higher fruit prices, as compared to the same prior year period. The net increase in our prepaid assets and other assets is due primarily to an increase in our Mexican IVA tax receivable in fiscal 2016. The increase in our advances to suppliers is primarily related to an increase in preseason advances to our grower Agricola Belher.

Cash used in investing activities was $21.7 million, $21.1 million, and $21.8 million for fiscal years 2016, 2015, and 2014. Fiscal year 2016 cash flows used in investing activities include capital expenditures of $21.8 million of property, plant and equipment items for expansion projects in the RFG and Fresh products segments and an additional investment in Agricola Don Memo of $2.3 million, an additional investment in FreshRealm of $1.6 million, partially offset by proceeds received from the repayment of the loan to Agricola Don Memo of $4.0 million.

Cash used in financing activities was $33.6 million, $15.8 million and $4.1 million for fiscal years 2016, 2015 and 2014. Cash used during fiscal year 2016 primarily related to the payment of a dividend of $13.9 million, payments on our credit facilities totaling $17.9 million, payments on long-term obligations of $2.2 million and deferred financing costs of $0.1 million, partially offset by the excess of the tax benefit of stock based compensation of $0.4 million and proceeds from the exercise of stock options of $0.1 million.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2016 and 2015 totaled $13.8 million and $7.2 million. Our working capital at October 31, 2016 was $25.6 million, compared to $19.0 million at October 31, 2015.

We believe that cash flows from operations and the available Credit Facility will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for the next twelve months. We will continue to evaluate grower recruitment opportunities, expanded relationships with retail and club customers, and exclusivity arrangements with food service companies to fuel growth in each of our business segments. In June 2016, we entered into a new unsecured, 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 new agreement is $80 million, and will expire in June 2021. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding $50 million. For our current and past line of credit agreements the weighted-average interest rate was 1.9% and 1.7% at October 31, 2016 and 2015. Under these credit facilities, we had $19.0 million and $36.9 million outstanding as October 31, 2016 and 2015.

This new Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2016.

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, 2016:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term debt obligations (including interest)	$ 662	$ 162	$ 222	$ 202	$ 76
Revolving credit facilities	19,000	19,000	—	—	—
Defined benefit plan	195	33	66	66	30
Operating lease commitments	58,206	5,268	10,445	8,922	33,571
Total	$ 78,063	$ 24,463	$ 10,733	$ 9,190	$ 33,677

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

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

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), which amends the existing accounting standards for income taxes. The amendment required companies to report their deferred tax liabilities and deferred tax assets each as a single non-current item on their classified balance sheets. The Company elected to adopt the amendments in the first quarter of fiscal year 2016 and applied them prospectively to the current period presented, as permitted by the standard. The adoption of the amendments had no impact on the Company's net earnings or cash flow from operations for any period presented.

Recently Issued Accounting Standards

In March 2016, the FASB issued an ASU, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU will be effective for us beginning the first day of our 2017 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In February 2016, the FASB issued an ASU, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This ASU will be effective for us beginning the first day of our 2019 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows.

In July 2015, the FASB issued an ASU for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for us on a prospective basis beginning on the first day of our fiscal 2017 year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are evaluating the impact of the adoption of this amended accounting standard on our financial condition, result of operations and cash flows, but we do not expect the adoption of this accounting standard to have a significant effect.

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, 2016.

	EXPECTED MATURITY DATE OCTOBER 31,							
	2017	2018	2019	2020	2021	THEREAFTER	TOTAL	FAIR VALUE
(All amounts in thousands)								
ASSETS								
Cash and cash equivalents[1]	$ 13,842	$ —	$ —	$ —	$ —	$ —	$ 13,842	$ 13,842
Accounts receivable[1]	70,101	—	—	—	—	—	70,101	70,101
LIABILITIES								
Payable to growers[1]	$ 20,965	$ —	$ —	$ —	$ —	$ —	$ 20,965	$ 20,965
Accounts payable[1]	22,447	—	—	—	—	—	22,447	22,447
Current borrowings pursuant to credit facilities[1]	19,000	—	—	—	—	—	19,000	19,000
Fixed-rate long-term obligations[2]	138	99	89	92	92	73	583	612

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

(2) Fixed-rate long-term obligations bear interest rates ranging from 3.5% to 4.3% with a weighted-average interest rate of 2.3%. We believe that loans with a similar risk profile would currently yield a return of 2.8%. 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 $18,000.

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 2016, 2015, and 2014, net of gains, were $1.1 million, $1.8 million and $0.1 million.

Consolidated Balance Sheets

OCTOBER 31,	2016	2015
(in thousands)		
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,842	$ 7,171
Accounts receivable, net of allowances of $2,063 (2016) $2,312 (2015)	70,101	58,606
Inventories, net	31,849	26,351
Prepaid expenses and other current assets	14,402	15,763
Advances to suppliers	4,425	2,820
Income taxes receivable	334	6,111
Total current assets	134,953	116,822
Property, plant, and equipment, net	87,837	69,448
Investment in Limoneira Company	34,036	27,415
Investment in unconsolidated entities	24,652	19,720
Deferred income taxes	14,944	19,277
Goodwill	18,262	18,262
Other assets	13,249	14,001
	$ 327,933	$ 284,945
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to growers	$ 20,965	$ 3,924
Trade accounts payable	22,447	19,600
Accrued expenses	31,095	21,311
Short-term borrowings	19,000	36,910
Dividend payable	15,696	13,907
Current portion of long-term obligations	138	2,206
Total current liabilities	109,341	97,858
Long-term Liabilities:		
Long-term obligations, less current portion	445	586
Deferred rent	2,307	—
Deferred income taxes	—	234
Total long-term liabilities	2,752	820
Commitments and contingencies		
Noncontrolling interest, Calavo Salsa Lisa	771	285
Shareholders' Equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,440 (2016) and 17,384 (2015) shares issued and outstanding)	17	17
Additional paid-in capital	149,748	147,063
Accumulated other comprehensive income	6,544	2,419
Noncontrolling interest	962	1,011
Retained earnings	57,798	35,472
Total shareholders' equity	215,069	185,982
	$ 327,933	$ 284,945

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

YEAR ENDED OCTOBER 31,	2016	2015	2014
(in thousands, except per share amounts)			
Net sales	$ 935,679	$ 856,824	$ 782,510
Cost of sales	828,145	771,597	711,282
Gross margin	107,534	85,227	71,228
Selling, general and administrative	46,440	41,558	36,605
Contingent consideration related to RFG acquisition	—	—	51,082
Operating income (loss)	61,094	43,669	(16,459)
Losses from unconsolidated entities	(570)	(41)	(12)
Interest income	132	77	228
Interest expense	(756)	(830)	(983)
Gain on deconsolidation of FreshRealm	—	—	12,622
Other income, net	428	417	473
Income (loss) before provision for income taxes	60,328	43,292	(4,131)
Provision (benefit) for income taxes	21,869	16,093	(3,916)
Net income (loss)	38,459	27,199	(215)
Less: Net (income) loss attributable to noncontrolling interest	(437)	—	312
Net income attributable to Calavo Growers, Inc.	$ 38,022	$ 27,199	$ 97
CALAVO GROWERS, INC.'S NET INCOME PER SHARE:			
Basic	$ 2.19	$ 1.57	$ 0.01
Diluted	$ 2.18	$ 1.57	$ 0.01
NUMBER OF SHARES USED IN PER SHARE COMPUTATION:			
Basic	17,347	17,295	15,765
Diluted	17,431	17,363	17,220

Consolidated Statements of Comprehensive Operations

YEAR ENDED OCTOBER 31,		2016		2015		2014
(in thousands)						
Net income (loss)	$	**38,459**	$	27,199	$	(215)
Other comprehensive income (loss), before tax:						
Unrealized investment gains (losses) arising during period		**6,621**		(16,940)		(1,175)
Income tax benefit (expense) related to items of other comprehensive loss		**(2,496)**		6,646		474
Other comprehensive income (loss), net of tax		**4,125**		(10,294)		(701)
Comprehensive income (loss)		**42,584**		16,905		(916)
Less: Net (income) loss attributable to noncontrolling interest		**(437)**		—		312
Comprehensive income (loss) – Calavo Growers, Inc.	$	**42,147**	$	16,905	$	(604)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total
Balance, October 31, 2013	15,720	15	70,790	13,414	35,054	(180)	119,093
Exercise of stock options and income tax benefit of $191	8	—	318	—	—	—	318
Stock compensation expense	—	—	727	—	—	—	727
Restricted stock issued	35	—	—	—	—	—	—
Issuance of stock related to RFG Contingent consideration and non-cash compensation	1,532	2	67,288	—	—	—	67,290
Unrealized loss on Limoneira investment, net	—	—	—	(701)	—	—	(701)
Dividend declared to shareholders	—	—	—	—	(12,971)	—	(12,971)
FreshRealm noncontrolling interest contribution	—	—	5,373	—	—	4,627	10,000
Deconsolidation of FreshRealm	—	—	—	—	—	(4,030)	(4,030)
Net loss attributable to FreshRealm	—	—	—	—	—	(417)	(417)
Net income attributable to Calavo Growers, Inc	—	—	—	—	97	—	97
Balance, October 31, 2014	17,295	17	144,496	12,713	22,180	—	179,406
Exercise of stock options and income tax benefit of $111	13	—	360	—	—	—	360
Stock compensation expense	—	—	2,108	—	—	—	2,108
Restricted stock issued	76	—	99	—	—	—	99
Unrealized loss on Limoneira investment, net	—	—	—	(10,294)	—	—	(10,294)
Dividend declared to shareholders	—	—	—	—	(13,907)	—	(13,907)
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	1,011	1,011
Net income attributable to Calavo Growers, Inc.	—	—	—	—	27,199	—	27,199
Balance, October 31, 2015	17,384	17	147,063	2,419	35,472	1,011	185,982
Exercise of stock options and income tax benefit of $447	5	—	551	—	—	—	551
Stock compensation expense	—	—	2,134	—	—	—	2,134
Restricted stock issued	51	—	—	—	—	—	—
Unrealized gain on Limoneira investment, net	—	—	—	4,125	—	—	4,125
Dividend declared to shareholders	—	—	—	—	(15,696)	—	(15,696)
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	(49)	(49)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	38,022	—	38,022
Balance, October 31, 2016	17,440	$ 17	$ 149,748	$ 6,544	$ 57,798	$ 962	$ 215,069

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED OCTOBER 31,	2016	2015	2014
(in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 38,459	$ 27,199	$ (215)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	8,812	8,038	6,926
Provision for losses on accounts receivable	47	75	154
Loss from unconsolidated entities	570	109	15
Interest on contingent consideration	—	—	37
Contingent consideration and non-cash compensation expense related to the acquisition of RFG	—	—	53,611
Contingent consideration related to acquisition of Salsa Lisa	—	15	(491)
Stock compensation expense	2,134	2,108	727
Gain on deconsolidation of FreshRealm	—	—	(12,622)
Loss on disposal of property, plant, and equipment	248	147	115
Excess tax benefit from stock-based compensation	(447)	—	—
Deferred income taxes	1,603	3,183	(15,076)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(11,542)	(2,063)	(1,712)
Inventories, net	(5,498)	4,713	(2,302)
Prepaid expenses and other current assets	(5,097)	(1,780)	(5,614)
Advances to suppliers	(1,605)	438	(45)
Income taxes receivable/payable	6,224	(3,465)	(648)
Other assets	683	441	48
Payable to growers	18,084	(1,889)	(6,985)
Deferred rent	1,697	—	—
Trade accounts payable and accrued expenses	7,596	14	8,624
Net cash provided by operating activities	61,968	37,283	24,547
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of property, plant, and equipment	(21,859)	(18,099)	(11,613)
Investment in unconsolidated entities	(3,900)	(1,800)	(125)
Proceeds received for repayment of San Rafael note	28	386	—
Proceeds from liquidation of Calavo Chile	—	262	—
Decrease in cash due to deconsolidation of FreshRealm	—	—	(6,813)
Infrastructure advance to Agricola Belher	—	(1,000)	—
Loan to Agricola Don Memo	—	(803)	(3,202)
Proceeds received for repayment of loan to Agricola Don Memo	4,000	—	—
Net cash used in investing activities	(21,731)	(21,054)	(21,753)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividend to shareholders	(13,907)	(12,971)	(11,005)
Proceeds from revolving credit facility	217,230	255,350	242,340
Payments on revolving credit facility	(235,140)	(254,340)	(240,430)
Deferred financing costs	(91)	—	—
Payments on long-term obligations	(2,209)	(5,098)	(5,160)
Proceeds from stock option exercises	104	249	127
Proceeds from issuance of FreshRealm stock	—	—	10,000
Proceeds from issuance of noncontrolling interest stock	—	817	—
Excess tax benefit from stock-based compensation	447	191	59
Net cash used in financing activities	(33,566)	(15,802)	(4,069)
Net increase (decrease) in cash and cash equivalents	6,671	427	(1,275)
Cash and cash equivalents, beginning of period	7,171	6,744	8,019
Cash and cash equivalents, end of period	$ 13,842	$ 7,171	$ 6,744
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$ 741	$ 843	$ 986
Income taxes	$ 14,425	$ 15,495	$ 11,355
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of stock related to RFG contingent consideration	$ —	$ —	$ 66,988
Declared dividends payable	$ 15,696	$ 13,907	$ 12,971
Investment in FreshRealm included in accrued expenses	$ 1,600	$ —	$ —
Construction in progress included in trade accounts payable and accrued expenses	$ 4,574	$ 529	$ —
Noncash assets received for issuance of noncontrolling interest	$ —	$ 194	$ —
Collection for Agricola Belher Infrastructure Advance	$ 1,045	$ 845	$ 845
Unrealized holding gains (losses)	$ 6,621	$ (16,940)	$ (1,175)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF THE BUSINESS

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and an expanding provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California and Mexico. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) process and package fresh cut fruit and vegetables, salads, wraps, sandwiches, fresh snacking products and a variety of behind-the-glass deli items and (iii) produce 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, LLC (RFG).

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Calavo Growers de Mexico, S. de R.L. de C.V. (Calavo Growers de Mexico), Maui Fresh International, Inc. (Maui), Hawaiian Sweet, Inc. (HS), Hawaiian Pride, LLC (HP), Avocados de Jalisco, S.A.P.I. de C.V. (Avocados de Jalisco), in which we have a 80 percent ownership interest, and RFG. We consolidate our entity Calavo Salsa Lisa, LLC (CSL), in which we currently have a 65 percent ownership interest. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

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

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were $11.6 million and $12.3 million at October 31, 2016 and 2015. Included in non-trade receivables are $8.4 million and $5.7 million related to the current portion of Mexican IVA (i.e. value-added) taxes at October 31, 2016 and 2015. In addition, included in non-trade receivables at October 31, 2015 is $4.0 million related to the bridge loan to the then newly created joint venture Agricola Don Memo. Infrastructure advances are discussed below.

Prepaid expenses totaling $2.8 million and $2.3 million at October 31, 2016 and 2015, are primarily for insurance, rent and other items.

Inventories

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

Property, Plant, and Equipment

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

We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. Costs capitalized include coding and testing activities and various implementation costs. These costs are limited to (1) external direct costs of materials and services consumed in developing or obtaining internal-use computer software; (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project to the extent of the time spent directly on the project; and (3) interest cost incurred while developing internal-use computer software. See Note 4 for further information.

Goodwill and Acquired Intangible Assets

Goodwill 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. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. 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. For fiscal years 2016 and 2015, we performed our annual assessment of goodwill and noted no impairments existed as of October 31, 2016 and 2015.

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. For fiscal year 2016 and 2015, we performed our annual assessment of long-lived assets and determined that no impairment existed as of October 31, 2016 and 2015.

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 2016 and 2015, we contributed $2.3 million and $1.0 million as investments in Don Memo. These investment contributions represent Calavo Sub's 50% ownership in Don Memo, which is included in investment in unconsolidated entities on our balance sheet. In fiscal 2015 and 2014, we advanced Don Memo $0.8 million and $3.2 million. These monies, totaling $4.0 million, effectively a bridge loan, were repaid in the first quarter of fiscal 2016. We had recorded such loans in prepaids and other current assets. We use the equity method to account for this investment.

Effective May 2014, we closed our Second Amended and Restated Limited Liability Company Agreement by and among FreshRealm and the ownership members of FreshRealm. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. Impermanence contributed $10.0 million to FreshRealm for 28.6% ownership. As a result of the admission of Impermanence, Calavo's ownership was reduced from 71.1% to 50.8%. The minority/non-Calavo unit-holders held substantive participating rights. These rights existed primarily in two forms: (1) two out of a total of four board of director seats and (2) a provision in the Agreement that states that for situations for which the approval of the Members, as defined, is required by the Agreement, the Members shall act by Super-Majority Vote. As such, Calavo could not control FreshRealm through its two board of director seats, nor its 50.8% ownership. Based on the foregoing, we deconsolidated FreshRealm in May 2014. In the third and fourth quarter of fiscal 2015, FreshRealm issued additional units to various parties, which reduced our ownership percentage to approximately 49% at October 31, 2015. In the fourth quarter of fiscal 2016, FreshRealm completed another round of financing in which Calavo invested $3.2 million. During that round of financing, FreshRealm issued additional units to various parties, which reduced our ownership percentage further to approximately 46% at October 31, 2016.

We estimated the fair value of our noncontrolling interest in FreshRealm by performing a fair value measurement. This analysis was conducted with the consultation from a third party consulting firm. Our investment of $19.4 million in FreshRealm million has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 12% of Limoneira's outstanding common stock. These securities are considered available for sale securities based on management's intent with respect to such securities and are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was $34.0 million, $23.5 million and $10.5 million as of October 31, 2016. The estimated fair value, cost, and gross unrealized gain related to such investment was $27.4 million, $23.5 million and $4.0 million as of October 31, 2015.

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, 2016, nor October 31, 2015.

Pursuant to our distribution agreement, which was amended in fiscal 2011, with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. Pursuant to such amended agreement with Belher, we advanced Belher a total of $3.0 million, up from $2.0 million in the original agreement, during fiscal 2011. Additionally, the amended agreement calls for us to continue to advance $3.0 million per annum for operating purposes through 2019. These advances will be collected through settlements by the end of each year. For fiscal 2016, we agreed to advance an additional $1.4 million for preseason advances. As of October 31, 2016 and 2015, we have total advances of $4.4 million and $3.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Similar to Belher, we make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from such tomato sales to Don Memo, net of our commission and aforementioned advances. As of October 31, 2016 and 2015, we have total advances of $0.9 million and $1.8 million to D on Memo, which is recorded in advances to suppliers.

Infrastructure Advances

Pursuant to our infrastructure agreement, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher, as well as packing line equipment. Advances incur interest at 4.7% at October 31, 2016 and 2015. As of October 31, 2016, we have advanced a total of $0.8 million ($0.2 million included in prepaid expenses and other current assets and $0.6 million included in other long-term assets). As of October 31, 2015, we have advanced a total of $1.8 million ($1.0 million included in prepaid expenses and other current assets and $0.8 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through June 2020. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

Accrued Expenses

Included in accrued expenses at October 31, 2016 and 2015 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately $12.4 million and $6.2 million for the year ended October 31, 2016 and 2015.

Revenue Recognition

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

Shipping and Handling

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

Promotional Allowances

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

Allowance for Accounts Receivable

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

Consignment Arrangements

We frequently enter into consignment arrangements with pineapple and tomato growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2016, 2015 and 2014 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2016	2015	2014
Sales	**$ 34,919**	$ 28,139	$ 30,721
Cost of Sales	**30,729**	25,177	27,759
Gross Margin	**$ 4,190**	$ 2,962	$ 2,962

Advertising Expense

Advertising costs are expensed when incurred and are generally included as a component of selling, general and administrative expense. Such costs were approximately $0.2 million for fiscal years 2016, 2015, and 2014.

Research and Development

Research and development costs are expensed as incurred and are generally included as a component of selling, general and administrative expense. FreshRealm, a development stage company, comprised the majority of our research and development costs in 2014. Total research and development costs for fiscal years 2016 and 2015 were less than $0.1 million. Total research and development costs for fiscal years 2014, were approximately $0.8 million.

Other Income, Net

Included in other income, net is dividend income totaling $0.6 million for fiscal year 2016. Dividend income totaled $0.5 million for fiscal years 2015 and 2014. See Note 9 for related party disclosure related to other income.

Use of Estimates

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

Income Taxes

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

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

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

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

Basic and Diluted Net Income per Share

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

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

YEAR ENDED OCTOBER 31,	2016	2015	2014
Numerator:			
Net Income attributable to Calavo Growers, Inc.	**$ 38,022**	$ 27,199	$ 97
Denominator:			
Weighted average shares – Basic	**17,347,121**	17,295,305	15,765,102
Effect on dilutive securities – Restricted stock/options	**83,560**	67,731	1,455,000
Weighted average shares – Diluted	**17,430,681**	17,363,036	17,220,102
Net income per share attributable to Calavo Growers, Inc:			
Basic	**$ 2.19**	$ 1.57	$ 0.01
Diluted	**$ 2.18**	$ 1.57	$ 0.01

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

For the years ended October 31, 2016, 2015 and 2014, we recognized compensation expense of $2,134,000, $2,108,000, and $727,000 related to non-acquisition stock-based compensation. The value of the stock-based compensation was determined from quoted market prices at the date of the grant.

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency losses for fiscal 2016, 2015 and 2014, net of gains, were $1.1 million, $1.8 million, and $0.1 million.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. Due to current market rates, we believe that our fixed-rate long-term obligations have the same fair value and carrying value of approximately $0.6 million as of October 31, 2016.

Deferred Rent

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

Derivative Financial Instruments

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

Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued an ASU, which amends the existing accounting standards for income taxes. The amendment required companies to report their deferred tax liabilities and deferred tax assets each as a single non-current item on their classified balance sheets. The Company elected to adopt the amendments in the first quarter of fiscal year 2016 and applied them prospectively to the current period presented, as permitted by the standard. The adoption of the amendments had no impact on the Company's net earnings or cash flow from operations for any period presented.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU will be effective for us beginning the first day of our 2017 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In February 2016, the FASB issued an ASU, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This ASU will be effective for us beginning the first day of our 2019 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows.

In July 2015, the FASB issued an ASU for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for us on a prospective basis beginning on the first day of our fiscal 2017 year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows, but do not expect the adoption of this ASU to have a significant effect.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are evaluating the impact of the adoption of this amended accounting standard on our financial condition, result of operations and cash flows, but we do not expect the adoption of this accounting standard to have a significant effect.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2016, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $4.1 million, net of income taxes. Limoneira's stock price at October 31, 2016 equaled $19.69 per share. For the fiscal year ended October 31, 2015, other comprehensive income includes the unrealized loss on our Limoneira investment totaling $10.3 million, net of income taxes. Limoneira's stock price at October 31, 2015 equaled $15.86 per share. For the fiscal year ended October 31, 2014, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling $0.7 million, net of income taxes. Limoneira's stock price at October 31, 2014 equaled $25.66 per share.

Noncontrolling Interest

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

SALSA LISA NONCONTROLLING INTEREST	**YEAR ENDED OCTOBER 31, 2016**	YEAR ENDED OCTOBER 31, 2015
Noncontrolling interest, beginning	**$ 285**	$ 270
Accretion attributable to noncontrolling interest of Salsa Lisa	**486**	15
Noncontrolling interest, ending	**$ 771**	$ 285

The noncontrolling interest for Salsa Lisa is recorded at the greater of the noncontrolling interest balance adjusted for the attribution of loss or the amount redeemable pursuant to the acquisition agreement. For fiscal 2016, we recorded an adjustment of $486,000 to increase the noncontrolling interest balance to the expected redeemable amount of $771,000. This adjustment has been included in net (income) loss attributed to noncontrolling interest.

AVOCADOS DE JALISCO NONCONTROLLING INTEREST	**YEAR ENDED OCTOBER 31, 2016**	YEAR ENDED OCTOBER 31, 2015
Noncontrolling interest, beginning	**$ 1,011**	$ —
Noncontrolling interest contribution	**—**	1,011
Net loss attributable to noncontrolling interest of Avocados de Jalisco	**(49)**	—
Noncontrolling interest, ending	**$ 962**	$ 1,011

3. INVENTORIES

Inventories consist of the following (in thousands):

OCTOBER 31,	2016	2015
Fresh fruit	**$ 17,126**	$ 11,939
Packing supplies and ingredients	**7,605**	6,347
Finished prepared foods	**7,118**	8,065
	$ 31,849	$ 26,351

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 (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

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

We recorded an adjustment of $1.1 million to adjust our fresh fruit inventory to the lower of cost or market as of October 31, 2016. We did not record any lower of cost or market adjustments during fiscal year 2015.

4. PROPERTY, PLANT, AND EQUIPMENT

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

OCTOBER 31,	2016	2015
Land	**$ 7,023**	$ 7,023
Buildings and improvements	**22,480**	22,497
Leasehold improvements	**8,918**	4,810
Equipment	**66,109**	59,391
Information systems – hardware and software	**8,089**	7,839
Construction in progress	**25,456**	12,305
	138,075	113,865
Less accumulated depreciation and amortization	**(50,238)**	(44,417)
	$ 87,837	$ 69,448

Depreciation expense was $7.3 million, $6.4 million and $5.3 million for fiscal years 2016, 2015, and 2014, of which $0.5 million was related to depreciation on capital leases for fiscal year 2016, 2015, and 2014.

Property, plant, and equipment include various capital leases which total $3.2 million and $3.3 million, less accumulated depreciation of $2.5 million and $2.1 million as of October 31, 2016 and 2015.

The increase in construction in progress from $12.3 million as of October 31, 2015, to $25.5 million as of October 31, 2016, is due to leasehold improvements to the facility in Jacksonville, Florida, and leasehold improvements to the facility in Houston, Texas.

5. OTHER ASSETS

Other assets consist of the following (in thousands):

OCTOBER 31,	2016	2015
Intangibles, net	**$ 3,365**	$ 4,613
Mexican IVA (i.e. value-added) taxes receivable	**6,962**	5,853
Grower advances	**49**	346
Infrastructure advance to Agricola Belher	**600**	800
Loan to FreshRealm members	**318**	307
Notes receivable from San Rafael	**928**	1,286
Other	**1,027**	796
	$ 13,249	$ 14,001

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

		OCTOBER 31, 2016			OCTOBER 31, 2015		
	WEIGHTED-AVERAGE USEFUL LIFE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Customer list/relationships	8.0 years	$ 7,640	$ (5,241)	$ 2,399	$ 7,640	$ (4,282)	$ 3,358
Trade names	8.2 years	2,760	(2,380)	380	2,760	(2,164)	596
Trade secrets/recipes	9.3 years	630	(319)	311	630	(270)	360
Brand name intangibles	indefinite	275	—	275	275	—	275
Non-competition agreements	5.0 years	267	(267)	—	267	(243)	24
Intangibles, net		$ 11,572	$ (8,207)	$ 3,365	$ 11,572	$ (6,959)	$ 4,613

We recorded amortization expense of approximately $1.5 million, $1.6 million, and $1.3 million for fiscal years 2016, 2015, and 2014. We anticipate recording amortization expense of approximately $1.1 million, $1.1 million, $0.7 million, $0.1 million, and $0.1 million for fiscal years 2017 through 2021. The remainder of approximately $0.1 million will be amortized over fiscal years 2021 through 2023.

6. REVOLVING CREDIT FACILITIES

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

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

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

The Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2016.

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

7. EMPLOYEE BENEFIT PLANS

We sponsor five defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $984,000, $922,000, and $943,000 for fiscal years 2016, 2015 and 2014, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses, including actuarial losses, approximated $8,000, $10,000 and $9,000 for the year ended October 31, 2016, 2015, and 2014. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

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

	2016	2015
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Projected benefit obligation at beginning of year	**$ 215**	$ 196
Interest cost	**8**	7
Actuarial loss	**9**	48
Benefits paid	**(37)**	(36)
Projected benefit obligation at end of year (unfunded)	**$ 195**	$ 215

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

	2016	2015
Projected benefit obligation	$ 195	$ 215
Unrecognized net (gain) loss	—	—
Recorded pension liabilities	$ 195	$ 215

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

	2016	2015
Discount rate on projected benefit obligation	3.7%	4.3%

8. COMMITMENTS AND CONTINGENCIES

Commitments and guarantees

We lease facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2031. We are committed to make minimum cash payments under these agreements as of October 31, 2016, as follows (in thousands):

2017	$ 5,268
2018	5,305
2019	5,140
2020	4,644
2021	4,278
Thereafter	33,571
	$ 58,206

Total rent expense amounted to approximately $5.8 million, $4.4 million and $3.8 million for the years ended October 31, 2016, 2015, and 2014. Rent to Limoneira, for our corporate office, amounted to approximately $0.3 million for fiscal years 2016, 2015, and 2014. In fiscal 2014, we renewed our lease with Limoneira for our corporate facility through fiscal 2020 at an annual rental of $0.3 million per annum (subject to annual CPI increases, as defined).

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

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

In fiscal 2014, we renewed the lease of our distribution facility in Garland Texas through fiscal 2029 at an annual rental of $0.8 million per annum (subject to annual CPI increases, as defined).

In fiscal 2014, we had two lease renewals for our RFG facilities in California, one being the corporate office of RFG in Rancho Cordova, and the other being a fresh processing facility in Sacramento. The RFG corporate office in Rancho Cordova has an operating lease through June 2018. Total rent for fiscal 2016, 2015, and 2014 was approximately $0.4 million. The processing facility in Sacramento has an operating lease through May 2021(subject to annual CPI increases, as defined). Total rent for fiscal 2016, 2015, and 2014 was approximately $0.5 million.

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

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

Litigation

From time to time, we are also 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 internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly-owned subsidiary, Calavo de Mexico (“CDM”), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (“MFM”) containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM’s preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (“VAT”). During our fourth fiscal quarter of 2016, we provided a written rebuttal to MFM’s preliminary observations and requested the adoption of a conclusive agreement before the PRODECON (Local Tax Ombudsman) so that a full discussion of the case between us, the MFM and the

PRODECON can occur and so that, as appropriate, the MFM can reconsider their findings. Note that until such discussion occurs, the normal period during which the MFM would issue its final assessment (previously expected no later February 2017) has been suspended. Though a formal meeting date has not yet been determined, the discussion between us, the MFM and the PRODECON is expected to start in calendar 2017.

Additionally, we also received notice from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria (SAT), that our wholly-owned Mexican subsidiary, Calavo de Mexico, is currently under examination related to fiscal year 2013. Under Mexican law, the SAT has until approximately March 2017 to complete their review. In conjunction with their examination, the SAT has requested information though no formal findings have yet been received.

We believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

9. RELATED-PARTY TRANSACTIONS

Certain members of our Board of Directors market 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, 2016, 2015, and 2014, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $25.5 million, $16.4 million and $10.5 million. We did not have any amounts due to Board members as of October 31, 2016 and 2015.

During fiscal years 2016, 2015, and 2014, we received $0.3 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. Rent to Limoneira amounted to approximately $0.3 million for fiscal years 2016, 2015, and 2014. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. We have a 12% ownership interest in Limoneira. Additionally, our Chief Executive Officer is a member of the Limoneira Board of Directors.

We currently have a member of our Board of Directors who also serves as a partner in the law firm of TroyGould PC, which frequently represents Calavo as legal counsel. During the years ended October 31, 2016, 2015, and 2014, Calavo Growers, Inc. paid fees totaling approximately $0.2 million, $0.2 million and $0.1 million to TroyGould PC.

During the 3rd and 4th quarters of fiscal 2015, in conjunction with another round of financing for FreshRealm, LLC (FreshRealm), we invested $0.8 million. Additionally, two officers of Calavo contributed $1.8 million, in exchange for a 2.8% ownership interest, and three board of director members contributed $0.3 million in exchange for a 0.44% ownership interest. RFG is a supplier for FreshRealm. Based on the total number of shares issued, our ownership interest in FreshRealm decreased from approximately 50% to approximately 49%. During the 4th quarter of fiscal 2016, FreshRealm had another round of financing, which we invested $3.2 million. Based on the total number of LLC units issued, our ownership interest in FreshRealm decreased from approximately 49% to approximately 46%. In fiscal 2016, 2015 and 2014, we had sales of $1.1 million, $0.5 million and $0.2 million to FreshRealm.

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. Belo is entitled to a management fee equal to 20% of the earnings before interest and taxes (EBIT), as defined, which is payable annually in July of each year. Additionally, Calavo Sub is entitled to a 12% commission, calculated in U.S. dollars, for the sale of produce in the Mexican National Market, United States, Canada, and any other overseas market. In fiscal 2016 and 2015, we contributed $2.3 million and $1.0 million as investments in Don Memo, respectively. These investment contributions represent Calavo Sub's 50% ownership in Don Memo, which is included in investment in unconsolidated entities on our balance sheet. In fiscal 2015 and 2014, we advanced $0.8 million and $3.2 million. These monies totaling $4.0, effectively a bridge loan, were repaid in the first quarter of fiscal 2016. We had recorded such loans in prepaids and other current assets. We use the equity method to account for this investment. As of October 31, 2016 and 2015, we have total advances of $0.9 million and $1.8 million to Don Memo, which is recorded in advances to suppliers. During the year ended October 31, 2016 and 2015, we incurred $4.8 million and $2.3 million of expenses to Don Memo pursuant to our consignment agreement.

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

We had grower advances due from Belher of $4.4 million and $3.0 million as of October 31, 2016 and 2015. In addition, we had infrastructure advances due from Belher of $0.8 million and $1.8 million as of October 31, 2016 and 2015. Of these infrastructure advances $0.2 million was recorded as receivable in prepaid and other current assets and $0.6 million is included in other assets. During the year ended October 31, 2016, 2015 and 2014, we purchased $26.0 million, $14.2 million, and $17.4 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"). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados in Jalisco, Mexico. This entity is approximately 80% owned by Calavo and was consolidated as of October 31, 2015. In the third fiscal quarter of 2016, Avocados de Jalisco completed the construction of a packinghouse located in Jalisco, Mexico; such packinghouse is expected to be operational in the first quarter of 2017. As of October 31, 2016 and 2015, we have made preseason advances of approximately $0.3 million to various partners of Avocados de Jalisco.

The three previous owners and current executives of RFG have a majority ownership of certain entities that provide various services to RFG. RFG's California operating facility leases a building from LIG partners, LLC (LIG) pursuant to an operating lease. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. Additionally, RFG sells cut produce and purchases raw materials, obtains transportation services, and shares costs for certain utilities with Third Coast Fresh Distribution (Third Coast). LIG, THNC and Third Coast are majority owned by entities owned by three employees of Calavo (former/current executives of RFG). See the following tables for the related party activity and balances for fiscal year 2016 and 2015:

YEAR ENDED OCTOBER 31,	**2016**	2015
(in thousands)		
Rent paid to LIG	**$ 529**	$ 522
Rent paid to THNC, LLC	**$ 342**	$ 304
Sales to Third Coast	**$ —**	$ 270
Purchases from Third Coast	**$ —**	$ 195

10. INCOME TAXES

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

	2016	2015	2014
CURRENT:			
Federal	**$ 17,244**	$ 10,150	$ 7,379
State	**2,040**	1,650	939
Foreign	**982**	1,110	842
Total current	**20,266**	12,910	9,160
DEFERRED:			
Federal	**1,863**	3,314	(10,392)
State	**533**	98	(2,870)
Foreign	**(793)**	(229)	186
Total deferred	**1,603**	3,183	(13,076)
Total income tax provision (benefit)	**$ 21,869**	$ 16,093	$ (3,916)

At October 31, 2016 and 2015, gross deferred tax assets totaled approximately $33.9 million and $36.1 million, while gross deferred tax liabilities totaled approximately $18.9 million and $17.0 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):

	2016	2015
Property, plant, and equipment	**$ (6,901)**	$ (6,877)
Intangible assets	**27,686**	31,432
Unrealized gain, Limoneira investment	**(4,048)**	(1,553)
Investment in FreshRealm	**(6,902)**	(7,024)
Stock-based compensation	**952**	556
State taxes	**(931)**	(1,358)
Credits and incentives	**2,070**	2,044
Allowance for accounts receivable	**875**	662
Inventories	**395**	495
Accrued liabilities	**1,912**	885
Other	**(164)**	(219)
Long-term deferred income taxes	**$ 14,944**	$ 19,043

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:

	2016	2015	2014
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal effects	**2.9**	3.0	22.3
Foreign income taxes greater than U.S.	**0.7**	0.7	5.8
Section 199 deduction	**(1.7)**	(0.8)	15.8
Tax Credits	**—**	—	15.2
Other	**(0.6)**	(0.7)	0.7
	36.3%	37.2%	94.8%

We intend to reinvest our accumulated foreign earnings, which approximated $15.5 million at October 31, 2016, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings.

For fiscal years 2016, 2015 and 2014, income (loss) before income taxes related to domestic operations was approximately $61.0 million, $41.5 million, and $(0.6) million. For fiscal years 2016, 2015 and 2014, income (loss) before income taxes related to foreign operations was approximately $(0.6) million, $1.8 million and $3.6 million.

As of October 31, 2016, we had liability of $0.4 million for unrecognized tax benefits related to various foreign income tax matters. As of October 31, 2015, we did not have a liability for unrecognized tax benefits related to various federal and state income tax matters.

In fiscal 2014, the benefit for income taxes of $3.9 million is attributable to the revaluation adjustment of $88.1 million related to contingent consideration which was spread between fiscal year 2014 through fiscal year 2011. The revalued contingent consideration and non-cash compensation expense resulted in $53.6 million additional GAAP expense recorded in fiscal years 2014. In fiscal 2014, the revaluation expense drove pre-tax book income into a loss position, thus causing a benefit for income taxes as this revaluation adjustment is capitalized and amortized as goodwill over the remaining useful life for income tax purposes resulting in a taxable income position for the current year.

We are subject to U.S. federal income tax as well as income of multiple state tax jurisdictions. We are no longer subject to U.S. income tax examinations for the fiscal years prior to October 31, 2013, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2012.

11. SEGMENT INFORMATION

As discussed in Note 1, we report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods, and (3) RFG. These three business segments are presented based on how information is used by our Chief Executive Officer to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared products, including guacamole, and salsa. The RFG segment represents all operations related to the manufacturing and distribution of fresh-cut fruit, ready-to-eat vegetables, recipe-ready vegetables and deli products. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

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, 2016				
Net sales	$ 538,687	$ 63,494	$ 333,498	$ 935,679
Cost of sales	480,690	41,046	306,409	828,145
Gross margin	$ 57,997	$ 22,448	$ 27,089	$ 107,534
YEAR ENDED OCTOBER 31, 2015				
Net sales	$ 500,711	$ 62,156	$ 293,957	$ 856,824
Cost of sales	463,647	41,645	266,305	771,597
Gross margin	$ 37,064	$ 20,511	$ 27,652	$ 85,227
YEAR ENDED OCTOBER 31, 2014				
Net sales	$ 470,949	$ 59,279	$ 252,282	$ 782,510
Cost of sales	434,820	46,269	230,193	711,282
Gross margin	$ 36,129	$ 13,010	$ 22,089	$ 71,228

For fiscal year 2016, 2015 and 2014, inter-segment sales and cost of sales of $4.3 million, $1.5 million and $2.2 million between Fresh products and RFG were eliminated. For fiscal year 2016, 2015 and 2014, inter-segment sales and cost of sales of $2.7 million, $1.9 million and $1.7 million between Calavo Foods and RFG were eliminated.

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

	YEAR ENDED OCTOBER 31, 2016				YEAR ENDED OCTOBER 31, 2015			
	FRESH PRODUCTS	CALAVO FOODS	RFG	**TOTAL**	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 493,440	$ —	$ —	**$ 493,440**	$ 471,178	$ —	$ —	$ 471,178
Tomatoes	35,981	—	—	**35,981**	18,681	—	—	18,681
Papayas	9,514	—	—	**9,514**	9,485	—	—	9,485
Pineapples	1,060	—	—	**1,060**	2,397	—	—	2,397
Other fresh products	536	—	—	**536**	442	—	—	442
Food service	—	50,716	—	**50,716**	—	49,212	—	49,212
Retail and club	—	23,216	336,989	**360,205**	—	22,736	296,697	319,433
Total gross sales	540,531	73,932	336,989	**951,452**	502,183	71,948	296,697	870,828
Less sales incentives	(1,844)	(10,438)	(3,491)	**(15,773)**	(1,472)	(9,792)	(2,740)	(14,004)
Net sales	$ 538,687	$ 63,494	$ 333,498	**$ 935,679**	$ 500,711	$ 62,156	$ 293,957	$ 856,824

	YEAR ENDED OCTOBER 31, 2015				YEAR ENDED OCTOBER 31, 2014			
	FRESH PRODUCTS	CALAVO FOODS	RFG	**TOTAL**	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 471,178	$ —	$ —	$ 471,178	$ 433,581	$ —	$ —	$ 433,581
Tomatoes	18,681	—	—	18,681	19,705	—	—	19,705
Papayas	9,485	—	—	9,485	12,619	—	—	12,619
Pineapples	2,397	—	—	2,397	5,086	—	—	5,086
Other fresh products	442	—	—	442	1,037	—	—	1,037
Food service	—	49,212	—	49,212	—	48,085	—	48,085
Retail and club	—	22,736	296,697	319,433	—	22,334	255,074	277,408
Total gross sales	502,183	71,948	296,697	870,828	472,028	70,419	255,074	797,521
Less sales incentives	(1,472)	(9,792)	(2,740)	(14,004)	(1,079)	(11,140)	(2,792)	(15,011)
Net sales	$ 500,711	$ 62,156	$ 293,957	$ 856,824	$ 470,949	$ 59,279	$ 252,282	$ 782,510

Sales to customers outside the United States were approximately $25.4 million, $26.7 million and $32.8 million for fiscal years 2016, 2015, and 2014.

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

	UNITED STATES	MEXICO	CONSOLIDATED
2016	**$ 55,715**	**$ 32,122**	**$ 87,837**
2015	$ 37,573	$ 31,875	$ 69,448

12. LONG-TERM OBLIGATIONS

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

	2016	2015
Farm Credit West, PCA, (FCW) term loan	**$ —**	$ 1,002
Bank of America, N.A. (BoA) term loan	**—**	1,019
Capital leases	**583**	771
	583	2,792
Less current portion	**(138)**	(2,206)
	$ 445	$ 586

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

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

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

At October 31, 2016, capital lease payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2017	$ 162
2018	118
2019	104
2020	103
2021	99
Thereafter	76
Minimum lease payments	662
Less interest	(79)
Present value of future minimum lease payments	$ 583

13. STOCK-BASED COMPENSATION

The 2005 Stock Incentive Plan

The 2005 Stock Incentive Plan, was a stock-based compensation plan, under which employees and directors may be granted options to purchase shares of our common stock. In June 2012, this plan has been 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 operations 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, 2015	10	$ 18.28	
Exercised	(2)	$ 19.20	
Outstanding at October 31, 2016	8	$ 18.05	$ 474
Exercisable at October 31, 2016	8	$ 18.05	$ 474

The weighted average remaining life of such outstanding options is 2.5 years and the total intrinsic value of options exercised during fiscal 2016 was $0.1 million. The weighted average remaining life of such exercisable options is 2.5 years. The fair value of shares vested during the year ended October 31, 2016, 2015, and 2014 was approximately $0.5 million, $0.5 million, and $0.8 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 2014, all 12 of our non-employee directors were each granted 1,750 restricted shares (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $32.49. This grant of restricted stock incurred $0.2 million and $0.5 million in stock compensation expenses in fiscal 2015 and 2014, respectively. As of January 1, 2015, all shares have vested.

In January 2014, our executive officers were granted a total of 10,774 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $30.50. These shares vest in one-third increments, on an annual basis, beginning January 1, 2015. This grant of restricted stock incurred $0.1 million in stock compensation expenses in fiscal 2016, 2015 and 2014.

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

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

On January 4, 2016, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $48.46. On January 3, 2017, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was $0.8 million for the year ended October 31, 2016.

On January 8, 2016, our executive officers were granted a total of 24,582 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $48.68. These shares vest in one-third increments, on an annual basis, beginning January 8, 2017. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was $0.3 million for the year ended October 31, 2016.

A summary of restricted stock activity, related to our 2011 Management Incentive Plan, is as follows (in thousands, except for per share amounts):

	NUMBER OF SHARES	WEIGHTED-AVERAGE GRANT PRICE	AGGREGATE INTRINSIC VALUE
Outstanding at October 31, 2015	72	$ 39.01	
Vested	(39)	$ 39.50	
Granted	51	$ 48.58	
Outstanding at October 31, 2016	84	$ 44.76	$ 4,981

The total recognized stock-based compensation expense for restricted stock was $2.1 million for the year ended October 31, 2016.

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, 2015	14	$ 23.00	
Exercised	(3)	$ 21.80	
Outstanding at October 31, 2016	11	$ 23.33	$ 395
Exercisable at October 31, 2016	7	$ 20.13	$ 274

The weighted average remaining life of such outstanding options is 4.3 years. The weighted average remaining life of such exercisable options is 2.8 years. The fair value of shares vested during the year ended October 31, 2016, was $0.3 million.

14. DIVIDENDS

On September 27, 2016, the Company declared a $0.90 per share cash dividend to shareholders of record on November 17, 2016. On December 8, 2016, the Company paid this cash dividend which totaled $15.7 million. On December 8, 2015, the Company paid a $0.80 per share dividend in the aggregate amount of $13.9 million to shareholders of record on November 17, 2015.

15. FAIR VALUE MEASUREMENTS

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

The following table sets forth our financial assets and liabilities as of October 31, 2016 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

Assets at Fair Value:

(ALL AMOUNTS ARE PRESENTED IN THOUSANDS)

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investment in Limoneira Company[1]	$ 34,036	—	—	$ 34,036
Total assets at fair value	$ 34,036	$ —	$ —	$ 34,036

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 12% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2016 and October 31, 2015 equaled $19.69 per share and $15.86 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2016 was $6.6 million. Unrealized investment holding losses arising during the year ended October 31, 2015 and 2014 was $16.9 million and $1.2 million.

16. MEXICAN IVA TAXES RECEIVABLE

Included in prepaids & other current assets and 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, 2016 and 2015, IVA receivables totaled $15.4 million and $11.6 million. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2016, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances through regular administrative processes, but certain amounts may ultimately need to be recovered via legal means. We believe that our operations in Mexico are properly documented and that the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts. We will continue to monitor the collection of these receivables with our outside consultants.

As of October 31, 2016, $8.4 million and $7.0 million of IVA were recorded in prepaids & other current assets and other assets. As of October 31, 2015, $5.7 million and $5.9 million of IVA receivables were recorded in prepaids & other current assets and other assets.

17. SUBSEQUENT EVENTS

Riverside Facility

On November 1, 2016, we acquired certain real property, consisting of land, a refrigerated building and select production and office equipment located at 1730 Eastridge Avenue, Riverside, California (collectively, the "Property") from Fresh Foods, LLC (the "Seller") for total consideration of approximately $19.4 million.

RFG intends to operate the refrigerated facility as part of its network of USDA and organic certified fresh food facilities. On November 3, 2016 the Company issued a press release discussing the completed purchase of the Property.

The acquisition of the Property was effected in connection with a potential reverse exchange pursuant to Section 1031 of the Internal Revenue Code.

Temecula Facility

On December 21, 2016, we entered into an agreement (the "Agreement") with Pac West Group Inc., a Delaware limited liability company (the "Buyer"), pursuant to which the Company will sell to the Buyer certain real property located at 28410 Vincent Moraga Drive, Temecula, California (collectively, the "Temecula Property").

The Agreement contains customary representations and warranties, covenants, closing conditions and termination provisions and contemplates a buyer due diligence period that would lead to a closing date on or before March 8, 2017. Subject to satisfactory completion of the Buyer's due diligence, the purchase price for the Temecula Property will be approximately $6.6 million.

The proceeds from this transaction are currently expected to be used in conjunction with the recently completed acquisition of 1730 Eastridge Avenue, Riverside, California, to complete a like-kind exchange pursuant to Section 1031 of the Internal Revenue Code.

Maui Note

On November 30, 2016, we entered into an Amendment to the Goodwill Promissory Note (the "Amended Note") with San Rafael Distributing, Inc., an Arizona corporation ("San Rafael"), pursuant to which the Company has agreed to amend the Goodwill Promissory Note (the "Note") dated as of October 31, 2012.

This Amended Note changes the payment terms from the entire $1.3 million being due on November 1, 2017 to equal monthly installments over a 36 month payment cycle. Interest at the rate of 4.5% per annum shall begin to accrue and be payable on December 1, 2017 and each month thereafter until paid in full.

The payment of the Amended Note is secured by a pledge of all of the membership interest of Maui Fresh International, LLC, a California limited liability company ("Maui") owned by Borrower pursuant to that certain Pledge and Security Agreement (the "Security Agreement") dated as of October 31, 2012 by Borrower in favor of Holder, and the payment of the Note as amended hereby remains secured by the Security Agreement.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of income, comprehensive income, shareholders' equity, and cash flows of Calavo Growers, Inc. for the year ended October 31, 2014. Our audit also included the financial statement schedule for the year ended October 31, 2014 listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows of Calavo Growers Inc. for the year ended October 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended October 31, 2014, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Ernst & Young LLP

Los Angeles, California
January 30, 2015

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the Company) as of October 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for the years ended October 31, 2016 and 2015. Our audits also included the financial statement schedule listed in the index at Item 15 (a). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years ended October 31, 2016 and 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2016, 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 23, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Costa Mesa, California
December 23, 2016

Report of Management

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, 2016. Our internal control over financial reporting as of October 31, 2016 has been audited by Deloitte LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

B. John Lindeman,
Chief Financial Officer

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

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

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

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

FISCAL 2015	HIGH	LOW
First Quarter	$ 48.73	$ 38.83
Second Quarter	$ 52.85	$ 39.46
Third Quarter	$ 56.67	$ 49.95
Fourth Quarter	$ 60.50	$ 44.09

As of November 30, 2016, there were approximately 854 stockholders of record of our common stock, which includes shareholders whose shares were held in brokerage firms, depositories and other institutional firms in "street name".

DIVIDEND POLICY

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

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

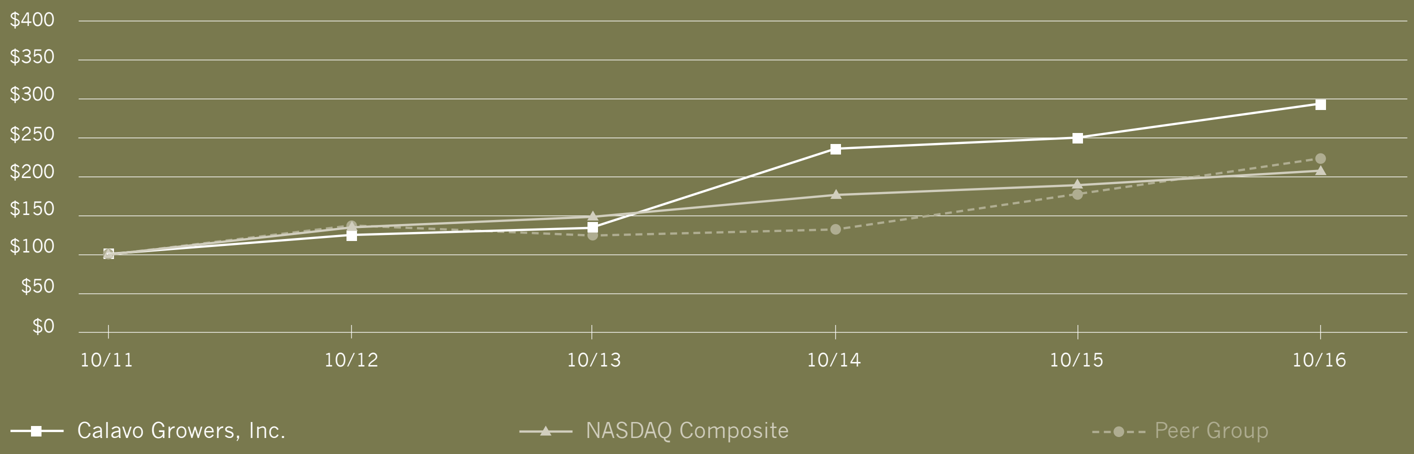
On December 8, 2015, we paid a $0.80 per share dividend in the aggregate amount of $13.9 million to shareholders of record on November 17, 2015.

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, 2011 and ending October 31, 2016. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index , and the Peer Group Index as of October 31, 2011. 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 10/31/11 in stock or index, including reinvestment of dividends. Fiscal year ending October 31.

Corporate Information

OFFICERS

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

Kenneth Catchot
President and
Chief Operating Officer

B. John Lindeman
Chief Financial Officer and
Corporate Secretary

Rob Wedin
Vice President
Fresh Sales and Marketing

Alan Ahmer
Vice President
Foods Division Sales
and Operations

Mike Browne
Vice President
Fresh Operations

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

John M. Hunt

Steven W. Hollister

Michael A. "Mike" DiGregorio

NOMINATING & GOVERNANCE COMMITTEE

John M. Hunt
Chairman

George H. Barnes

Marc Brown

James D. Helin

COMPENSATION COMMITTEE

Steven W. Hollister
Chairman

James D. Helin

Michael A. "Mike" DiGregorio

OPERATING DIRECTORS & MANAGERS

Bruce Spurrell
Director, Purchasing
and Risk Management

John Agapin
Director, Systems Analysis
and Planning

Patricia D. Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations
Special Projects

Marc Fallini
Director of California Avocado Operations

Joseph Malagone
Packinghouse Manager, Santa Paula, CA

Francisco Orozco
Packinghouse Manager, Jalisco, Mexico

HEADQUARTERS

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GENERAL COUNSEL

Troy Gould PC
Los Angeles, California

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Costa Mesa, California

INVESTOR & CORPORATE RELATIONS COUNSEL

FoleyFreisleben LLC
Los Angeles, California

FORM 10-K

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

TRANSFER AGENT & REGISTRAR

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

COMMON STOCK LISTING

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

Calavo Grower's Inc.

Calavo Growers, Inc. is a leading packer and marketer of fresh and prepared avocados throughout the United States and other countries globally, as well as an expanding distributor of other diversified produce items sold under the company's well-respected brand name and its Maui Fresh label, a wholly owned subsidiary. The company supplies wholesale, retail, restaurant and institutional food service customers on a world-wide basis through its three principal operating units—Fresh products, Calavo Foods and Renaissance Food Group, LLC (RFG).

Calavo packs, markets and distributes to the United States and Canada approximately 28 percent of the fresh California avocado crop and about 18 percent of all fruit grown in Mexico. In aggregate, company volume comprises approximately 20 percent of the total available all-source fresh avocado supply to North America. The company sources these avocados from California and Mexico to satisfy year-round domestic demand, for export and for use in prepared products. Calavo is also a leading marketer of fresh fruit grown in the Hawaiian Islands, including papayas and other tropical-produce items. Other diversified fresh produce items include Calavo-brand tomatoes and pineapples, as well as Hispanic specialties such as a wide range of chilies.

The company's Calavo Foods business unit 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's RFG business unit, acquired in June 2011, is a leader in the fast-growing refrigerated fresh packaged goods category through an array of retail product lines for produce, deli, meat and food-service departments sold under brands that include Garden Highway and Chef Essentials.

Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing more than 2,000 people, the company is headquartered in Santa Paula, California, where it also operates one of three fresh-avocado packinghouses and a Value Added Depot, housing sales, distribution and advanced ripening technologies. Calavo's additional three packinghouses are located in: Temecula, California; Guzmán, Jalisco, Mexico; and Uruapan, Michoacán, Mexico, where the company also operates its prepared-avocado manufacturing facility. There are additional Value Added Depots equipped with the company's proprietary ProRipeVIP® technology in Dallas, Texas and Swedesboro, New Jersey. RFG operates seven production and distribution centers strategically situated across the United States.

Senior Management

(from left to right)

KENNETH CATCHOT President and Chief Operating Officer **B. JOHN LINDEMAN** Chief Financial Officer and Corporate Secretary **ROB WEDIN** Vice President, Fresh Sales and Marketing **AL AHMER** Vice President, Foods Division Sales and Operations **MIKE BROWNE** Vice President, Fresh Operations

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