

CALAVO GROWERS INC
Form 10-K
December 23, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California
(State of incorporation)

33-0945304
(I.R.S. Employer Identification No.)

1141-A Cummings Road, Santa Paula, CA 93060
(Address of principal executive offices) (Zip code)

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Registrant's telephone number, including area code: (805) 525-1245

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$0.001 Par Value per Share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2016 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$866.3 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2016 was 17,440,408.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders, which we intend to hold on April 26, 2017 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2016.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo Growers, Inc. and its consolidated subsidiaries (CG) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on CG and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic trends and events; the competitive pressures faced by CG's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs; integration and other risks associated with business combinations; the hiring and retention of key employees; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, the items discussed in "Risk Factors" in Item 1A of this report, and that are otherwise described or updated from time to time in CG's Securities and Exchange Commission reports. CG assumes no obligation and does not intend to update these forward-looking statements.

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PART I

Item 1. Business

General development of the 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, convenience stores, 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 RFG. See Note 11 in our consolidated financial statements for further information about our business segments. Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California (the Cooperative), an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrent with this transaction, the Cooperative was merged into us with Calavo Growers, Inc. (Calavo) emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Growers de Mexico). In July 2015, Calavo Growers de Mexico 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 Growers de Mexico 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 Growers de Mexico'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 million, effectively a bridge loan, were repaid in the first quarter of fiscal 2016. In January 2016, Calavo entered into an agreement with Bank of America, N.A. (BoA), essentially guaranteeing a loan made from BoA to Don Memo. See footnote 12 to our consolidated financial statements.

In August 2015, we entered into a 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 Growers de Mexico, a wholly owned subsidiary of Calavo, and is consolidated into our financial statements. In the 3rd fiscal quarter of 2016, Avocados de Jalisco completed the construction of a packinghouse located in Jalisco, Mexico which is expected to be operational in the first quarter of 2017. We invested approximately \$10.8 million to construct and equip this new packinghouse.

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

Available information

We maintain an Internet website at <http://www.calavo.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, are available, free of charge, on our website as soon as reasonably practicable after we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission (SEC). Our Internet website and the information contained therein, or connected thereto, is not and is not intended to be incorporated into this Annual Report on Form 10-K.

We have a code of ethics that applies to all employees, including our executive officers, as well as to the Board of Directors. Our code of ethics is available for review on our corporate website. We intend to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or NASDAQ.

Fresh products

Calavo was founded in 1924 to market California avocados. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County. The storage life of fresh avocados is limited. It generally ranges from one to four weeks, depending upon the maturity of the fruit, the growing methods used, and the handling conditions in the distribution chain.

We sell avocados to a diverse group of supermarket chains, wholesalers, food service and other distributors, under the Calavo family of brand labels, as well as private labels. From time to time, some of our larger customers seek short-term sales contracts that formalize their pricing and volume requirements. Generally, these contracts contain provisions that establish a price floor and/or ceiling during the contract duration. In our judgment, the shift by our customers to drafting sales contracts benefits large handlers like us, which have the ability to fulfill the terms of these contracts. During fiscal year 2016, our 5 and 25 largest fresh customers represented approximately 15% and 36% of our total consolidated revenues. During fiscal year 2015, our 5 and 25 largest fresh customers represented approximately 18% and 39% of our total consolidated revenues. During fiscal year 2016, 2015 and 2014 none of our fresh customers represented more than 10% of total consolidated revenues.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. Generally, California grown Hass avocados are available year-round, with peak production periods occurring from April through August. Other varieties have a more limited picking season and generally command a lower price. Approximately 1,900 California growers deliver avocados to us, generally pursuant to a standard marketing agreement. Our share of the California avocado crop approximated 28% of the 2016 shipped California avocado crop, based on data published by the California Avocado Commission. We attribute our solid foothold in the California industry principally to the

competitiveness of the per pound returns we pay and the communication and service we maintain with our growers.

California avocados delivered to our packinghouses are grouped as a homogenous pool on a weekly basis based on the variety, size, and grade. They are then graded, sized, packed, cooled and, frequently, ripened for delivery to customers. Our ability to estimate the size, as well as the timing of the delivery of the annual avocado crop, has a substantial impact on both our costs and the sales price we receive for the fruit. To that end, our field personnel maintain direct contact with growers and farm managers and coordinate harvest plans. The feedback from our field-managers is used by our sales department to prepare sales plans used by our direct sales force.

A significant portion of our California avocado handling costs is fixed. As a result, significant fluctuations in the volume of avocados delivered have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. We believe that our cost structure is geared to optimally handle larger avocado crops. Our strategy calls for continued efforts in aggressively recruiting new large growers, retaining existing growers, and procuring a larger percentage of the California avocado crop.

The proceeds we receive from the sale of each separate avocado pool, net of a packing and marketing fee to cover our costs and a profit, generate the initial amounts considered to be paid back to the growers once a month. The packing and marketing fee we withhold is determined by our Chief Executive Officer and is revised from time to time based on our estimated per pound packing and operating costs, as well as our operating profit. This fee is a fixed rate per pound packed. These amounts are then compared to field quotes provided for each avocado pool, with the resulting final payment determined based on the field quotes to the growers.

The California avocado market is highly competitive with nine major avocado handlers. A marketing order enacted by the state legislature is in effect for California grown avocados and provides the financial resource to fund generic advertising and promotional programs. Avocados handled by us are identifiable through packaging and the Calavo brand name sticker.

We also import avocados from Mexico. We typically purchase Mexican avocados from growers and packers located in Mexico. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove, by bloom. The Mexican avocado crop will typically have three to four blooms in a single year. Once a purchase price is tentatively agreed to, the fruit is then harvested and delivered to our packinghouse located in Uruapan, Michoacán, Mexico. Purchased fruit is harvested and hauled by a number of subcontracted picking companies that we hire. Once delivered, such fruit is weighed, graded, sized, packed, and cooled for shipment, primarily to the United States. Payment for such fruit can be changed from what was initially agreed to if the actual packout does not reach levels forecasted by the grower. Fruit purchased directly from unaffiliated third-party Mexican packers is used as a supplemental source and is packed to our standards for shipment to either our customers' or our operating facilities. In either case, the purchase price of Mexican avocados is generally based on our estimated selling prices of such fruit, less anticipated packing and/or selling costs and our desired margin. We believe these two current sources, in conjunction with the expected opening of our packinghouse in Jalisco, Mexico, allow us to maximize both the timely acquisition, as well as purchase price, of Mexican fruit.

Similar to California avocados, a significant portion of our handling costs for Mexican avocados are fixed. As a result, significant fluctuations in the volume of Mexican avocados delivered to our packinghouse can have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. In fiscal year 2012, we completed an expansion of our Uruapan packinghouse. This expansion more than doubled our capacity to handle Mexican avocados. We believe that our cost structure for Mexican avocados is geared to optimally handle larger avocado crops.

We believe that our continued success in marketing Mexican avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship the Mexican avocados to our packinghouses and distribution centers. We are subject to USDA and other regulatory inspections to ensure the safety and the quality of the fruit being delivered from Mexico. The Mexican avocado harvest is year round (though generally most significant from September to June). As a result, it is common for Mexican growers to monitor year round the supply of avocados for export to the United States in order to obtain higher field prices. During 2016, we packed and distributed approximately 16% of the avocados exported from Mexico into the United States and approximately 7% of the avocados exported from Mexico to countries outside of North America, based on our estimates.

We have developed a series of marketing and sales initiatives primarily aimed at our largest customers that are designed to differentiate our products and services from those offered by our competitors. Some of these key initiatives are as follows:

- We continue to have success with our ProRipeVIP™ avocado ripening program. This proprietary program allows us to deliver avocados ~evenly ripened to our customers' specifications. We have invested in TasteTech Near Infrared (NIR) technology and equipment. The most significant reason we invested in the TasteTech systems is because the NIR technology measures internal qualities of the entire piece of fruit, as opposed to competitive mechanical tests that use pressure and calculated averages to measure firmness. We believe that ripened avocados help our customers address the consumers' immediate needs and accelerate the sale of avocados through their stores. We currently have three TasteTech systems in use in the United States, which, we believe, can effectively meet our customers' demand for conditioned fruit.

- We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores.

Other perishable food products include various other fruit, such as tomatoes, papayas, and pineapples. The majority of our other perishable food sales are generated from tomatoes and papayas. Tomatoes are primarily handled on a consigned basis, while papayas are handled on a pooling basis, generally at a fixed fee per papaya delivered. Sales of our diversified Fresh products generally experience fluctuations related to seasonality. We believe our efforts in distributing our other various types of fruit complement our offerings of avocados.

Calavo Foods

The Calavo Foods segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of avocados available to the marketplace. In the 1960's and early 1970's, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and food service industries. One of the key benefits of frozen products is their long shelf-life. With the introduction of low cost processed products delivered from Mexican based processors, however, we realigned the segment's strategy by shifting the fruit procurement and pulp processing functions to Mexico.

We utilize ultra-high pressure technology equipment, which is designed to protect and safeguard our avocado and guacamole products without the need of preservatives. Using high pressure only, this procedure substantially destroys the cells of any bacteria that could lead to spoilage, food safety, or oxidation issues. Once the procedure is complete, our packaged guacamole is cased and shipped to various retail, club, and food service customers throughout the markets we service in the U.S and abroad. By fiscal year 2010, we had two ultra-high pressure machines into service. These machines, which are located in Uruapan, pressurize all guacamole product lines, including all frozen products, which begun in fiscal 2010. A 3rd ultra-high pressure machine, with a larger capacity, was put into service during our first fiscal quarter of 2012. We estimate that our actual capacity utilization for all three ultra-high pressure machines for fiscal 2016 to be approximately 90%. In fiscal 2017, we expect to use a qualified co-packer to produce several of our retail and foodservice products. This co-packer will also use ultra-high pressure technology, similar to our existing production, and will be overseen by certain Calavo personnel. We expect our selling capacity to increase materially through the use of this co-packer. Net sales of our ultra-high pressure (fresh refrigerated) products, typically sold to retail customers, represented approximately 50% and 48% of total guacamole products within the Calavo Foods segment sales for the years ended October 31, 2016 and 2015.

Sales in the U.S. and Canada are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market

relationships. During fiscal year 2016, our 5 and 25 largest processed product customers represented approximately 3% and 6% of our total consolidated revenues. During fiscal year 2015, our 5 and 25 largest processed product customers represented approximately 3% and 5% of our total consolidated revenues. During fiscal years 2016, 2015 and 2014 none of our processed product customers represented more than 10% of total consolidated revenues.

RFG

Acquired in June of 2011, Renaissance Food Group, LLC (RFG) is a leader in the fast-growing refrigerated fresh packaged foods category. RFG produces, markets, and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail channel, including national and regional supermarkets, club stores, mass merchandisers, convenience stores, and specialty/natural retailers. As a leader in refrigerated fresh packaged foods, RFG utilizes a network of company-operated and independently-operated USDA and organic certified fresh food facilities strategically located across the U.S. These facilities allow RFG to offer national retailers high quality, refrigerated fresh foods that can be delivered within hours from time of production. Consumer demand is high for

quality refrigerated fresh packaged foods and RFG's speed to market, product innovation and broad product range positions the Company well to serve retailers addressing this consumer trend. 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. Backed by Calavo's resources, the business unit continues to expand its footprint in the retail grocery channel. During fiscal year 2016, our 5 and 25 largest RFG product customers represented approximately 25% and 36% of our total consolidated revenues. During fiscal year 2015, our 5 and 25 largest RFG product customers represented approximately 23% and 33% of our total consolidated revenues. During fiscal year 2016, RFG had one customer that represented more than 10% of total consolidated revenues. During fiscal years 2015 and 2014, none of our RFG product customers represented more than 10% of total consolidated revenues.

Sales and Other Financial Information by Business Segment and Product Category

Sales and other financial information by business segment are provided in Note 11 to our consolidated financial statements that are included in this Annual Report.

Patents and Trademarks

Our trademarks include the Calavo and RFG brand name and related logos. We also utilize the following trademarks in conducting our business: Avo Fresco, Bueno, Calavo Gold, Calavo Salsa Lisa, Salsa Lisa, Celebrate the Taste, El Dorado, Fresh Ripe, Select, Taste of Paradise, The First Name in Avocados, Tico, Mfresh, Maui Fresh International, Triggered Avocados, ProRipeVIP™, Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials.

Working Capital Requirements

Generally, we make payments to our avocado growers and other suppliers in advance of collecting all of the related accounts receivable. We generally bridge the timing between vendor payments and customer receipts by using operating cash flows and commercial bank borrowings. In addition, we provide crop loans and other advances to some of our growers, which are also funded through operating cash flows and borrowings.

Non-California sourced avocados and other perishable food products often require working capital to finance the payment of advances to suppliers and collection of accounts receivable. These working capital needs are also financed through the use of operating cash flows and bank borrowings.

With respect to our Calavo Foods business, we require working capital to finance the production of our processed avocado products, building and maintaining an adequate supply of finished product, and collecting our accounts receivable balances. These working capital needs are financed through the use of operating cash flows and bank borrowings.

Backlog

Our customers do not place product orders significantly in advance of the requested product delivery dates. Customers typically order perishable products two to ten days in advance of shipment, and typically order Calavo Foods within thirty days in advance of shipment.

Research and Development

Prior to the acquisition of RFG, we did not undertake significant research and development efforts. Research and development programs, if any, were limited to the continuous process of refining and developing new techniques to enhance the effectiveness and efficiency of our Calavo Foods operations and the handling, ripening, storage, and packing of fresh avocados. With the acquisition of RFG, however, we have increased research and development for new and improved products which is driven by customer requests, changes in product specifications, customer and market

research and/or innovative ideas generated by our own team of experts with food processing and culinary backgrounds. We solicit customer and supplier input, review process and product trends and conduct sensory and shelf life testing, all to expand the category and drive new sales for our customers. In fiscal year 2014, with the consolidation of FreshRealm, we had an increased emphasis on research and development. Much of the research and development for FreshRealm was on a re-usable shipping container, which includes designing and the testing of prototypes, testing packing efficiency, gathering consumer feedback, thermal research, and testing the longevity and reusability of the containers. We deconsolidated FreshRealm in the third quarter of fiscal 2014. Research and development costs are charged to expense when incurred. Total research and development costs for fiscal years 2016 and 2015 were insignificant. Total research and development costs for fiscal years 2014 were approximately \$0.8 million.

Compliance with Government Regulations

The California State Department of Food and Agriculture oversees the packing and processing of California avocados and conducts tests for fruit quality and packaging standards. All of our packages are stamped with the state seal as meeting standards. Various states have instituted regulations providing differing levels of oversight with respect to weights and measures, as well as quality standards.

As a manufacturer and marketer of processed avocado products, our operations are subject to extensive regulation by various federal government agencies, including the Food and Drug Administration (FDA), the USDA and the Federal Trade Commission (FTC), as well as state and local agencies, with respect to production processes, product attributes, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for safety, purity and labeling. In addition, advertising of our products is subject to regulation by the FTC, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act. Our manufacturing facilities and products are subject to periodic inspection by federal, state and local authorities.

As a result of our agricultural and food processing activities, we are subject to numerous environmental laws and regulations. These laws and regulations govern the treatment, handling, storage and disposal of materials and waste and the remediation of contaminated properties.

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses.

Employees

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As of October 31, 2016, we had 2,096 employees, of which 681 were located in the United States and 1,415 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. Approximately 1,250 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of "salaried" and "hourly" employees as of October 31, 2016.

Location	Salaried	Hourly	Total
United States	198	483	681
Mexico	167	1,248	1,415
TOTAL	365	1,731	2,096

Item 1A. Risk Factors

Risks Related to Our Business

We are subject to increasing competition that may adversely affect our operating results.

The market for avocados and processed avocado products is highly competitive and affects each of our businesses. Each of our businesses is subject to competitive pressures, including the following:

- California avocados are impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.
 - California avocados are subject to competition from other California avocado handlers. If we are unable to consistently pay California growers a competitive price for their avocados, these growers may choose to have their avocados marketed by alternate handlers.
- Non-California sourced avocados and perishable food products are impacted by competitors operating in Mexico. Generally, handlers of Mexican grown avocados operate facilities that are substantially smaller than our facility in Uruapan, Mexico. If we are unable to pack and market a sufficient volume of Mexican grown avocados, smaller handlers will have a lower per unit cost and be able to offer Mexican avocados at a more competitive price to our customers.
- Non-California sourced avocados and perishable food products are also subject to competition from other California avocado handlers that market Chilean and Peruvian grown avocados.

We are subject to the risks of doing business internationally.

We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate a packinghouse and a processing plant in Mexico. In the most recent years, there has been an increase in organized crime in Mexico. This has not had a significant impact on our operations, but this does increase the risk of doing business in Mexico. We are also subject to regulations imposed by the Mexican government, and also to examinations by the Mexican tax authorities. Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico. For additional information about our Mexican sourced fruit, see the "Business" section included in this Annual Report.

Our current international operations are subject to a number of inherent risks, including:

- Local economic and political conditions, including disruptions in supply, trading and capital markets;
- Restrictive foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including export duties and quotas and customs duties and tariffs; and
- Changes in legal or regulatory requirements affecting foreign investment, loans, taxes (including value-added taxes), imports, and exports.

Currency exchange fluctuations may impact the results of our operations.

Currency exchange rate fluctuations, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

We and our growers are subject to the risks that are inherent in farming.

Our results of operations may be adversely affected by numerous factors over which we have little or no control and that are inherent in farming, including reductions in the market prices for our products, adverse weather and growing

conditions, pest and disease problems, and new government regulations regarding farming and the marketing of agricultural products.

Our earnings are sensitive to fluctuations in market prices and demand for our products.

Excess supplies often cause severe price competition in our industry. Growing conditions in various parts of the world, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product.

Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

Increases in commodity or raw product costs, such as fuel, packaging, and paper, could adversely affect our operating results.

Many factors may affect the cost and supply of fresh produce, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for purchased fruit have in the past negatively impacted our operating results, and there can be no assurance that they will not adversely affect our operating results in the future.

The price of various commodities can significantly affect our costs. Fuel and transportation cost is a significant component of the price of much of the produce that we purchase from growers, and there can be no assurance that we will be able to pass on to our customers the increased costs we incur in these respects.

The cost of paper is also significant to us because most of our products are packed in cardboard boxes. If the price of paper increases and we are not able to effectively pass these price increases along to our customers, then our operating income will decrease.

We are subject to the risk of product liability claims.

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

We are subject to possible changing USDA and FDA regulations which govern the importation of foreign avocados into the United States and the processing of processed avocado products.

The USDA has established, and continues to modify, regulations governing the importation of avocados into the United States. Our permits that allow us to import foreign-sourced avocados into the United States generally are contingent on our compliance with these regulations. Our results of operations may be adversely affected if we are unable to comply with existing and modified regulations and are unable to secure avocado import permits in the future.

The FDA establishes, and continues to modify, regulations governing the production of processed avocado products, such as the new Food Safety Modernization Act, which implements mandatory preventive controls for food facilities and compliance with mandatory produce safety standards. Our results of operations may be adversely affected if we are unable to comply with these existing and modified regulations.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

From time to time we may dispose of properties in transactions that are intended to qualify as tax deferred exchanges under Section 1031 (Section 1031 Exchanges). It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

The acquisition of other businesses could pose risks to our operating income.

We intend to review acquisition prospects that would complement our business. While we are not currently a party to any agreement with respect to any acquisitions, we may acquire other businesses in the future. Future acquisitions by us could result in accounting charges, potentially dilutive issuances of equity securities, and increased debt and contingent liabilities, any of which could have a material adverse effect on our business and the market price of our common stock. Acquisitions entail numerous risks, including the integration of the acquired operations, diversion of management's attention to other business concerns, risks of entering markets in which we have limited prior experience, and the potential loss of key employees of acquired organizations. We may be unable to successfully integrate businesses or the personnel of any business that might be acquired in the future, and our failure to do so could have a material adverse effect on our business and on the market price of our common stock.

Our ability to competitively serve our customers is a function of reliable and low cost transportation. Disruption of the supply of these services and/or significant increases in the cost of these services could impact our operating income.

We use multiple forms of transportation to bring our products to market. They include ocean, truck, and air-cargo. Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, or governmental restrictions limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

We depend on our infrastructure to have sufficient capacity to handle our annual production needs.

We have an infrastructure that has sufficient capacity for our production needs, but if we lose machinery or facilities due to natural disasters or mechanical failure, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

We depend on our key personnel and if we lose the services of any of these individuals, or fail to attract and retain additional key personnel, we may not be able to implement our business strategy or operate our business effectively.

Our future success largely depends on the contributions of our management team. We believe that these individuals' expertise and knowledge about our industry and their respective fields and their relationships with other individuals in our industry are critical factors to our continued growth and success. We do not carry key person insurance. The loss of the services of any member of our senior management team could have a material adverse effect on our business and

prospects. Our success also depends upon our ability to attract and retain additional qualified sales, marketing and other personnel.

A portion of our workforce is unionized and labor disruptions could decrease our profitability.

While we believe that our relations with our employees are good, we cannot assure you that we will be able to negotiate collective bargaining agreements on favorable terms, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could have a material adverse effect on the portion of our business affected by the dispute, which could impact our business, results of operations and financial condition.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected in the past, and in the future could adversely affect, our financial results, stock price and reputation.

Risks Related to Our Common Stock

The value of our common stock may be adversely affected by market volatility.

The trading price of our common stock fluctuates and may be influenced by many factors, including:

- Our operating and financial performance and prospects;
- The depth and liquidity of the market for our common stock;
- Investor perception of us and the industry and markets in which we operate;
- Our inclusion in, or removal from, any equity market indices;
- Changes in earnings estimates or buy/sell recommendations by analysts; and
- General financial, domestic, international, economic and other market conditions;

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.

The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on many factors, including:

- Market acceptance of our products; and
- The existence of opportunities for expansion.

If our capital resources are not sufficient to satisfy our liquidity needs, we may seek to sell additional equity or obtain additional debt financing. The sale of additional equity would result in dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. With the exception of our existing credit facility, we have not made arrangements to obtain additional financing. We may not be able to obtain additional financing, if required, in amounts or on terms acceptable to us, or at all.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters building from Limoneira Company (Limoneira) located in Santa Paula, California. In addition, RFG leases their corporate office in Ranch Cordova, California. We have numerous facilities throughout the United States, and three facilities in Mexico. See the following table for a summary of our locations:

United States Locations:

Packinghouses:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily handles California and Mexican avocados. The facility was purchased in 1955 and has been improved in capacity and efficiency since then. This facility operates substantially similar to our Temecula facility. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Owned	Temecula	California	Primarily handles California and Mexican avocados. The facility was built in 1985 and has been improved in capacity and efficiency since then. This facility operates substantially similar to our Santa Paula facility. We believe that the annual capacity

of this facility will be sufficient to handle its forecasted annual production needs.

Operating and Distributing Facilities:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily ripens, sorts, packs and ships fresh avocados. We sort and pack certain diversified commodities as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, its expected annual volume of avocados and specialty commodities delivered to us.
Leased	Swedesboro	New Jersey	Primarily ripens, sorts, packs, and ships avocados. Additionally, it also serves to store and ship certain tropical commodities, as well as ready-to-eat/heat deli and prepared guacamole products. In 2016, we increased this facility's ripe room capacity by 50%, and doubled its bagging capacity. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Garland	Texas	Primarily ripens, sorts, packs and ships fresh avocados. Additionally, it also serves to store and ship prepared guacamole products as well. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Jacksonville	Florida	Opened in the first fiscal quarter of 2016, this facility ripens, sorts, packs and ships fresh avocados and stores and ships prepared guacamole. This facility also processes cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Nogales	Arizona	Primarily ripens, sorts, packs and ships, tomatoes, and other diversified commodities. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Hilo	Hawaii	Primarily sorts, packs, and ships papayas. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.
Owned	Hilo	Hawaii	Primarily provides irradiation services for produce grown in Hawaii. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.
Leased	St. Paul	Minnesota	CSL facility that produces salsa. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Houston	Texas	RFG facility that primarily processes cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Sacramento	California	

RFG facility that primarily processes cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.

Mexico Locations:

Packinghouse and Processing Facility:

Leased or Owned:	City	State	Description
Owned	Uruapan	Michoacan	Our Calavo Foods processing facility produces our guacamole products. While we believe this capacity is reasonable give our current sales, we are considering various plans to meet our future expected growth.
Owned	Uruapan	Michoacan	Handles avocados delivered to us by Mexican growers. The facility was built in 1985 and has been significantly improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.
Owned	Ciudad Guzman	Jalisco	Construction of this packinghouse was completed in the third fiscal quarter of 2016, and is expected to be operational in calendar 2017. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.

Item 3. Legal Proceedings

See Note 8 of our consolidated financial statements for further information.

Item 4. Mine Safety Disclosures

Not applicable

Executive Officers of the Registrant

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The following table sets forth the name, age and position of individuals who hold positions as executive officers of our company. There are no family relationships between any director or executive officer and any other director or executive officer of our company. Executive officers are elected by the Board of Directors and serve at the discretion of the Board.

Name	Age	Position
Lecil E. Cole	77	Chairman of the Board and Chief Executive Officer
Kenneth J. Catchot	53	Chief Operating Officer and President
B. John Lindeman	46	Chief Financial Officer and Corporate Secretary
Robert J. Wedin	67	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	68	Vice President, Processed Product Sales and Production
Michael A. Browne	58	Vice President, Fresh Operations

Lecil E. Cole has been a member of our board of directors since February 1982 and has served as Chairman of the Board since 1988. Mr. Cole has also served as our Chief Executive Officer and President since February 1999. He served as an executive of Safeway Stores from 1964 to 1976 and as Chairman of Central Coast Federal Land Bank from 1986 to 1996. Mr. Cole has served as Chairman and President of Hawaiian Sweet, Inc. and Tropical Hawaiian Products, Inc. since 1996. Mr. Cole farms approximately 4,400 acres in California on which avocados and cattle are produced and raised.

Kenneth J. Catchot has served as our President and Chief Operating Officer since June 2015. Mr. Catchot co-founded RFG in 2003 and has served as an officer of RFG since 2003. In January 2017, Mr. Catchot will resign as President and Chief Operating Officer. Following Mr. Catchot's resignation, Mr. Cole will serve as our President in addition to continuing to serve as our Chief Executive Officer and Chairman of the Board of Directors.

B. John Lindeman has served as our Chief Financial Officer and Corporate Secretary since August 2015. Prior to joining Calavo, Mr. Lindeman served as Managing Director at Sageworth Trust Company. Prior to joining Sageworth, Mr. Lindeman served as Managing Director at Janney Montgomery Scott from August 2009 to March 2015. Prior to joining Janney, Mr. Lindeman served as Managing Director at Stifel Nicolaus from December 2005 to August 2009 and as Principal at Legg Mason from October 1999 to December 2005. Prior to joining Legg Mason, Mr. Lindeman was Manager at PricewaterhouseCoopers LLP.

Robert J. Wedin has served as our Vice President since 1993. Mr. Wedin joined us in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of ProduceSupply.org and serves as a member of that organization's executive committee.

Alan C. Ahmer has served as our Vice President since 1989. Mr. Ahmer joined us in 1979 as a regional sales manager in our Calavo Foods business. In September 2003, Mr. Ahmer's new title became Vice-President, Calavo Foods Sales and Production.

Michael A. Browne has served as our Vice President since 2005. From 1997 until joining us, Mr. Browne served as the founder and co-owner of Fresh Directions International, a closely held multinational fresh produce company, which marketed fresh avocados from Mexico, Chile, and the Dominican Republic. Mr. Browne joined us in May 2005.

PART II

Item 5. 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.

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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.

Item 6. Selected Financial Data

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
	26,773	27,182	26,451	21,636	17,341

Pounds of processed avocados products
sold

- (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

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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.

Item 7. 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 Item 1A and elsewhere in this Annual Report.

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.

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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)

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Net sales	\$ 500,711	\$ 62,156	\$ 293,957	\$ 856,824	\$ 470,949	\$ 59,279	\$ 252,282	\$ 782,510
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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:

(in thousands)	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
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) %
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	0.0 %		0.0 %		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	0.0	%		0.0	%	0.0 %

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,	July 31,	Apr. 30,	Jan. 31,	Oct. 31,	July 31,	Apr. 30,	Jan. 31,
	2016	2016	2016	2016	2015	2015	2015	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	\$	\$	\$	\$	\$	\$	\$	\$
Basic	9,239	12,745	9,689	6,349	4,787	8,641	8,472	5,299
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
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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 avai