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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended July 31, 2022

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-33385

**CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**33-0945304**

(I.R.S. Employer Identification No.)

**1141-A Cummings Road, Santa Paula, California**

(Address of principal executive offices)

**93060**

(Zip Code)

**(805) 525-1245**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	CVGW	Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Registrant's number of shares of common stock outstanding as of August 31, 2022 was 17,731,661

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains statements relating to future events and results of Calavo Growers, Inc. and its consolidated subsidiaries (referred to in this report as “Calavo,” the “Company,” “we,” “us” or “our”), including certain projections and business trends, that are “forward-looking statements,” as defined in the Private Securities Litigation and Reform Act of 1995, that involve risks, uncertainties and assumptions. These statements are based on our current expectations and are not promises or guarantees. If any of the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo 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, gross profit, expenses, gain/(loss) on Limoneira shares, income/(loss) from unconsolidated entities, earnings, earnings per share, tax provisions, cash flows and currency exchange rates; the impact of COVID-19 on our business, results of operations and financial condition; the impact of acquisitions or debt or equity investments or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration (including information technology systems integration) plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on Calavo and its financial performance, whether attributable to Calavo or any of its unconsolidated entities; any statements regarding pending investigations, legal claims or tax disputes; any statements of expectation or belief; any risks associated with doing business internationally (including possible restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and COVID-19 and trade protection measures such as import/export/customs duties, tariffs and/or quotas); any risks associated with receivables from and/or equity investments in unconsolidated entities; system security risk and cyber-attacks and any statements of assumptions underlying any of the foregoing.

Risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by the forward-looking statements include, but are not limited to, the following: the ability of our future management team to work together successfully; the impact of Project Uno initiatives on our business, results of operations, and financial condition, including uncertainty as to whether the desired effects will be achieved; the impact of the COVID-19 pandemic on our business, results of operations, and financial condition, including, but not limited to, disruptions in the manufacturing of our products and the operations of the related supply chains supporting our ability to deliver our products to consumers, impacts on our employees and uncertainty regarding our ability to implement health and safety measures for our employees, uncertainties regarding consumer demand for our products, impact on our food service customers, increased costs, the impact of governmental trade restrictions imposed as a result of COVID-19 and the possible adverse impact of COVID-19 on our goodwill and other intangible assets; our ability to raise prices, particularly in our Prepared segment, to offset increases in costs of goods sold, and the impact of such price increases on future net sales; seasonality of our business; sensitivity of our business to changes in market prices of avocados and other agricultural products and other raw materials including fuel, packaging and paper; potential disruptions to our supply chain; risks associated with potential future acquisitions, including integration; potential exposure to data breaches and other cyber-attacks on our systems or those of our suppliers or customers; dependence on large customers; dependence on key personnel, including personnel that have not yet been hired, and the ability of our future management team to work together successfully; potential for labor disputes; reliance on co-packers for a portion of our production needs; competitive pressures, including from foreign growers; risks of recalls and food-related injuries to our customers; changing consumer preferences; the impact of environmental regulations, including those related to climate change; risks associated with the environment and climate change, especially as they may affect our sources of supply; our ability to develop and transition new products and services and enhance existing products and services to meet customer needs; risks associated with doing business internationally (including possible restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and COVID-19 and trade protection measures such as import/export/customs duties, tariffs and/or quotas and currency fluctuations); risks associated with receivables from, loans to and/or equity investments in unconsolidated entities, volatility in the value of our common stock; the impact of macroeconomic trends and events; and the resolution of pending investigations, legal claims and tax disputes, including an assessment imposed by the Mexican Tax Administrative Service (the “SAT”) and our defenses against collection activities commenced by the SAT.

For a further discussion of these risks and uncertainties and other risks and uncertainties that we face, please see the risk factors described in our most recent Annual Report on Form 10-K for the fiscal year ended October 31, 2021 filed with the Securities and Exchange Commission and any subsequent updates that may be contained in our Quarterly Reports on Form 10-Q (including this Quarterly Report on Form 10-Q) and other filings with the Securities and Exchange Commission. Forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

**CALAVO GROWERS, INC.**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CALAVO GROWERS, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
**(UNAUDITED, in thousands)**

	July 31, 2022	October 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,505	\$ 1,885
Restricted cash	961	970
Accounts receivable, net of allowances of \$4,429 (2022) and \$4,816 (2021)	78,490	78,866
Inventories	36,073	40,757
Prepaid expenses and other current assets	9,216	11,946
Advances to suppliers	12,698	6,693
Income taxes receivable	8,502	11,524
Total current assets	148,445	152,641
Property, plant, and equipment, net	114,481	118,280
Operating lease right-of-use assets	55,838	59,842
Investment in Limoneira Company	21,251	27,055
Investments in unconsolidated entities	3,533	4,346
Deferred income taxes	5,316	5,316
Goodwill	28,653	28,653
Intangibles, net	7,587	8,769
Other assets	45,421	40,500
	<u>\$ 430,525</u>	<u>\$ 445,402</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Payable to growers	\$ 35,748	\$ 23,033
Trade accounts payable	11,551	9,794
Accrued expenses	51,672	42,063
Dividend payable	—	20,330
Other current liabilities	11,000	11,000
Current portion of operating leases	6,966	6,817
Current portion of long-term obligations and finance leases	1,517	1,587
Total current liabilities	118,454	114,624
Long-term liabilities:		
Borrowings pursuant to credit facilities, long-term	25,600	37,700
Long-term operating leases, less current portion	53,437	57,561
Long-term obligations and finance leases, less current portion	4,280	5,553
Other long-term liabilities	2,915	3,081
Total long-term liabilities	86,232	103,895
Commitments and contingencies		
Shareholders' equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 17,732 and 17,686 shares issued and outstanding as of July 31, 2022 and October 31, 2021, respectively)	18	18
Additional paid-in capital	170,208	168,133
Noncontrolling interest	1,183	1,368
Retained earnings	54,430	57,364
Total shareholders' equity	225,839	226,883
	<u>\$ 430,525</u>	<u>\$ 445,402</u>

*The accompanying notes are an integral part of these consolidated condensed financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(in thousands, except per share amounts)

	Three months ended July 31,		Nine months ended July 31,	
	2022	2021	2022	2021
Net sales	\$ 341,991	\$ 285,008	\$ 947,501	\$ 782,407
Cost of sales	323,477	277,141	894,017	734,101
Gross profit	18,514	7,867	53,484	48,306
Selling, general and administrative	16,713	12,387	48,566	40,374
Expenses related to Mexican tax matters	303	1,342	1,148	1,342
Impairment and charges related to Florida facility closure	—	—	959	—
Gain on sale of Temecula packinghouse	(54)	(54)	(162)	(162)
Operating income (loss)	1,552	(5,808)	2,973	6,752
Recovery on reserve for FreshRealm note receivable	—	6,000	—	6,130
Interest expense	(485)	(208)	(1,272)	(573)
Other income, net	278	180	1,433	792
Unrealized net gain (loss) on Limoneira shares	1,225	(252)	(5,803)	6,843
Income (loss) before income taxes and loss from unconsolidated entities	2,570	(88)	(2,669)	19,944
Income tax benefit (provision)	(984)	(12,358)	363	(17,073)
Net loss from unconsolidated entities	(269)	(469)	(812)	(1,755)
Net income (loss)	1,317	(12,915)	(3,118)	1,116
Add: Net loss (income) attributable to noncontrolling interest	(17)	(66)	185	21
Net income (loss) attributable to Calavo Growers, Inc.	<u>\$ 1,300</u>	<u>\$ (12,981)</u>	<u>\$ (2,933)</u>	<u>\$ 1,137</u>
Calavo Growers, Inc.'s net income (loss) per share:				
Basic	<u>\$ 0.07</u>	<u>\$ (0.74)</u>	<u>\$ (0.17)</u>	<u>\$ 0.06</u>
Diluted	<u>\$ 0.07</u>	<u>\$ (0.74)</u>	<u>\$ (0.17)</u>	<u>\$ 0.06</u>
Number of shares used in per share computation:				
Basic	<u>17,667</u>	<u>17,630</u>	<u>17,661</u>	<u>17,616</u>
Diluted	<u>17,769</u>	<u>17,630</u>	<u>17,661</u>	<u>17,669</u>

*The accompanying notes are an integral part of these consolidated condensed financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(in thousands)

	<b>Nine months ended July 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (3,118)	\$ 1,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,472	12,925
Non-cash operating lease expense	40	57
Net loss from unconsolidated entities	812	1,755
Unrealized net loss (gain) on Limoneira shares	5,803	(6,843)
Impairment and non-cash charges related to closure of Florida facility	317	—
Gain on reserve for FreshRealm note receivable and impairment of investment	—	(6,130)
Stock-based compensation expense	2,123	2,818
Gain on sale of Temecula packinghouse	(162)	(162)
Gain on disposal of property, plant, and equipment	—	(170)
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable, net	376	(16,137)
Inventories	4,594	(5,687)
Prepaid expenses and other current assets	(30)	2,291
Advances to suppliers	(4,945)	(3,642)
Income taxes receivable/payable	3,022	4,014
Other assets	(3,205)	(7,003)
Payable to growers	12,716	18,694
Trade accounts payable, accrued expenses and other liabilities	11,369	14,500
Net cash provided by operating activities	<u>42,184</u>	<u>12,396</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property, plant, and equipment	(7,738)	(9,639)
Loan to Agricola Belher	—	(3,500)
Recovery on reserve for FreshRealm note receivable	—	6,000
Infrastructure advance to tomato growers	—	(1,326)
Net cash used in investing activities	<u>(7,738)</u>	<u>(8,465)</u>
<b>Cash Flows from Financing Activities:</b>		
Payment of dividend to shareholders	(20,330)	(20,343)
Proceeds from revolving credit facility	221,500	266,350
Payments on revolving credit facility	(233,600)	(250,900)
Payments of minimum withholding taxes on net share settlement of equity awards	(95)	(650)
Payments on long-term obligations and finance leases	(1,357)	(1,152)
Proceeds from stock option exercises	47	47
Net cash used in financing activities	<u>(33,835)</u>	<u>(6,648)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	611	(2,717)
Cash, cash equivalents and restricted cash, beginning of period	2,855	4,055
Cash, cash equivalents and restricted cash, end of period	<u>\$ 3,466</u>	<u>\$ 1,338</u>
<b>Noncash Investing and Financing Activities:</b>		
Right of use assets obtained in exchange for new financing lease obligations	\$ —	\$ 1,222
Settlement of Agricola Belher infrastructure advance offset against payable to growers	\$ 1,060	\$ —
Property, plant, and equipment included in trade accounts payable and accrued expenses	<u>\$ 309</u>	<u>\$ 375</u>

*The accompanying notes are an integral part of these consolidated condensed financial statements.*

**CALAVO GROWERS, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount				
<b>Balance, October 31, 2020</b>	17,661	\$ 18	\$ 165,000	\$ 89,512	\$ 1,472	\$ 256,002
Exercise of stock options and income tax benefit	2	—	47	—	—	47
Payment of min. withholding of taxes on net share settlement of equity awards	—	—	(467)	—	—	(467)
Stock compensation expense	—	—	907	—	—	907
Restricted stock issued	23	—	—	—	—	—
Avocados de Jalisco noncontrolling interest	—	—	—	—	(40)	(40)
Net income attributable to Calavo Growers, Inc.	—	—	—	5,277	—	5,277
<b>Balance, January 31, 2021</b>	17,686	18	165,487	94,789	1,432	261,726
Stock compensation expense	—	—	1,357	—	—	1,357
Payments of minimum withholding taxes on net share settlement of equity awards	(2)	—	(135)	—	—	(135)
Avocados de Jalisco noncontrolling interest	—	—	—	—	(47)	(47)
Net income attributable to Calavo Growers, Inc.	—	—	—	8,841	—	8,841
<b>Balance, April 30, 2021</b>	17,684	\$ 18	\$ 166,709	\$ 103,630	\$ 1,385	\$ 271,742
Stock compensation expense	—	—	554	—	—	554
Restricted stock issued	(1)	—	—	—	—	—
Payments of minimum withholding taxes on net share settlement of equity awards	—	—	(48)	—	—	(48)
Avocados de Jalisco noncontrolling interest	—	—	—	—	66	66
Net loss attributable to Calavo Growers, Inc.	—	—	—	(12,981)	—	(12,981)
<b>Balance, July 31, 2021</b>	17,683	\$ 18	\$ 167,215	\$ 90,649	\$ 1,451	\$ 259,333

	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount				
<b>Balance, October 31, 2021</b>	17,686	\$ 18	\$ 168,133	\$ 57,364	\$ 1,368	\$ 226,883
Exercise of stock options and income tax benefit	2	—	47	—	—	47
Payment of min. withholding of taxes on net share settlement of equity awards	—	—	(44)	—	—	(44)
Stock compensation expense	—	—	556	—	—	556
Restricted stock issued	28	—	—	—	—	—
Avocados de Jalisco noncontrolling interest	—	—	—	—	(117)	(117)
Net loss attributable to Calavo Growers, Inc.	—	—	—	(4,043)	—	(4,043)
<b>Balance, January 31, 2022</b>	17,716	18	168,692	53,321	1,251	223,282
Stock compensation expense	—	—	812	—	—	812
Restricted stock issued	26	—	—	—	—	—
Payments of minimum withholding taxes on net share settlement of equity awards	—	—	(51)	—	—	(51)
Avocados de Jalisco noncontrolling interest	—	—	—	—	(85)	(85)
Net loss attributable to Calavo Growers, Inc.	—	—	—	(191)	—	(191)
<b>Balance, April 30, 2022</b>	17,742	\$ 18	\$ 169,453	\$ 53,130	\$ 1,166	\$ 223,767
Stock compensation expense	—	—	755	—	—	755
Forfeitures of restricted stock issued	(10)	—	—	—	—	—
Avocados de Jalisco noncontrolling interest	—	—	—	—	17	17
Net income attributable to Calavo Growers, Inc.	—	—	—	1,300	—	1,300
<b>Balance, July 31, 2022</b>	17,732	\$ 18	\$ 170,208	\$ 54,430	\$ 1,183	\$ 225,839

*See accompanying notes to consolidated condensed financial statements.*

**CALAVO GROWERS, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Description of the business**

***Business***

Calavo Growers, Inc. (referred to in this report as “Calavo”, the “Company”, “we”, “us” or “our”), is a global leader in the avocado industry and a provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesalers on a worldwide basis. We procure avocados from California, Mexico and other growing regions around the world. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit and vegetables, and prepared foods and (iii) process and package guacamole and salsa. We distribute our products both domestically and internationally and beginning in the third quarter of fiscal 2022 we report our operations in two different business segments: Grown and Prepared.

The accompanying unaudited consolidated condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company’s financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2021.

***Recently Adopted Accounting Standards***

In December 2019, the Financial Accounting Standards Board issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which amends and simplifies the accounting for income taxes by removing certain exceptions and providing new guidance to reduce complexity in certain aspects of the current guidance. This guidance was adopted by the Company during the first quarter of 2022 and did not impact the Company’s financial statements or related disclosures.

**2. Information regarding our operations in different segments**

On April 13, 2022, the Company issued a press release announcing its plans to reorganize the business into two reporting segments, Grown and Prepared. The management transition to operate as Grown and Prepared began at the start of the third quarter of 2022. The Grown segment consists of fresh avocados, tomatoes and papayas. The Prepared segment comprises all other products including fresh cut fruits and vegetables, ready-to-eat sandwiches, wraps, salads and snacks, guacamole, and salsa sold at retail and food service as well as avocado pulp sold to foodservice.

As a result of the Company's operating segment realignment, the composition of its reporting units for the evaluation of goodwill impairment was changed. RFG reporting unit goodwill is now included within the Prepared reporting unit. Therefore, the goodwill of \$24.7 million, which was previously recorded within the RFG reporting unit, is now within Prepared and the goodwill previously reported as part of the Fresh segment remained unchanged in the amount of \$4.0 million and is part of the Grown segment. Prior to the change in its reporting unit, the Company tested goodwill for impairment at the previous reporting unit, which did not result in any impairment charge. 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 which includes forecasted cash flow. The fair value of the Company’s reporting



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units is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis, a market approach is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded.

These two business segments are presented based on how information is used by our Chief Executive Officer (our Chief Operating Decision Maker) to measure performance and allocate resources. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them, to our operating segments. Prior year information has been recast to conform with the new segment disclosures. The sales data in the following tables is presented in thousands:

	Three months ended July 31, 2022			Three months ended July 31, 2021		
	Grown	Prepared	Total	Grown	Prepared	Total
Avocados	\$ 196,443	\$ —	\$ 196,443	\$ 148,757	\$ —	\$ 148,757
Tomatoes	8,990	—	8,990	11,344	—	11,344
Papayas	2,679	—	2,679	2,683	—	2,683
Other fresh income	54	—	54	95	—	95
Fresh-cut fruit	—	59,159	59,159	—	58,703	58,703
Fresh-cut vegetables	—	27,299	27,299	—	23,226	23,226
Prepared products	—	31,083	31,083	—	25,917	25,917
Guacamole	—	19,606	19,606	—	21,096	21,096
Salsa	—	524	524	—	746	746
Total gross sales	208,166	137,671	345,837	162,879	129,688	292,567
Less sales allowances	(577)	(2,799)	(3,376)	(1,299)	(5,588)	(6,887)
Less inter-company eliminations	(470)	—	(470)	(672)	—	(672)
Net sales	<u>\$ 207,119</u>	<u>\$ 134,872</u>	<u>\$ 341,991</u>	<u>\$ 160,908</u>	<u>\$ 124,100</u>	<u>\$ 285,008</u>

	Nine months ended July 31, 2022			Nine months ended July 31, 2021		
	Grown	Prepared	Total	Grown	Prepared	Total
Avocados	\$ 538,882	\$ —	\$ 538,882	\$ 398,887	\$ —	\$ 398,887
Tomatoes	36,331	—	36,331	33,963	—	33,963
Papayas	8,462	—	8,462	8,081	—	8,081
Other fresh income	87	—	87	548	—	548
Fresh-cut fruit	—	151,361	151,361	—	149,652	149,652
Fresh-cut vegetables	—	82,162	82,162	—	78,030	78,030
Prepared products	—	83,281	83,281	—	68,425	68,425
Guacamole	—	56,976	56,976	—	56,557	56,557
Salsa	—	1,349	1,349	—	2,154	2,154
Total gross sales	583,762	375,129	958,891	441,479	354,818	796,297
Less sales allowances	(2,591)	(7,240)	(9,831)	(2,754)	(9,221)	(11,975)
Less inter-company eliminations	(1,559)	—	(1,559)	(1,915)	—	(1,915)
Net sales	<u>\$ 579,612</u>	<u>\$ 367,889</u>	<u>\$ 947,501</u>	<u>\$ 436,810</u>	<u>\$ 345,597</u>	<u>\$ 782,407</u>

	<u>Grown</u>	<u>Prepared</u>	<u>Interco. Elimins.</u>	<u>Total</u>
(All amounts are presented in thousands)				
<b>Three months ended July 31, 2022</b>				
Net sales	\$ 207,589	\$ 134,872	\$ (470)	\$ 341,991
Cost of sales	195,818	128,129	(470)	323,477
Gross profit	<u>\$ 11,771</u>	<u>\$ 6,743</u>	<u>\$ —</u>	<u>\$ 18,514</u>
<b>Three months ended July 31, 2021</b>				
Net sales	\$ 161,580	\$ 124,100	\$ (672)	\$ 285,008
Cost of sales	149,378	128,435	(672)	277,141
Gross profit	<u>\$ 12,202</u>	<u>\$ (4,335)</u>	<u>\$ —</u>	<u>\$ 7,867</u>
	<u>Grown</u>	<u>Prepared</u>	<u>Interco. Elimins.</u>	<u>Total</u>
(All amounts are presented in thousands)				
<b>Nine months ended July 31, 2022</b>				
Net sales	\$ 581,171	\$ 367,889	\$ (1,559)	\$ 947,501
Cost of sales	539,577	355,999	(1,559)	894,017
Gross profit	<u>\$ 41,594</u>	<u>\$ 11,890</u>	<u>\$ —</u>	<u>\$ 53,484</u>
<b>Nine months ended July 31, 2021</b>				
Net sales	\$ 438,725	\$ 345,597	\$ (1,915)	\$ 782,407
Cost of sales	398,370	337,646	(1,915)	734,101
Gross profit	<u>\$ 40,355</u>	<u>\$ 7,951</u>	<u>\$ —</u>	<u>\$ 48,306</u>

For the three months ended July 31, 2022 and 2021, intercompany sales and cost of sales of \$0.5 million and \$0.7 million between Grown products and Prepared products were eliminated. For the nine months ended July 31, 2022 and 2021, intercompany sales and cost of sales of \$1.6 million and \$1.9 million between Grown products and Prepared products were eliminated.

Sales to customers outside the U.S. were approximately \$6.1 million, and \$8.8 million for the three months ended July 31, 2022 and 2021. Sales to customers outside the U.S. were approximately \$21.5 million, and \$25.7 million for the nine months ended July 31, 2022 and 2021.

Our foreign operations in Mexico are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries in Mexico is the United States dollar (U.S. dollar). As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements and foreign currency transactions are recognized within cost of sales. We recognized foreign currency remeasurement losses in the current quarter. These losses were due primarily to certain long-term net peso receivables. Foreign currency remeasurement losses, net of gains, for the three months ended July 31, 2022 was \$0.4 million. Foreign currency remeasurement gains, net of losses, for the three months ended July 31, 2021 was \$0.6 million. Foreign currency remeasurement losses, net of gains, for the nine months ended July 31, 2022 was \$1.3 million. Foreign currency remeasurement gains, net of losses, for the nine months ended July 31, 2021 was \$1.2 million.

The net carrying value of long-lived assets attributed to geographic areas as of July 31, 2022 and October 31, 2021, are as follows (in thousands):

	<u>United States</u>	<u>Mexico</u>	<u>Consolidated</u>
July 31, 2022	\$ 78,087	\$ 36,394	\$ 114,481
October 31, 2021	\$ 81,059	\$ 37,221	\$ 118,280

### 3. Inventories

Inventories consist of the following (in thousands):

	<u>July 31,</u> <u>2022</u>	<u>October 31,</u> <u>2021</u>
Fresh fruit	\$ 14,793	\$ 17,648
Packing supplies and ingredients	14,621	13,088
Finished prepared foods	6,659	10,021
Total	<u>\$ 36,073</u>	<u>\$ 40,757</u>

Inventories are stated at the lower of cost or net realizable value. We periodically review the value of items in inventory and record any necessary write downs of inventory based on our assessment of market conditions. Inventory includes reserves of \$0.3 million and \$0.2 million in slow moving and obsolete packing supply inventory as of July 31, 2022 and October 31, 2021.

### 4. Related party transactions

#### *Board of Directors*

Certain members of our Board of Directors market California avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. For the three months ended July 31, 2022 and 2021, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$5.7 million and \$10.4 million. For the nine months ended July 31, 2022 and 2021, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$7.3 million and \$15.4 million. Amounts payable to these Board members were \$2.0 million as of July 31, 2022. We did not have any amounts payable to these Board members as of October 31, 2021.

#### *Limoneira*

During the three months ended July 31, 2022 and 2021, we received \$0.1 million as dividend income from Limoneira Company (Limoneira). During the nine months ended July 31, 2022 and 2021, we received \$0.4 million and \$0.3 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. We paid rent expense to Limoneira totaling \$0.1 million for the three months ended July 31, 2022 and 2021. We paid rent expense to Limoneira totaling \$0.3 million for the nine months ended July 31, 2022 and 2021. Harold Edwards, who resigned as a member of our Board of Directors in February 2022, is the Chief Executive Officer of Limoneira Company. As of July 31, 2022, we own approximately 9% of Limoneira's outstanding shares. In February 2022, Limoneira ended its marketing agreement with Calavo.

#### *Agricola Don Memo, S.A. de C.V. ("Don Memo")*

Calavo and Agrícola Belher ("Belher") have an equal one-half ownership interest in Don Memo. Pursuant to a management service agreement, Belher, through its officers and employees, has day-to-day power and authority to manage the operations.

As of July 31, 2022, and October 31, 2021, we had an investment of \$3.5 million and \$4.3 million, representing Calavo's 50% ownership in Don Memo, which was included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission and aforementioned advances. For the three months ended July 31, 2022, we advanced an additional \$2.2 million of pre-season advances to Don Memo. As of July 31, 2022 and October 31, 2021, we had outstanding advances of \$6.4 million and \$4.2 million to Don Memo. In October 2020, we entered into an infrastructure loan agreement with Don Memo for up to \$2.4 million secured by certain property and equipment of Don Memo. This infrastructure loan accrues interest at 7.25%. In October 2020, we funded \$0.7 million related to this loan agreement, and we funded an

additional \$0.7 million, and \$0.6 million in the first, and second quarters of fiscal 2021, for a total outstanding balance at July 31, 2022 of \$2.0 million (\$0.4 million is included in prepaids and other current assets and \$1.6 million in other assets). This infrastructure loan agreement will mature in fiscal 2024. During the three months ended July 31, 2022 and 2021, we incurred \$3.2 million and \$5.7 million of cost of sales to Don Memo pursuant to our purchase consignment agreement. During the nine months ended July 31, 2022 and 2021, we incurred \$7.1 million and \$9.6 million of cost of sales to Don Memo pursuant to our purchase consignment agreement.

#### *Belher*

We make advances to Belher for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Belher, net of our commission and aforementioned advances. We had grower advances due from Belher totaling \$3.5 million and \$4.5 million as of July 31, 2022 and October 31, 2021, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of \$0.9 million as of July 31, 2022 and October 31, 2021. These infrastructure advances were recorded as a receivable in prepaid and other current assets as of July 31, 2022 and October 31, 2021. In July 2021, we made a bridge loan of \$3.5 million to Belher. This loan is secured by certain farmland in Mexico and accrues interest at 10%. In the first quarter of fiscal 2022, this loan was amended to be due with installments of \$0.9 million on July 31, 2022, \$0.9 million on July 31, 2023 and \$1.7 million on July 31, 2024. As part of this amended loan agreement, we can withhold payments on both the infrastructure advances and the bridge loan through the netting against the grower payable due to Belher. For the three and nine months ended July 31, 2022, we withheld \$1.1 million from payments to Belher to offset the bridge loan repayments. The remaining bridge loan has been recorded as \$0.7 million in prepaid expenses and other current assets and \$1.7 million in other assets. During the three months ended July 31, 2022 and 2021, we incurred \$1.4 million and \$1.8 million of cost of sales to Belher pursuant to our purchase consignment agreement. During the nine months ended July 31, 2022 and 2021, we incurred \$19.0 million and \$16.3 million of cost of sales to Belher pursuant to our purchase consignment agreement.

#### *Avocados de Jalisco, S.A.P.I. de C.V. ("Avocados de Jalisco")*

In August 2015, we entered into a Shareholder's Agreement with various Mexican partners and created Avocados de Jalisco. Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. As of July 31, 2022, this entity was approximately 83% owned by Calavo and was consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico, which began operations in June of 2017. During the three months ended July 31, 2022 and 2021 we purchased approximately \$1.2 million and \$2.2 million of avocados from the partners of Avocados de Jalisco. During the nine months ended July 31, 2022 and 2021, we purchased approximately \$4.7 million and \$5.4 million of avocados from the partners of Avocados de Jalisco.

## **5. Other assets and Intangibles**

Other assets consist of the following (in thousands):

	July 31, 2022	October 31, 2021
Mexican IVA (i.e. value-added) taxes receivable (see note 11)	\$ 41,265	\$ 37,493
Infrastructure advances to Agricola Belher	1,641	1,641
Bridge loan to Agricola Belher	1,700	—
Other	815	1,366
Total	<u>\$ 45,421</u>	<u>\$ 40,500</u>

Intangible assets consist of the following (in thousands):

	Weighted-Average Useful Life	July 31, 2022			October 31, 2021		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	7 years	\$ 17,340	\$ (11,028)	\$ 6,312	\$ 17,340	\$ (9,989)	\$ 7,351
Trade names	11 years	4,060	(3,070)	990	4,060	(2,980)	1,080
Trade secrets/recipes	9 years	630	(620)	10	630	(567)	63
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		<u>\$ 22,305</u>	<u>\$ (14,718)</u>	<u>\$ 7,587</u>	<u>\$ 22,305</u>	<u>\$ (13,536)</u>	<u>\$ 8,769</u>

We anticipate recording amortization expense of \$0.4 million for the remainder of fiscal 2022, \$1.5 million for fiscal year 2023, \$1.5 million for fiscal year 2024, \$1.5 million for fiscal year 2025, and \$2.4 million thereafter.

## 6. Stock-Based Compensation

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the “2011 Plan”). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Shares were issuable under the 2011 Plan through December 2020. On April 21, 2021, the shareholders of Calavo approved the Calavo Growers, Inc. 2020 Equity Incentive Plan (the “2020 Plan”). This is a five-year plan with up to 1,500,000 shares that are issuable pursuant to awards that may be made through December 9, 2025.

### *Restricted Stock Awards*

On December 13, 2021, certain of our officers were granted a total of 5,355 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$40.53. These shares vest over two years, on an annual basis, beginning December 13, 2022. These shares were granted pursuant to our 2020 Plan. The total recognized stock-based compensation expense for these grants was less than \$0.1 million for the three and nine months ended July 31, 2022.

On January 3, 2022, all 10 of our current directors were granted 2,814 restricted shares each (for a total of 28,140 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing share price of our stock on such grant date was \$42.64. As of January 3, 2023, these shares will vest and become unrestricted subject to the continued service of the director. The total recognized stock-based compensation expense for these grants was \$0.3 million and \$0.7 million for the three and nine months ended July 31, 2022.

On January 20, 2022, one of our current directors was granted 1,500 unrestricted shares as a component of her compensation for services rendered during the 2021 fiscal year. The closing share price of our stock on such grant date was \$41.73. The stock-based compensation expense for this grant was recognized in total upon grant and aggregated \$0.1 million for the nine months ended July 31, 2022.

On February 1, 2022, Brian Kocher, our new Chief Executive Officer, was granted 28,993 restricted shares as part of his employment agreement. The closing share price of our stock on such grant date was \$41.39. These shares will vest over three years on an annual basis, beginning February 1, 2023. The total recognized stock-based compensation expense for this grant was \$0.1 million for the three months ended July 31, 2022. The total recognized stock-based compensation expense for this grant was \$0.2 million for the nine months ended July 31, 2022.

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A combined summary of restricted stock award activity, related to our 2011 and 2020 Plans, is as follows (in thousands, except for per share amounts):

	<u>Number of Shares</u>	<u>Weighted-Average Grant Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at October 31, 2021	43	\$ 64.89	
Vested	(31)	\$ 45.44	
Forfeited	(9)	\$ 37.67	
Granted	64	\$ 41.88	
Outstanding at July 31, 2022	<u>67</u>	<u>\$ 45.01</u>	<u>\$ 2,672</u>

The total recognized stock-based compensation expense for restricted stock was \$0.4 million and \$0.6 million for the three months ended July 31, 2022 and 2021. The total recognized stock-based compensation expense for restricted stock was \$1.8 million and \$2.8 million for the nine months ended July 31, 2022 and 2021. Total unrecognized stock-based compensation expense totaled \$1.7 million as of July 31, 2022 and will be amortized through fiscal year 2024.

#### *Restricted Stock Units (RSUs) and Performance Restricted Stock Units (PRSUs)*

On April 1, 2022, we issued RSUs for officers and other members of management as part of our long-term incentive plan. The RSUs are time-based and vest annually in equal amounts over a three-year period. The PRSUs are based on three-year cumulative performance targets of net sales, adjusted EBITDA and return on invested capital and vest entirely at the third anniversary. We granted 34,269 RSUs and 34,269 PRSUs at a grant stock price of \$37.49. With the departure of our former Chief Financial Officer, 4,014 shares each of RSUs and PRSUs were forfeited. Based on our current projections, we recognized approximately \$0.3 million of stock-based compensation for the three and nine months ended July 31, 2022. As of July 31, 2022, there was \$2.2 million of unrecognized stock-based compensation costs related to non-vested RSUs and PRSUs, which the Company expects to recognize over a weighted-average period of 2.3 years. The total fair value of the restricted stock units at July 31, 2022, is approximately \$2.5 million.

In the third quarter of fiscal 2022, Shawn Munsell, our new Chief Financial Officer, and Danny Demas, our new SVP of Grown products were granted 9,002 RSUs and 3,533 RSUs, respectively, as part of their employment agreements. The closing share price of our stock on such grant dates were \$38.88 and \$42.46, respectively. These shares will vest over three years on an annual basis, with the first third vesting on June 20, 2023, and July 11, 2023, respectively. The total recognized stock-based compensation expense for this grant was insignificant for the three and nine months ended July 31, 2022.

On August 16, 2022, Helen Kurtz, our new SVP of Prepared products, was granted 6,778 RSUs as part of her employment agreement. The closing share price of our stock on such grant date was \$44.26. These shares will vest over three years on an annual basis, with the first third vesting on August 16, 2023.

A combined summary of RSU activity, related to our 2020 Plan, is as follows (in thousands, except for per share amounts):

	<u>Number of Shares Represented</u>	<u>Weighted-Average Grant Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at April 30, 2022	34	\$ 37.49	
Forfeited	(4)	\$ 37.49	
Granted	13	\$ 39.89	
Outstanding at July 31, 2022	<u>43</u>	<u>\$ 38.18</u>	<u>\$ 1,724</u>

#### *Stock Options*

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

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

A summary of stock option activity, related to our 2011 and 2020 Plans, is as follows (in thousands, except for weighted-average exercise price):

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at October 31, 2021	19	\$ 42.89	
Exercised	(2)	\$ 23.48	
Outstanding at July 31, 2022	<u>17</u>	<u>\$ 47.62</u>	<u>\$ —</u>
Exercisable at July 31, 2022	<u>12</u>	<u>\$ 51.12</u>	<u>\$ —</u>

At July 31, 2022, outstanding and exercisable stock options had a weighted-average remaining contractual term of 2.7 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three and nine months ended July 31, 2022 and 2021.

## 7. Other events

### *Dividend payment*

On December 3, 2021, we paid a \$1.15 per share dividend in the aggregate amount of \$20.3 million to shareholders of record on November 12, 2021.

### *Litigation*

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

### *Mexico tax audits*

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States.

### **2011 Assessment**

On June 16, 2021 Calavo reached a settlement agreement with the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) regarding a 2011 Assessment of approximately \$2.2 billion Mexican pesos related to income tax, flat rate business tax and value added tax. Calavo agreed to pay approximately \$47.8 million Mexican pesos (approximately \$2.4 million USD) as a full and final settlement of all taxes, fines, and penalties.

### **2013 Assessment**

In January 2017, we received preliminary observations from the Servicio de Administracion Tributaria in Mexico (the "SAT") related to an audit for fiscal year 2013 outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and IVA. We provided a written rebuttal to these preliminary observations during our second fiscal quarter of 2017. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through the conclusive agreement submitted before PRODECON (Mexican Tax Ombudsman), having several working meetings attended by

representatives of the SAT, Calavo de Mexico (CDM) and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (which includes annual adjustments for inflation, and equals approximately \$127.6 million USD at July 31, 2022) related to Income Tax, Flat Rate Business Tax, and value added tax, related to this fiscal 2013 tax audit. This amount has been adjusted for inflation as of July 31, 2022 to the amount of \$3.08 billion Mexican pesos (approx. \$151.1 million USD). Additionally, the tax authorities have determined that we owe our employees profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.8 million USD at July 31, 2022). In August 2018, we filed an Administrative Appeal on the 2013 Assessment, appealing our case to the SAT's central legal department in Michoacan.

On June 25, 2021, we became aware that the Administrative Appeal had been resolved by the SAT against CDM on March 12, 2021, and that we had allegedly failed to timely respond to and challenge the SAT's notification of such resolution, therefore rendering the 2013 Assessment as definitive. Consequently, the SAT placed liens on the fixed assets of CDM, with a net book value of approximately \$26 million USD, and on bank accounts of CDM totaling approximately \$1 million USD in order to guaranty the 2013 Assessment. Based on legal counsel from our tax advisory firm, we and our tax advisory firm have concluded that the March notification was not legally communicated.

On August 18, 2021, we filed an Administrative Reconsideration (the Reconsideration) before the Central Legal Department of the SAT located in Mexico City, asserting that the resolution in March of the Administrative Appeal was wrongly concluded, in particular with respect to the following matters:

- o Failure to recognize CDM as a "maquiladora"
- o Considering the Company to have a permanent establishment in Mexico,
- o Including fruit purchase deposits transferred by the Company to CDM as taxable,
- o Application of 16% IVA tax to fruit purchase deposits; and
- o Imposing double-taxation on the fruit purchase transactions

On August 20, 2021 we filed an Annulment Suit (the Annulment Suit) with the Federal Tax Court, which among other things, strongly contends that the notifications made by the SAT to CDM and its designated advisors of the resolution of the Administrative Appeal in March 2021 were not legally communicated. In addition, the Annulment Suit asserts the same matters central to the Reconsideration, as described above, as wrongly concluded in the resolution of the Administrative Appeal.

On August 27, 2021, we filed a formal complaint, or *queja*, (the "Complaint") before the PRODECON to request its assistance with having the SAT act upon the Reconsideration. The Complaint was withdrawn in September, but may still be reinstated if deemed appropriate in the future.

On September 22, 2021, we had an initial in-person meeting with the SAT in Mexico City to formally present and discuss the Reconsideration. The SAT agreed to review our Reconsideration in more detail; however, on January 3, 2022, the SAT formally rejected our request for the Reconsideration. In response to this rejection, on January 21, 2022, we filed an injunction suit with a federal district court seeking to nullify the arguments against the Reconsideration made by the SAT on constitutional grounds.

On February 4, 2022, we had a follow-up meeting with the SAT in Mexico City to begin a dialog with the objective of reaching a settlement of the 2013 Assessment. The SAT agreed in principle to continue this dialog, but requested that we provide a financial guaranty to secure the related tax as a pre-requisite to these discussions.

On February 25, 2022, we filed an additional injunction in which we seek to have the liens against the bank accounts of CDM lifted. The injunction suit has been accepted by the court and we are expecting a response in the next 2 - 3 months. The main purpose of the injunction suit was to challenge the SAT's response issued to the Reconsideration, and with that, to keep the Reconsideration alive until the injunction suit is decided. This would allow time to continue the discussions with SAT at the administrative level and would give SAT the legal basis to issue a new resolution. This



injunction suit represents a further opportunity for a Court of Law to analyze this matter from a constitutional perspective.

The injunction suit has been admitted for analysis by the District Court, however, SAT filed a complaint (queja) against the ruling allowing CDM to file an extension of the injunction suit aiming to appoint as a defendant other than SAT's authority that were involved in the reconsideration appeal's resolution. This complaint was filed by SAT to challenge the admission and analysis of the injunction suit; this complaint is expected to be decided by the Circuit Courts within the next couple of months.

On March 4, 2022, the Annulment Suit was formally accepted by the Federal Tax Court, which simultaneously granted a provisional suspension of the collections proceedings by the SAT. The acceptance by the court of the Annulment Suit renders the 2013 Assessment as non-definitive, until such time as the suit is resolved.

On March 10, 2022, we met with the SAT and offered an Administrative Guaranty (*Embargo en Via Administrativa*) to secure the 2013 Assessment, which provides the SAT with certain administrative rights to CDM assets in the unlikely event we do not prevail in our actions through the Federal Tax Court (see below). Once the Administrative Guaranty is in place, the existing liens over the assets of CDM will be removed and the SAT collection process will be suspended.

On April 27, 2022, the SAT provided a Positive Compliance Opinion to CDM, and consequently on April 29, 2022, the Tax Authority renewed the VAT Certification to CDM. These two resolutions signal a positive development on the Tax controversies in Mexico.

On April 29, 2022, we submitted all the documentation required to the Tax Authority and the Federal Tax Court to continue with the consideration of the Administrative Guaranty.

On June 16, 2022 we received a request from the Tax Authorities to provide information related to the Administrative Guaranty. The information was presented on July 7, 2022, and on August 2, 2022. On August 8, 2022, we met with Tax Authorities in Mexico City to review the information presented and agreed to next steps on the approval of the Guarantee. Since then, the Tax Authorities have visited Calavo Mexico to continue the validation process and we believe will have a resolution in the next 2 - 3 months.

Once the Administrative Guaranty is ruled and accepted by the FTC and tax authority, they will permanently suspend and remove the liens on the fixed assets and bank accounts of CDM.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the Annulment Suit in the Tax Court, we also believe that it is in the best interest of CDM and the Company to settle the 2013 Assessment as quickly as possible. Furthermore, we believe that the above actions taken by CDM will encourage the SAT to agree to reach a settlement. In accordance with our cumulative probability analysis on uncertain tax positions, our recent settlements made by the SAT in other cases, the 2011 Assessment settlement reached by CDM with the MFM, and the value of CDM assets, we recorded a provision of \$11 million USD, in the third quarter of fiscal 2021, as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We believe that this provision remains appropriate as of July 31, 2022 based on our cumulative probability analysis. We incurred \$0.3 million and \$1.1 million of related professional fees for the three and nine months ended July 31, 2022, which have been recorded in Expenses related to Mexican Tax matters.

## **8. Fair value measurements**

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

The following table sets forth our financial assets and liabilities as of July 31, 2022 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(All amounts are presented in thousands)			
<b>Assets at Fair Value at July 31, 2022:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 21,251	—	—	\$ 21,251
Total assets at fair value	<u>\$ 21,251</u>	<u>—</u>	<u>—</u>	<u>\$ 21,251</u>
<b>Assets at Fair Value at October 31, 2021:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 27,055	—	—	\$ 27,055
Total assets at fair value	<u>\$ 27,055</u>	<u>—</u>	<u>—</u>	<u>\$ 27,055</u>

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company common stock. We currently own approximately 9% of Limoneira's outstanding common stock. These securities are measured at fair value using quoted market prices. For the three months ended July 31, 2022 and 2021, we recognized gains of \$1.2 million and losses of \$0.3 million, respectively, on the consolidated condensed statements of operations. For the nine months ended July 31, 2022 and 2021, we recognized losses of \$5.8 million and gains of \$6.8 million, respectively, on the consolidated condensed statement of operations.

## 9. Noncontrolling interest

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

<u>Avocados de Jalisco noncontrolling interest</u>	<u>Three months ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
Noncontrolling interest, beginning	\$ 1,166	\$ 1,385
Net income attributable to noncontrolling interest of Avocados de Jalisco	17	66
Noncontrolling interest, ending	<u>\$ 1,183</u>	<u>\$ 1,451</u>
<u>Avocados de Jalisco noncontrolling interest</u>	<u>Nine months ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
Noncontrolling interest, beginning	\$ 1,368	\$ 1,472
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(185)	(21)
Noncontrolling interest, ending	<u>\$ 1,183</u>	<u>\$ 1,451</u>

## 10. Earnings per share

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

	<u>Three months ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>Numerator:</b>		
Net income (loss) attributable to Calavo Growers, Inc.	\$ 1,300	\$ (12,981)
<b>Denominator:</b>		
Weighted average shares – Basic	17,667	17,630
Effect of dilutive securities – Restricted stock/units/options (1)	102	—
Weighted average shares – Diluted	<u>17,769</u>	<u>17,630</u>
<b>Net income (loss) per share attributable to Calavo Growers, Inc:</b>		
Basic	\$ 0.07	\$ (0.74)
Diluted	\$ 0.07	\$ (0.74)

	<u>Nine months ended July 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>Numerator:</b>		
Net Income (loss) attributable to Calavo Growers, Inc.	\$ (2,933)	\$ 1,137
<b>Denominator:</b>		
Weighted average shares - Basic	17,661	17,616
Effect on dilutive securities – Restricted stock/units/options (1)	—	53
Weighted average shares - Diluted	<u>17,661</u>	<u>17,669</u>
<b>Net income (loss) per share attributable to Calavo Growers, Inc:</b>		
Basic	\$ (0.17)	\$ 0.06
Diluted	\$ (0.17)	\$ 0.06

(1) For the nine months ended July 31 2022 approximately 65,000 shares of common stock equivalents were excluded in the computation of diluted net loss per share, as the effect would be anti-dilutive since the Company reported a net loss. For the three months ended July 31, 2021 approximately 52,000 share of common stock equivalents were excluded in the computation of dilated net loss per share, as the effect would be anti-dilutive since the Company reported a net loss.

## 11. Mexican IVA taxes receivable

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

As of July 31, 2022, and October 31, 2021, CDM IVA receivables totaled \$41.3 million (840.9 million Mexican pesos) and \$37.5 million (762.1 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2022, the tax authorities began objecting to refund requests and supporting documentation that had previously been deemed acceptable to process a refund. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances primarily through regular administrative processes, but these amounts may ultimately need to be recovered through Administrative Appeals and/or other legal means.

During the first quarter of fiscal 2017, the tax authorities informed us that their internal opinion, based on the information provided by the local SAT office, considers that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. CDM started an Administrative Appeal for the IVA related to the request of the months of July, August and September of 2015 (the “2015 Appeal”) in order to assert its argument that CDM is properly documented and to therefore change the SAT’s internal assessment. In August 2018, we received a favorable ruling from the SAT’s Legal Administration in Michoacan on the 2015 Appeal indicating that they believe CDM’s legal interpretation of its declared tax structure is indeed accurate. While favorable on this central matter of CDM’s declared tax structure, the ruling, however, still does not recognize the taxpayers right to a full refund for the IVA related to the months of July, August and September 2015. Therefore, in October 2018, CDM filed a substance-over-form Annulment Suit in the Federal Tax Court to recover its full refund for IVA over the subject period, which is currently pending resolution.

In April 2022, the Tax Court issued the ruling for the months of July, August and September 2015 through which it was declared that the following resolutions were resolved:

- It is recognized that CDM operates as a maquila under the authorization of the Ministry of Finance.
- It is recognized that all bank deposits corresponding to the purchase of avocados on behalf of Calavo Growers Inc. (CGI), are subject to the maquila program and it is not accruable income for purposes of Income Tax nor activities subject to VAT.

- It is recognized that VAT is recoverable, since CDM demonstrated the existence of operations carried under the maquila services.
- Resolved that certain VAT amounts attributed to the purchase of certain packing materials are not recoverable as CDM was not the buyer on record and therefore did not pay for the materials, which approximated \$6.9 million pesos (approximately \$0.3 million USD).

The court is still reviewing the appeal filed by the Company on May 9, 2022, against the ruling resolving that certain VAT amounts are not recoverable.

The latest court resolution sustains the Company's position that it is entitled to substantially all of its VAT amounts, and the Company is considering its options for collecting the entire VAT receivable. In the unlikely event of an unfavorable resolution of the Administrative Appeals, we plan to file Annulment Suits with the Mexican Federal Tax Court. If these suits result in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court. The estimated time for the resolution of these suits could be 2 – 3 years.

We believe that our operations in Mexico are properly documented, and our internationally recognized tax advisors believe that there are legal grounds to prevail in collecting the corresponding IVA amounts. With assistance from our internationally recognized tax advisory firm, as of July 31, 2022, CDM has filed Administrative Appeals for months for which IVA refunds have been denied by the SAT, and will continue filing such appeals for any months for which refunds are denied in the future. Therefore, it is probable that the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

## **12. Credit Facility**

On December 1, 2021, we entered into the Fourth and Fifth Amendments to the Credit Agreement with Bank of America, N.A., as administrative agent ("Bank of America"), and Farm Credit West, PCA (together with Bank of America, the "Lenders"), relating to our Credit Agreement dated as of June 14, 2016. The Fourth and Fifth Amendments, among other terms, included CDM as a guarantor, increased the interest rate by 0.5% and amended the financial covenant requirements as follows:

- The Fixed Charge Coverage Ratio (FCCR) covenant was waived for the quarters ended October 31, 2021, January 31, 2022 and April 30, 2022. The covenant was resumed for the quarter ended July 31, 2022.
- The quarterly FCCR covenant was replaced by a cumulative monthly minimum Consolidated EBITDA covenant, with the first measurement occurring as of January 31, 2022 for the three months then ended, and continuing monthly thereafter through June 2022.
- Consolidated financial statements must be submitted monthly for the month and year-to-date period, beginning with the financial statements for the month of November 2021 and continuing through June 2022.

The Company also pledged the 1,677,299 shares it holds of Limoneira stock as collateral (which was in addition to the general business assets of the Company that already secure the credit facility).

The above terms and conditions will remain in effect until such time as the Company has certified compliance with a 1.15 to 1.0 minimum FCCR for two consecutive fiscal quarters.

As of January 31, 2022, the Company was not in compliance with the cumulative monthly minimum Consolidated EBITDA covenant, and the Consolidated Leverage Ratio (CLR) covenant. In March 2022, the Company and the Lenders entered into the Sixth Amendment, Limited Waiver, and Limited Consent to Credit Agreement (the "Sixth

Amendment”). The Sixth Amendment, among other terms, waived the non-compliance of the financial covenants as of January 31, 2022 and amended the financial covenant requirements as follows:

- The cumulative monthly minimum Consolidated EBITDA testing has been waived and the CLR covenant testing is waived through July 31, 2022.
- Minimum Consolidated EBITDA of \$3 million, \$3 million and \$5 million for the months of February, March and April 2022 will be required.
- Monthly cumulative FCCR of 1.20 starting with the quarter ended April 30, 2022, converting to trailing 12 months calculation starting as of October 31, 2022 and quarterly thereafter. For April through September 2022, dividends paid in December 2021 are included on a pro-rata basis.

The interest rate of the facility increased to BSBY plus 3.0%, until the first business day of the month after we certify that no default or event of default exists for the period ended July 31, 2022, at which point the interest rate will range between BSBY plus 1.25 – 1.75% based on our CLR. The total facility reduced from \$100 million to \$80 million and will be limited to a borrowing base consisting of the sum of eligible accounts receivable (80%), eligible US inventory (50%), and Limoneira shares (60%), less grower payables.

As of July 31, 2022, we were in compliance with the financial covenants, and we expect to remain in compliance through September 2023. As of July 31, 2022, approximately \$16.8 million was available for borrowing, based on our borrowing base calculation discussed above.

### **13. COVID-19 Pandemic Impact**

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, changed certain purchasing norms in retail and foodservice channels and created significant volatility and disruption of financial markets. This has resulted in inflationary and cost pressures that have significantly increased, and continue to adversely impact, our production and distribution costs, including costs of raw materials, packaging, labor, and freight. We are also experiencing pressure in our supply chain due to strained transportation capacity and lack of sufficient labor availability. We believe, however, that we are well-positioned for the future as we continue to navigate the crisis and have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses, as well as those related to our Peru partner in consignment avocado sales.

The effects of the pandemic have been more pronounced in the portions of our business servicing foodservice customers and to a lesser extent certain segments of our retail business, including behind-the-glass deli and grab-and-go convenience items.

While many restrictions have since been lifted, the pace of the recovery from the COVID-19 pandemic is not presently known. Additionally, we cannot forecast future variants or the impact on our business of such variants, if any. We cannot reasonably estimate the duration or extent of the pandemic’s adverse impact on our business, operating results, and long-term liquidity position.

### **14. Closure of Florida facility**

On November 15, 2021, Prepared’s Green Cove Springs, Florida facility ceased operations. The Company’s Grown avocado operations at this facility will continue and are not affected. Prepared will continue to serve customers of this location from its other food processing locations, primarily in Georgia.

The closure resulted in a reduction of 140 employees, impairment of leasehold improvements, writedowns of inventory and other assets, and certain cash expenditures for the relocation of machinery and equipment and the closure of the leased facilities. During the fourth quarter of fiscal 2021, we wrote down \$8.7 million of leasehold improvements, \$0.1 million of equipment, and \$0.6 million of inventory (recognized through cost of goods sold). We also paid \$0.4 million in employee severance. The impairment related to the Prepared Florida closure has been recorded on the

consolidated statement of operations under “Impairment and charges related to Florida facility closure”. There were no impairments charges related to the Prepared Florida facility closure during the three and nine months ended July 31, 2022.

As of July 31, 2022 and October 31, 2021, the Company had right of use assets with a net book value of \$4.1 million and \$4.8 million respectively, and lease liabilities of \$5.3 million and \$6.0 million, respectively, recorded on the balance sheet related to the closed facility. The facility lease has a maturity date of October 31, 2031. The Company intends to seek a sub-lease tenant to assume the vacated space, and believes such a sub-lease can be obtained at a lease rate, and for a lease period, sufficient to realize the right of use asset. Management will continue to evaluate the actual amounts and duration of expected future sub-lease revenues. Should the actual sub-lease revenues be less than those currently expected, the Company may need to record impairment of some or all its investment in the right of use asset.

During the nine months ended July 31, 2022, we incurred \$1.0 million of incremental restructuring and related costs due to the transition to other facilities.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the fiscal year ended October 31, 2021 of Calavo Growers, Inc. ("we", "Calavo", or the "Company").

### ***Recent Developments***

#### *Change in Reporting Segments*

On April 13, 2022, we issued a press release announcing our plans to reorganize the business into two reporting segments, Grown and Prepared. The management transition to operate as Grown and Prepared began at the start of the third quarter of 2022. The Grown segment consists of fresh avocados, tomatoes and papayas. The Prepared segment comprises all other products including fresh cut fruits and vegetables, ready-to-eat sandwiches, wraps, salads and snacks, guacamole, and salsa sold at retail and food-service as well as avocado pulp sold to foodservice. These two business segments are presented based on how information is used by our Chief Executive Officer (as our chief operating decision maker) to measure performance and allocate resources. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them, to our operating segments. Prior year information has been recast to conform with the new segment presentation.

#### *COVID-19 Pandemic Impact*

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, changed certain purchasing norms in retail and foodservice channels and created significant volatility and disruption of financial markets. This has resulted in inflationary and cost pressures that have significantly increased, and continue to adversely impact, our production and distribution costs, including costs of raw materials, packaging, labor, and freight. We are also experiencing pressure in our supply chain due to strained transportation capacity and lack of sufficient labor availability. We believe that we are well-positioned for the future as we continue to navigate the crisis and have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales.

The effects of the pandemic have been more pronounced in the portions of our business servicing foodservice customers and to a lesser extent certain segments of our retail business, including behind-the-glass deli and grab-and-go convenience items.

While many of such restrictions have since been lifted, the pace of the recovery from the COVID-19 pandemic is not presently known. Additionally, we cannot forecast future variants or the impact on our business of such variants, if any. We cannot reasonably estimate the duration or extent of the pandemic's adverse impact on our business, operating results, and long-term liquidity position.

#### *COVID-19 Recovery Economic Impact*

The recovery from the COVID-19 pandemic and the current economic climate is increasing labor costs, commodity costs and logistical costs. We are experiencing operational challenges that impact our production facilities and our logistics network; the impact of prices for petroleum-based products, packaging materials and commodity costs; and the availability of sufficient labor is increasing costs company-wide.

In response to the inflationary costs described above, we notified customers of our plans to institute price increases for our Prepared products. Management believes the price increases will largely be accepted by our customers without significant loss of sales, will reverse the margin compression experienced by Prepared segment during the pandemic, and will enable us to continue to invest in initiatives that drive growth.

#### *Dividend payment*

On December 3, 2021, we paid a \$1.15 per share dividend in the aggregate amount of \$20.3 million to shareholders of record on November 12, 2021.

#### *Litigation*

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

#### *Project Uno*

During the third quarter of 2021, the Company launched Project Uno, a strategic set of initiatives that seeks to identify areas of operating efficiencies and cost savings to expand profit margins, cash flow and return on invested capital. We have undertaken multiple productivity and transformation initiatives, including (1) closure of the Prepared Florida plant and transfer of its viable operations into Prepared Georgia, (2) implementing broader supply chain operational improvements, (3) integrating our commercial, logistics, IT, procurement and accounting functions across the three divisions, (4) product rationalization initiatives which are aimed at eliminating unprofitable or slow moving SKUs and (5) outsourcing certain functions in our North American business to third-party service providers and the associated implementation of new procurement technology solutions. The Company continues to carry out the existing productivity initiatives as well as additional initiatives under this strategy.

#### *Mexico tax audits*

In January 2017, we received preliminary observations from the Servicio de Administracion Tributaria in Mexico (the "SAT") related to an audit for fiscal year 2013 outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and IVA. We provided a written rebuttal to these preliminary observations during our second fiscal quarter of 2017.

On February 4, 2022, we had a follow-up meeting with the SAT in Mexico City to begin a dialog with the objective of reaching a settlement of the 2013 Assessment. The SAT agreed in principle to continue this dialog, but requested that we provide a financial guaranty to secure the related tax as a pre-requisite to these discussions.

On February 25, 2022, we filed an additional injunction in which we seek to have the liens against the bank accounts of CDM lifted. The injunction suit has been accepted by the court and we are expecting a response within the next 2 - 3 months. The main purpose of the injunction suit was to challenge the SAT's response issued to the Reconsideration, and with that, to keep the Reconsideration alive until the injunction suit is decided. This would allow time to continue the discussions with SAT at the administrative level and would give SAT the legal basis to issue a new resolution. This injunction suit represents a further opportunity for a Court of Law to analyze this matter from a constitutional perspective.

The injunction suit has been admitted for analysis by the District Court, however, SAT filed a complaint (queja) against the ruling allowing CDM to file an extension of the injunction suit aiming to appoint as a defendant other than SAT's authority that were involved in the reconsideration appeal's resolution. This complaint was filed by SAT to challenge the admission and analysis of the injunction suit; this complaint is expected to be decided by the Circuit Courts within the next couple of months.



On March 4, 2022, the Annulment Suit was formally accepted by the Federal Tax Court, which simultaneously granted a provisional suspension of the collections proceedings by the SAT. The acceptance by the court of the Annulment Suit renders the 2013 Assessment as non-definitive, until such time as the suit is resolved.

On March 10, 2022, we met with the SAT and offered an Administrative Guaranty (*Embargo en Via Administrativa*) to secure the 2013 Assessment, which provides the SAT with certain administrative rights to CDM assets in the unlikely event we do not prevail in our actions through the Federal Tax Court (see below). Once the Administrative Guaranty is in place, the existing liens over the assets of CDM will be removed and the SAT collection process will be suspended.

On April 27, 2022, the SAT provided a Positive Compliance Opinion to CDM, and consequently on April 29, 2022, the Tax Authority renewed the VAT Certification to CDM. These two resolutions signal a positive development on the Tax controversies in Mexico.

On April 29, 2022, we submitted all the documentation required to the Tax Authority and the Federal Tax Court to continue with the consideration of the Administrative Guaranty.

On June 16, 2022 we received a request from the Tax Authorities to provide information related to the Administrative Guaranty. The information was presented on July 7, 2022, and on August 2, 2022. On August 8, 2022, we met with Tax Authorities in Mexico City to review the information presented and agreed to next steps on the approval of the Guarantee. Since then, the Tax Authorities have visited Calavo Mexico to continue the validation process and we believe will have a resolution in the next 2 - 3 months.

Once the Administrative Guaranty is ruled and accepted by the FTC and tax authority, they will permanently suspend and remove the liens on the fixed assets and bank accounts of CDM.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the Annulment Suit in the Tax Court, we also believe it is in the best interest of CDM and the Company to settle the 2013 Assessment as quickly as possible. Furthermore, we believe that the above actions taken by CDM will encourage the SAT to agree to reach a settlement. In accordance with our cumulative probability analysis, based on factors such as recent settlements made by the SAT in other cases, the 2011 Assessment settlement reached by CDM with the MFM, and the value of CDM assets, we recorded a provision of \$11 million USD, in the third quarter of fiscal 2021, as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We believe that this provision remains appropriate as of July 31, 2022 based on our cumulative probability analysis. We incurred \$0.3 million and \$1.1 million of related professional fees for the three and nine months ended July 31, 2022, which have been recorded in Expenses related to Mexican Tax matters.

#### *Mexican IVA taxes receivable*

Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2022, the tax authorities began objecting to refund requests and supporting documentation that had previously been deemed acceptable to process a refund. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances primarily through regular administrative processes, but these amounts may ultimately need to be recovered through Administrative Appeals and/or legal means.

In April 2022, the Tax Court issued the ruling for the months of July, August and September 2015 through which it was declared that the following resolutions were resolved:

- It is recognized that CDM operates as a maquila under the authorization of the Ministry of Finance.
- It is recognized that all bank deposits corresponding to the purchase of avocados on behalf of Calavo Growers Inc. (CGI), are subject to the maquila program and it is not accruable income for purposes of Income Tax nor activities subject to VAT.

- It is recognized that VAT is recoverable, since CDM demonstrated the existence of operations carried under the maquila services.
- Resolved that certain VAT amounts attributed to the purchase of certain packing materials are not recoverable as CDM was not the buyer on record and therefore did not pay for the materials, which approximated \$6.9 million pesos (approximately \$0.3 million USD).

The court is still reviewing the appeal filed by the Company on May 9, 2022, against the ruling resolving that certain VAT amounts are not recoverable.

The latest court resolution sustains the Company's position that it is entitled to substantially all of its VAT amounts, and the Company is considering its options for collecting the entire VAT receivable. In the unlikely event of an unfavorable resolution of the Administrative Appeals, we plan to file Annulment Suits with the Mexican Federal Tax Court. If these suits result in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court. The estimated time for the resolution of these suits could be 2 – 3 years.

We believe that our operations in Mexico are properly documented, and our internationally recognized tax advisors believe that there are legal grounds to prevail in collecting the corresponding IVA amounts. With assistance from our internationally recognized tax advisory firm, as of July 31, 2022, CDM has filed Administrative Appeals for months for which IVA refunds have been denied by the SAT, and will continue filing such appeals for any months for which refunds are denied in the future. Therefore, it is probable that the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

#### *Closure of Florida facility*

On November 15, 2021, Prepared's Green Cove Springs, Florida facility ceased operations. Our Grown avocado operations at this facility will continue in operation and are not affected. Prepared will continue to serve customers of this location from our other food processing locations, primarily in Georgia.

The closure resulted in a reduction of 140 employees, impairment of leasehold improvements, writedowns of inventory and other assets, and certain cash expenditures for the relocation of machinery and equipment and the closure of the leased facilities. During the fourth quarter of fiscal 2021, we wrote down \$8.7 million of leasehold improvements, \$0.1 million of equipment, and \$0.6 million of inventory (recognized through cost of goods sold). We also paid \$0.4 million in employee severance. The impairment related to the Florida closure has been recorded on the consolidated statement of operations under "Impairment and charges related to Florida facility closure". There were no impairments charges related to the Prepared Florida facility closure during the three and nine months ended July 31, 2022.

As of July 31, 2022 and October 31, 2021, we had right of use assets with a net book value of \$4.1 million and \$4.8 million respectively, and lease liabilities of \$5.3 million and \$6.0 million, respectively, recorded on the balance sheet related to the closed facility. The facility lease has a maturity date of October 31, 2031. We intend to seek a sub-lease tenant to assume the vacated space, and we believe such a sub-lease can be obtained at a lease rate and for a lease period sufficient to realize the right of use asset. We will continue to evaluate the actual amounts and duration of expected future sub-lease revenues. Should the actual sub-lease revenues be less than those currently expected, we may need to record impairment of some or all of our investment in the right of use asset.

During the nine months ended July 31, 2022, we incurred \$1.0 million of incremental restructuring and related costs due to the transition to other facilities.

#### **Critical Accounting Estimates**

In preparing our financial statements in accordance with GAAP, we are required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, and costs and expenses that are reported in the financial statements and accompanying disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based

on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates and assumptions. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Other than the change in operating segment realignment described below, there have been no material changes in our critical accounting estimates during the three and nine months ended July 31, 2022, as compared to those disclosed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our Annual Report on Form 10-K for our fiscal year ended October 31, 2021.

As a result of the Company's operating segment realignment, the composition of its reporting units for the evaluation of goodwill impairment was changed. RFG reporting unit goodwill is now included within the Prepared reporting unit. Therefore, the goodwill of \$24.7 million, which was previously recorded within the RFG reporting unit, is now within Prepared and \$4.0 million in Grown remained unchanged. Prior to the change in its reporting unit, the Company tested goodwill for impairment at the previous reporting unit, which did not result in any impairment charge.

### **Non-GAAP Financial Measures**

The below tables include non-GAAP measures EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted EPS, which are not prepared in accordance with U.S. generally accepted accounting principles, or “GAAP.”

EBITDA is defined as net income (loss) attributable to Calavo Growers, Inc. excluding (1) interest income and expense, (2) income taxes (benefit) provision, (3) depreciation and amortization and (4) stock-based compensation expense. Adjusted EBITDA is EBITDA with further adjustments for (1) non-cash net losses recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring-related costs, including certain severance costs, (6) certain litigation and other related costs, and (7) one-time items. Adjusted EBITDA is a primary metric by which management evaluates the operating performance of the business, on which certain operating expenditures and internal budgets are based and by which, in addition to other factors, the Company’s senior management is compensated. The adjustments to calculate EBITDA and adjusted EBITDA are items recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded.

Adjusted net income is defined as net income (loss) attributable to Calavo Growers, Inc. excluding (1) non-cash net losses recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring-related costs, including certain severance costs, (6) certain litigation and other related costs, and (7) one-time items. Adjusted net income and the related measure of adjusted diluted EPS exclude certain items that are recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded. We believe adjusted net income affords investors a different view of the overall financial performance of the Company than adjusted EBITDA and the GAAP measure of net income (loss) attributable to Calavo Growers, Inc.

Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures are provided in the financial tables below.

Items are considered one-time in nature if they are non-recurring, infrequent or unusual and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. One-time items are identified in the notes to the reconciliations in the financial tables below.

Non-GAAP information should be considered as supplemental in nature and not as a substitute for, or superior to, any measure of performance prepared in accordance with GAAP. None of these metrics are presented as measures of liquidity. The way the Company measures EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted EPS may not be comparable to similarly titled measures presented by other companies and may not be identical to corresponding measures used in Company agreements.

### Adjusted Net Income (Non-GAAP, Unaudited)

The following table presents adjusted net income and adjusted diluted EPS, each a non-GAAP measure, and reconciles them to net income (loss) attributable to Calavo Growers, Inc., and diluted EPS, which are the most directly comparable GAAP measures. See “Non-GAAP Financial Measures” above (in thousands, except per share amounts).

	Three months ended July 31,		Nine month ended July 31,	
	2022	2021	2022	2021
Net income (loss) attributable to Calavo Growers, Inc.	\$ 1,300	\$ (12,981)	\$ (2,933)	\$ 1,137
Non-GAAP adjustments:				
Non-cash losses recognized from unconsolidated entities (a)	269	469	812	1,755
Recovery from FreshRealm and other related expenses (b)	580	(6,000)	580	(5,989)
Acquisition costs (c)	—	—	—	262
Net (gain) loss on Limoneira shares (d)	(1,225)	252	5,803	(6,843)
Rent expense add back (e)	108	108	324	324
Restructure costs - consulting, management recruiting and severance (f)	1,198	125	4,473	810
Mexican tax matters (g)	789	13,815	1,634	13,815
Impairment and charges related to closure of Florida facility (h)	—	—	959	—
Tax impact of adjustments (i)	(163)	1,168	(3,380)	2,332
Adjusted net income (loss) attributed to Calavo Growers, Inc.	\$ 2,856	\$ (3,044)	\$ 8,272	\$ 7,603
Calavo Growers, Inc.’s net income (loss) per share:				
Diluted EPS (GAAP)	\$ 0.07	\$ (0.74)	\$ (0.17)	\$ 0.06
Adjusted Diluted EPS	\$ 0.16	\$ (0.17)	\$ 0.47	\$ 0.43
Number of shares used in per share computation:				
Diluted	17,769	17,630	17,726	17,669

- (a) For the three months ended July 31, 2022 and 2021, we realized losses from Agricola Don Memo totaling \$0.3 million and \$0.5 million. For the nine months ended July 31, 2022 and 2021, we realized losses from Agricola Don Memo totaling less than \$0.8 million and \$1.8 million.
- (b) In July 2021, as part of the FreshRealm Separation Agreement, FreshRealm paid Calavo the Loan Payoff Amount of \$6.0 million, and we recorded the receipt on the statement of operations as a recovery of the reserve for collectability of the FreshRealm note receivable. For the three and nine months ended July 31, 2022, we recognized a return to provision discrete tax expense of \$0.6 million due to the finalization of the tax treatment of the loss related to the previously recorded impairment of the investment in FreshRealm.
- (c) For the nine months ended July 31, 2021, we incurred professional service costs related to a considered but non-consummated acquisition.
- (d) For the three months ended July 31, 2022 and 2021, we recorded \$1.2 million in unrealized gains and \$0.3 million in unrealized losses related to these mark-to-market adjustments, respectively. For the nine months ended July 31, 2022 and 2021, we recorded \$5.8 million in unrealized losses and \$6.8 million in unrealized gains related to these mark-to-market adjustments, respectively.
- (e) For the three months ended July 31, 2022 and 2021, we incurred \$0.1 million related to rent paid for Prepared’s former corporate office space that we have vacated and plan to sublease. For the nine months ended July 31, 2022 and 2021, we incurred \$0.3 million related to rent paid for this same office space.
- (f) For the three and nine months ended July 31, 2022, we recorded \$1.2 million and \$4.5 million of consulting expenses related to an enterprise-wide strategic business review conducted for the purpose of restructuring to improve the profitability of the organization and efficiency of our operations. In addition, for the nine months ended July 31, 2022, we recorded \$1.4 million of severance accrual related to the restructuring. For the nine months ended July 31, 2021, we recorded higher stock-based compensation for the early vesting of restricted stock for the retirement of our former Chief Executive Officer and Board member.

- (g) For the three and nine months ended July 31, 2022, we incurred \$0.3 million and \$1.1 million of professional fees related to the Mexican tax matters. For the three and nine months ended July 31, 2021, we recognized a return to provision discrete tax expense of \$0.5 million due to the finalization of the tax treatment for the final settlement of the 2011 Assessment (see below). See Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

In June 2021, we paid \$2.4 million in full settlement of the 2011 Assessment. Of this amount, \$1.5 million has been recorded as a discrete item in the Income Tax Provision and \$0.9 million is related to Value Added Tax expense and recorded as expenses related to the Mexican tax matters. An additional \$0.3 million of related professional fees have also been recorded as expenses related to the Mexican tax matters.

In July 2021, based on our evaluation of the most probable outcomes of the 2013 Assessment, we recorded an accrual of \$11 million in the financial statements as a discrete item in Income Tax Provision. An additional \$0.1 million of related professional fees have also been recorded as expenses related to the Mexican tax matters.

- (h) On October 18, 2021, we announced the closure of RFG's (Prepared's) food processing operations at our Green Cove Springs (near Jacksonville), Florida facility, as part of our Project Uno profit improvement program. As of November 15, Prepared's Green Cove Springs facility has ceased operations. We incurred \$1.0 million of expenses for the nine months ended July 31, 2022, related to the closure of this facility.
- (i) Tax impact of non-GAAP adjustments are based on effective year-to-date tax rates.

***Reconciliation of EBITDA and Adjusted EBITDA (Non-GAAP, Unaudited)***

The following table presents EBITDA and adjusted EBITDA, each a non-GAAP measure, and reconciles them to net income (loss) attributable to Calavo Growers, Inc., which is the most directly comparable GAAP measure. See "Non-GAAP Financial Measures" above (in thousands, except per share amounts).

	<u>Three months ended July 31,</u>		<u>Nine months ended July 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net income (loss) attributable to Calavo Growers, Inc.	\$ 1,300	\$ (12,981)	\$ (2,933)	\$ 1,137
Interest Income	(136)	31	(402)	(58)
Interest Expense	485	208	1,272	573
Provision for Income Taxes	984	12,358	(363)	17,073
Depreciation & Amortization	4,067	4,554	12,472	12,925
Stock-Based Compensation	754	554	2,123	2,818
EBITDA	\$ 7,454	\$ 4,724	\$ 12,169	\$ 34,468
<b>Adjustments:</b>				
Non-cash losses recognized from unconsolidated entities (a)	269	469	812	1,755
Net (gain) loss on Limoneira shares (d)	(1,225)	252	5,803	(6,843)
Recovery from FreshRealm and other related expenses (b)	—	(6,000)	—	(5,989)
Rent expense add back (e)	108	108	324	324
Acquisition costs (c)	—	—	—	262
Restructure costs - consulting and management recruiting and severance (f)	1,198	125	4,335	125
Expenses related to Mexican tax matters (g)	303	1,342	1,148	1,342
Impairment and charges related to closure of Florida facility (h)	—	—	929	—
Adjusted EBITDA	\$ 8,107	\$ 1,020	\$ 25,520	\$ 25,444
Adjusted EBITDA per dilutive share	\$ 0.46	\$ 0.06	\$ 1.44	\$ 1.44

See prior page for footnote references

**Net Sales**

The following table summarizes our net sales by business segment for each of the three and nine months ended July 31, 2022 and 2021:

	Three months ended July 31,			Nine months ended July 31,		
	2022	Change	2021	2022	Change	2021
<b>Gross sales:</b>						
Grown	\$ 207,589	28 %	\$ 161,580	\$ 581,171	32 %	\$ 438,725
Prepared	134,872	9 %	124,100	367,889	6 %	345,597
Less intercompany eliminations	(470)	(30)%	(672)	(1,559)	(19)%	(1,915)
Total net sales	<u>\$ 341,991</u>	<u>20 %</u>	<u>\$ 285,008</u>	<u>\$ 947,501</u>	<u>21 %</u>	<u>\$ 782,407</u>
<b>As a percentage of sales:</b>						
Grown	60.6 %		56.6 %	61.2 %		55.9 %
Prepared	39.4 %		43.4 %	38.8 %		44.1 %
	<u>100.0 %</u>		<u>100.0 %</u>	<u>100.0 %</u>		<u>100.0 %</u>

**Results of Operations**

*Summary*

Net sales for the three months ended July 31, 2022, compared to the corresponding period in fiscal 2021, increased by \$57.0 million, or approximately 20%. This increase was across both segments. Net sales for the nine months ended July 31, 2022, compared to the corresponding period in fiscal 2021, increased by \$165.1 million, or approximately 21%. The increase was primarily due to our Grown products segment.

For the three and nine months ended July 31, 2022, the increase in Grown product sales was primarily due to an increase in price per unit of avocados offset by lower sales volume resulting from industry-wide constraints of fruit available for purchase in Mexico. For the three and nine months ended July 31, 2022, the increase in Prepared product sales was due primarily to increased per unit sales prices of fresh-cut fruit & vegetables and prepared foods products.

Our Grown and Prepared segments of our business are subject to seasonal trends which can impact the volume and/or quality of raw materials sourced in any particular quarter. All intercompany sales are eliminated in our consolidated results of operations.

As of the end of the third quarter of fiscal 2022, we have begun importing avocados into the United States from our subsidiary Avocados de Jalisco. We expect this volume to increase in the fourth quarter of fiscal 2022.

*Grown products*

Third Quarter 2022 vs. Third Quarter 2021

Net sales for the Grown products business increased by approximately \$46.0 million, or 28%, for the third quarter of fiscal 2022 compared to the corresponding period in fiscal 2021. This increase in Grown product sales during the third quarter of fiscal 2022 was primarily related to increased sales prices of avocados due to lower overall supply of avocados in the marketplace. Partially offsetting this increase, tomato sales decreased due to a decrease in overall sales volume.

Sales of avocados increased \$48.4 million, or 33%, for the third quarter of 2022 compared to the prior year period. The average avocado sales price per carton increased 63% compared to the prior year period. This increase in the sales price per carton was mainly due to an industry-wide decrease of supply of avocados in the marketplace. The volume of avocados sold in the third quarter of 2022 decreased 19% compared to the prior year period, which is slightly better than the decrease of avocados imported from Mexico into the United States for the same period.

Sales of tomatoes decreased \$2.4 million, or 21%, for the third quarter of 2022, when compared to the prior year period. This decrease in tomato sales was primarily due to a 24% decrease in the cartons sold of tomatoes.

Nine Months Ended July 31, 2022 vs. Nine Months Ended July 31, 2021

Net sales for the Grown products business increased by approximately \$142.4 million, or 32%, for the nine months ended July 31, 2022, compared to the corresponding period in fiscal 2021. This increase in Grown product sales during the nine months ended July 31, 2022, was primarily related to increased sales prices of avocados associated with lower overall supply of avocados in the marketplace. In addition, tomato sales increased due to an increase in overall sales volume, partially offset by a decrease in sales prices.

Sales of avocados increased \$140.2 million, or 35%, for the nine months ended July 31, 2022, compared to the prior year period. The average avocado sales price per carton increased 58% compared to the prior year period. This increase in the sales price per carton was mainly due to a decrease of supply of avocados in the marketplace. The volume of avocados sold in the nine months ended July 31, 2022, decreased 14% compared to the prior year period.

Sales of tomatoes increased \$2.4 million, or 7%, for the nine months ended July 31, 2022, when compared to the prior year period. This increase in tomato sales was primarily due to a 9% increase in the cartons sold of tomatoes, partially offset by a 2% decrease in average sales prices per carton.

*Prepared products*

Third Quarter 2022 vs. Third Quarter 2021

Net sales for the Prepared products business increased by approximately \$11.2 million, or 9%, for the three months ended July 31, 2022 compared to the corresponding period in fiscal 2021. This increase in Prepared product sales during the three months ended July 31, 2022 was primarily related to increased sales prices of fresh-cut fruit & vegetables and prepared foods products. Partially offsetting these increases was a decrease in sales of prepared avocado products due to overall lower sales volume, offset by higher sales prices.

Net sales for fresh-cut fruit & vegetables and prepared foods products increased \$13.0 million, or 13%, for the quarter ended July 31, 2022 compared to the corresponding period in fiscal 2021. This increase was primarily driven by price increases of 20% as well as a favorable product mix, partially offset by an 8% decrease in sales volumes.

Net sales for prepared avocado products decreased \$1.8 million, or 9%, for the quarter ended July 31, 2022 compared to the corresponding period in fiscal 2021, primarily due to a decrease in the total volume of pounds sold.

Nine Months Ended July 31, 2022 vs. Nine Months Ended July 31, 2021

Net sales for the Prepared products business increased by approximately \$22.1 million, or 6%, for the nine months ended July 31, 2022 compared to the corresponding period in fiscal 2021. This increase in Prepared product sales during the nine months ended July 31, 2022 was primarily related to increased sales prices of fresh-cut fruit & vegetables and prepared foods products. Partially offsetting these increases was a decrease in sales of prepared avocado products due to overall lower sales volume.

Net sales for fresh-cut fruit & vegetables and prepared foods products for the nine months ended July 31, 2022 compared to the corresponding period in fiscal 2021 increased \$24.3 million, or 8%. This increase primarily reflects price increases of 14% as well as a favorable product mix, partially offset by a 5% decrease in sales volumes.

Net sales for prepared avocado products for the nine months ended July 31, 2022 compared to the corresponding period in fiscal 2021 decreased \$1.4 million, or 3%, primarily due to a decrease in the total volume sold.

**Gross Profit**

The following table summarizes our gross profit and gross profit percentages by business segment for the three and nine months ended July 31, 2022 and 2021:

	Three months ended July 31,			Nine months ended July 31,		
	2022	Change	2021	2022	Change	2021
<b>Gross profit (loss):</b>						
Grown	\$ 11,771	(4)%	\$ 12,202	\$ 41,594	3 %	\$ 40,355
Prepared	6,743	256 %	(4,335)	11,890	50 %	7,951
Total gross profit	<u>\$ 18,514</u>	135 %	<u>\$ 7,867</u>	<u>\$ 53,484</u>	11 %	<u>\$ 48,306</u>
<b>Gross profit (loss) percentages:</b>						
Grown	5.7 %		7.6 %	7.2 %		9.2 %
Prepared	5.0 %		(3.5)%	3.2 %		2.3 %
Consolidated	5.4 %		2.8 %	5.6 %		6.2 %

*Summary*

Our cost of goods sold consists predominantly of ingredient costs (fruit, vegetables and other food products), packing materials, freight and handling, labor and overhead (including depreciation) associated with packing, distributing and/or preparing food products, and other direct expenses pertaining to products sold.

Gross profit increased by approximately \$10.6 million, or 135%, for the third quarter of fiscal 2022 compared to the corresponding period in fiscal 2021. The increase was primarily attributable to gross profit increases in the Prepared segment. Gross profit increased by approximately \$5.2 million, or 11%, for the nine months ended July 31, 2022 compared to the corresponding period in fiscal 2021. The increase reflects gross profit increases across both the Prepared and Grown segments.

*Grown products*

The decrease in our Grown products gross profit for the quarter ended July 31, 2022 was the result of decreased gross profit for tomatoes, papayas and negative currency impact. Overall gross profit increased for avocados, along with an increase in gross profit per carton, while the overall gross profit percentage decreased. For the third quarter of fiscal 2022, the gross profit percentage for avocados was 5.9% compared to 7.5% for the third quarter of 2021. The decrease in gross profit percentage was largely a formulaic result as the dramatic increase in sales prices for avocados was proportionately greater than the increase in gross profit per case.

Gross profit for the quarter was also affected by the weakening of the U.S. dollar in relation to the Mexican peso during the quarter, resulting in a \$0.4 million net loss related the remeasurement of peso-dominated net assets at our Mexican subsidiaries. This is in comparison to a remeasurement gain of \$0.5 million for the same period last year.

The increase in our Grown products gross profit for the nine months ended July 31, 2022 was the result of increased gross profit for avocados, including an increase on gross profit per carton. Overall gross profit increased for avocados, while the overall gross profit percentage decreased. For the nine months ended July 31, 2022 the gross profit percentage for avocados was 7.2% compared to 9.2% for the nine months ended July 31, 2021. The decrease in gross profit percentage was largely a formulaic result as the dramatic increase in sales prices for avocados was proportionately greater than the increase in gross profit per case.

Gross profit for the nine months ended July 31, 2022 was also affected by the weakening of the U.S. dollar in relation to the Mexican peso, resulting in a \$1.3 million net loss related to the remeasurement of peso-dominated net assets at our Mexican subsidiaries. This is in comparison to a remeasurement gain of \$1.1 million for the same period last year.



Note that any additional significant fluctuations in the exchange rate between the U.S. dollar and the Mexican peso may have a material impact on future gross profits for our Grown products segment.

*Prepared products*

The increase in our Prepared products gross profit for the three and nine months ended July 31, 2022 was the result of increased gross profit for fresh-cut fruit & vegetables and prepared foods, partially offset by decreases in gross profit from prepared avocado products.

Fresh-cut fruit & vegetables and prepared foods products gross profit percentages for the three and nine months ended July 31, 2022 were 7.7% and 3.4%, compared to losses of 5.4% and 1.1% for the same prior year periods. The increases in gross profit for the three and nine months ended July 31, 2022 were mainly due to increased sales prices and a reduction in distribution expenses, an increase in product yield and labor productivity, and a reduction in costs related to the consolidation of operations in our Green Cove Springs, Florida facility into our Georgia facility.

Prepared avocado products gross loss percentage for the three months ended July 31, 2022 was 11.5%, compared to a gross profit of 6% for the prior year period. Prepared avocado products gross profit percentage for the nine months ended July 31, 2022 was 3.3% compared to a gross profit of 20.0% for the prior year period. The decreases in Prepared avocado products gross profit were due primarily to higher raw product fruit costs associated with the same shortage of supply that drove our whole avocado prices to historically high levels and increased manufacturing costs. Any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. dollar and the Mexican peso may have a material impact on future gross profit for our Prepared segment.

Management has considered the impact of current operating results as well as expected future results and has concluded that there were no impairment indicators regarding intangible assets carried on the balance sheet as of July 31, 2022. This is consistent with the Company's previous assessments which reflected a significant cushion between the Company's fair value determinations and the recorded carrying values of the respective intangible assets. Management will continue to evaluate the impact of operating results on these considerations in future quarters.

*Selling, General and Administrative*

	Three months ended July 31,			Nine months ended July 31,		
	2022	Change	2021	2022	Change	2021
	(Dollars in thousands)			(Dollars in thousands)		
Selling, general and administrative	\$ 16,713	35 %	\$ 12,387	\$ 48,566	20 %	\$ 40,374
Percentage of net sales	4.9 %		4.3 %	5.1 %		5.2 %

Selling, general and administrative expenses of \$16.7 million for the three months ended July 31, 2022 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased by \$4.3 million, or 35%, for the three months ended July 31, 2022 compared to the prior year period. This increase was primarily due to an increase in consulting services and recruiting fees related to restructuring efforts (\$1.3 million), an increase due to certain costs (\$1.7 million) being recategorized as cost of goods sold in the prior year, an increase in bonus accruals related to our new bonus plan (\$0.8 million), an increase in salaries and benefits (\$0.3 million) and an increase in stock-based compensation (\$0.2 million).

Selling, general and administrative expenses of \$48.6 million for the nine months ended July 31, 2022 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased by \$8.2 million, or 20%, for the nine months ended July 31, 2022 compared to the prior year period. This increase was primarily due to an increase in consulting services related to restructuring efforts (\$2.8 million), an increase in management restructuring costs that include recruiting fees and severance (\$1.8 million), and an increase in salaries primarily related to the investment in key personnel to advance Project Uno (\$1.3 million).

**Loss from unconsolidated entities**

	<u>Three months ended July 31,</u>			<u>Nine months ended July 31,</u>		
	<u>2022</u>	<u>Change</u>	<u>2021</u>	<u>2022</u>	<u>Change</u>	<u>2021</u>
	<u>(Dollars in thousands)</u>			<u>(Dollars in thousands)</u>		
Loss from unconsolidated entities	\$ (269)	(43)%	\$ (469)	\$ (812)	(54)%	\$ (1,755)

Losses from unconsolidated entities includes our participation in earnings or losses from our investments in Don Memo. For the three months ended July 31, 2022 and 2021 we realized losses from Agricola Don Memo totaling \$0.3 million and \$0.5 million. For the nine months ended July 31, 2022 and 2021 we realized losses from Agricola Don Memo totaling less than \$0.8 million and \$1.8 million.

**Income Taxes Benefit (Provision)**

	<u>Three months ended July 31,</u>			<u>Nine months ended July 31,</u>		
	<u>2022</u>	<u>Change</u>	<u>2021</u>	<u>2022</u>	<u>Change</u>	<u>2021</u>
Income tax benefit (provision)	\$ (984)	(92)%	\$ (12,358)	\$ 363	(102)	\$ (17,073)
Effective tax rate	42.8 %		(2,218.7)%	10.4 %		93.9 %

Our tax provision is determined using an estimated annual effective tax rate and is adjusted for discrete taxable events that may occur during the quarter. In the third quarter of fiscal 2022, we incurred return to provision discrete taxable items in the amount of \$1.4 million. These discrete items were primarily related to rate differentials related to our carryback losses from prior years and the lack of deductibility of certain Mexican tax expenses.

**Liquidity and Capital Resources**

Cash provided by operating activities was \$42.2 million for the nine months ended July 31, 2022, compared to cash provided by operating activities of \$12.4 million for the corresponding period in fiscal 2021. Cash provided by operating activities for the nine months ended July 31, 2022 reflect primarily our net loss of \$3.1 million, plus add-backs for non-cash activities (depreciation and amortization, stock-based compensation expense, provision for losses on accounts receivable, losses from unconsolidated entities, net gains or losses on Limoneira shares, loss on disposal of property, plant and equipment, impairment related to closure of Prepared's Florida facility and gain on the sale of the Temecula packinghouse) of \$21.4 million and net cash generating improvements in the components of our working capital of approximately \$23.9 million.

Increases in operating cash flows caused by working capital changes include an increase in payable to growers of \$12.7 million, a net increase in accounts payable, accrued expenses and other liabilities of \$11.4 million, a decrease in inventory of \$4.6 million, a decrease in income taxes receivable of \$3.0 million, and a decrease in accounts receivable of \$0.4 million, partially offset by an increase in advances to suppliers of \$4.9 million and an increase in other assets of \$3.2 million

The increase in payable to growers is mostly due to increased cost per unit, resulting from supply constraints for California and Mexican avocados in the month of July 2022 compared to October 2021. The increase in accounts payable, accrued expenses and other liabilities is primarily related to an increase in payables related to an increase in the price of California and Mexican avocados. The decrease in our inventory as of July 31, 2022, when compared to October 31, 2021, is primarily due to lower inventory of Mexican Avocados. The decrease in income taxes receivable is due to the receipt of an income tax refund in the first quarter of fiscal 2022. The decrease in our accounts receivable, despite an increase in sales, as of July 31, 2022, when compared to October 31, 2021, is primarily due an improvement in collections of accounts receivable in fiscal 2022. The increase in advances to suppliers is mainly due to advances to our tomato growers in the first three months of fiscal 2022.

Cash used in investing activities was \$7.7 million for the nine months ended July 31, 2022, which related to purchases of property, plant, and equipment.

Cash used in financing activities was \$33.9 million for the nine months ended July 31, 2022, which related principally to the payment of a \$20.3 million dividend, net payments on our credit facilities totaling \$12.1 million, payments on long-term obligations of \$1.4 million, and the \$0.1 million of payments on the minimum net holding of taxes on the net settlement of shares.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Restricted cash, cash and cash equivalents as of July 31, 2022 and October 31, 2021 totaled \$3.5 million and \$2.9 million. Our working capital at July 31, 2022 was \$29.5 million, compared to \$38.0 million at October 31, 2021.

We believe that cash flows from operations, the available Credit Facility, and other sources will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months. We will continue to pursue grower recruitment opportunities and expand relationships with retail and/or foodservice customers to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Farm Credit West as joint lead arranger. Under the terms of this agreement, we may draw on funds for both working capital and long-term productive asset purchases. Total credit available under this agreement, subject to borrowing base calculations, is \$80 million, and it expires in January 2026. For our Credit Facility the weighted-average interest rate was 5.1% and 2.2% at July 31, 2022 and October 31, 2021. Under the Credit Facility we had \$25.6 million and \$37.7 million outstanding as July 31, 2022 and October 31, 2021.

On December 1, 2021, we entered into the Fourth and Fifth Amendments to the Credit Agreement with Bank of America, N.A., as administrative agent (“Bank of America”), and Farm Credit West, PCA (together with Bank of America, the “Lenders”), relating to our Credit Agreement dated as of June 14, 2016, The Fourth and Fifth Amendments, among other terms, included Calavo de Mexico (CDM) as a guarantor, increased the interest rate by 0.5%, and amended the financial covenant requirements as follows:

- The Fixed Charge Coverage Ratio (FCCR) covenant was waived for the quarters ended October 31, 2021, January 31, 2022 and April 30, 2022. The covenant was resumed for the quarter ended July 31, 2022.
- The quarterly FCCR covenant was replaced by a cumulative monthly minimum Consolidated EBITDA covenant, with the first measurement occurring as of January 31, 2022 for the three months then ended, and continuing monthly thereafter through June 2022.
- Consolidated financial statements must be submitted monthly for the month and year-to-date period, beginning with the financial statements for the month of November 2021 and continuing through June 2022.

The Company also pledged the 1,677,299 shares it holds of Limoneira stock as collateral (which was in addition to the general business assets of the Company that already secure the credit facility).

The above terms and conditions will remain in effect until such time as the Company has certified compliance with a 1.15 to 1.0 minimum FCCR for two consecutive fiscal quarters.

As of January 31, 2022, the Company was not in compliance with the cumulative monthly minimum Consolidated EBITDA covenant, and the Consolidated Leverage Ratio (CLR) covenant. In March 2022, the Company and the Lenders have entered into the Sixth Amendment, Limited Waiver, and Limited Consent to Credit Agreement (the “Sixth Amendment”). The Sixth Amendment, among other terms, waived the non-compliance of the financial covenants as of January 31, 2022 and amended the financial covenant requirements as follows:

- The cumulative monthly minimum Consolidated EBITDA testing has been waived and the CLR covenant testing is waived through July 31, 2022.
- Minimum Consolidated EBITDA of \$3 million, \$3 million and \$5 million for the months of February, March and April 2022, respectively, will be required.
- Monthly cumulative FCCR of 1.20 starting with the quarter ended April 30, 2022, converting to trailing 12 months calculation starting as of October 31, 2022 and quarterly thereafter. For April through September 2022, dividends paid in December 2021 are included on a pro-rata basis.

The interest rate of the facility increased to BSBY plus 3.0% until the first business day of the month after we certify that no default or event of default exists for the period ended July 31, 2022, at which point the interest rate will range between BSBY plus 1.25 – 1.75% based on our CLR. The total facility reduced from \$100 million to \$80 million and will be limited to a borrowing base consisting of the sum of eligible accounts receivable (80%), eligible US inventory (50%), and Limoneira shares (60%), less grower payables.

As of July 31, 2022, we were in compliance with the financial covenants as in effect on that date, and we expect to remain in compliance through September 2023. As of July 31, 2022, approximately \$16.8 million was available for borrowing based on our borrowing base calculation discussed above.

### Contractual Commitments

There have been no other material changes to our contractual commitments from those previously disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2021. For a summary of the contractual commitments at October 31, 2021, see Part II, Item 7, in our 2021 Annual Report on Form 10-K.

### Impact of Recently Issued Accounting Pronouncements

See Note 1 to the consolidated condensed financial statements included in this Quarterly Report.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our Credit Facility, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of July 31, 2022.

(All amounts in thousands)	Expected maturity date July 31,						Total	Fair Value
	2023	2024	2025	2026	2027	Thereafter		
<b>Assets</b>								
Restricted cash, cash and cash equivalents (1)	\$ 3,466	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,466	\$ 3,466
Accounts receivable (1)	78,490	—	—	—	—	—	78,490	78,490
Advances to suppliers (1)	12,698	—	—	—	—	—	12,698	12,698
<b>Liabilities</b>								
Payable to growers (1)	\$ 35,748	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 35,748	\$ 35,748
Accounts payable (1)	11,551	—	—	—	—	—	11,551	11,551
Borrowings pursuant to credit facilities (1)	—	—	—	25,600	—	—	25,600	25,600

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

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

Our Mexican-based operations transact a significant portion of business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Management does, however, evaluate this opportunity from time to time. Total foreign currency remeasurement losses for the three months ended

July 31, 2022 and 2021, net of gains, was \$0.4 million. Total foreign currency remeasurement gains for the three months ended July 31, 2022 and 2021, net of losses, was \$0.4 million. Total foreign currency remeasurement losses for the nine months ended July 31, 2022, net of gains, was \$1.3 million. Total foreign currency remeasurement gains for the nine months ended July 31, 2021, net of losses, was \$1.2 million.

#### **ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective.

Except as set forth below, there were no changes in the Company’s internal control over financial reporting during the quarter ended July 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. During the third quarter of fiscal 2022, we had changes in our management structure, including the placement of our new Chief Financial Officer. These changes resulted in changes in our internal control over financial reporting as responsibilities were shifted to other personnel. Taking into account these changes, as noted above, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become involved in litigation arising in the ordinary course of our business. We have provided information about certain legal proceedings in which we are involved in Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

#### **ITEM 1A. RISK FACTORS**

For a discussion of our risk factors, see Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended October 31, 2021. Except as set forth below, there have been no material changes from the risk factors set forth in such Annual Report on Form 10-K. However, the risks and uncertainties that we face are not limited to those set forth in the 2021 Form 10-K. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our common stock.

#### **ITEM 5. OTHER INFORMATION**

We have determined that, due to an administrative error, the version of our Amended and Restated Bylaws, effective as of September 25, 2014, included as an exhibit to our Current Report on Form 8-K filed with the SEC on September 30, 2014 (the “2014 Item 5.03 8-K”) and incorporated by reference into subsequent SEC filings including our Form 10-K for the year ended October 31, 2021, erroneously included certain language that did not reflect our bylaws as they were in fact amended on that date. Disclosures provided in the 2014 Item 5.03 8-K concerning the amendment to the bylaws made at that time and in our other subsequent filings with the SEC regarding our bylaws accurately reflected the terms of our bylaws. The correct version of our Amended and Restated Bylaws effective as of September 25, 2014 is included as Exhibit 3.1 to this Quarterly Report on Form 10-Q.

**ITEM 6. EXHIBITS**

- 3.1 [Amended and Restated Bylaws, effective as of September 25, 2014](#) \*
- 10.1 [Form of Indemnification Agreement between the Company and each of its directors and executive officers](#) <sup>(1)</sup>
- 10.2 [Employment Agreement of Shawn Munsell](#) <sup>(2)</sup>
- 10.3 [Employment Agreement of Danny Dumas](#) <sup>(3)</sup>
- 31.1 [Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#). \*
- 31.2 [Certification of Chief Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#). \*
- 32.1 [Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350](#). \*
- 101 The following financial information from the Quarterly Report on Form 10-Q of Calavo Growers, Inc. for the quarter ended July 31, 2022, formatted in Inline XBRL (Extensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of July 31, 2022 and October 31, 2021; (2) Consolidated Condensed Statements of Operations for the three and nine months ended July 31, 2022 and 2021; (3) Consolidated Condensed Statements of Cash Flows for the nine months ended July 31, 2022 and 2021; (4) Consolidated Statements of Shareholders' Equity for the three and nine months ended July 31, 2022 and 2021; and (5) Notes to Consolidated Condensed Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL).

(1) Previously filed on June 2, 2022 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

(2) Previously filed on June 10, 2022 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

(3) Previously filed on June 22, 2022 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

\* Filed with this Form 10-Q.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Calavo Growers, Inc.  
(Registrant)

Date: September 1, 2022

By /s/ Brian Kocher  
Brian Kocher  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: September 1, 2022

By /s/ Shawn Munsell  
Shawn Munsell  
Chief Financial Officer  
(Principal Financial Officer)

**AMENDED AND RESTATED BYLAWS**

**OF**

**CALAVO GROWERS, INC.,  
a California corporation**

**As of September 25, 2014**

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**AMENDED AND RESTATED BYLAWS  
OF  
CALAVO GROWERS, INC.**

**ARTICLE I — OFFICES**

**Section 1.01 Principal Office.** The principal executive office of Calavo Growers, Inc. (the “Corporation”) is hereby fixed and located at 2530 Red Hill Avenue, Santa Ana, California. The Board of Directors is hereby granted full power and authority to change said principal office from one location to another at any place or places where the Corporation is qualified to do business.

**Section 1.02 Other Offices.** Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the Corporation is qualified to do business.

**ARTICLE II — MEETINGS OF SHAREHOLDERS**

**Section 2.01 Place of Meetings.** All meetings of shareholders shall be held either at the principal executive office or at any other place within or without the State of California which may be designated by the Board of Directors or by the shareholders by obtaining written consent of all the persons entitled to vote thereat.

**Section 2.02 Annual Meetings.** An annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors.

Notice of each annual meeting shall be given to each shareholder entitled to vote thereat, either personally or by first-class mail or other means of written communication, charges prepaid, addressed to such shareholder at the address appearing on the books of the Corporation for such shareholder or given by such shareholder to the Corporation for the purpose of notice. If no such address appears or is given, notice shall be deemed to have been given such shareholder if sent by mail or other means of written communication addressed to the place where the principal executive office of the Corporation is situated, or if published at least once in some newspaper of general circulation in the county in which said office is located.

All such notices shall be delivered personally, or deposited in the mail or sent by other means of written communication, to each shareholder entitled to vote thereat, not less than ten (10) nor more than sixty (60) days before such annual meeting, and shall specify the place, date and hour of such meeting and those matters which the Board of Directors, at the time of the giving of such notice, intends to present for action by the shareholders, including the names of nominees intended at the time of such notice to be presented by the Board of Directors for election to the Board of Directors. Such notice shall also state the general nature of the business or proposal to be considered or acted upon at such meeting before action may be taken at such meeting on:

- (a) A proposal to approve a contract or other transaction between the Corporation and one (1) or more directors or any corporation, firm or association in which one (1) or more directors has a material financial interest;
- (b) A proposal to amend the Articles of Incorporation;

- (c) A proposal to approve a reorganization of the Corporation;
- (d) A proposal to wind up and dissolve the Corporation; or
- (e) A proposal to approve a plan of distribution of the shares, obligations or securities of any other corporation, or assets other than money, which is not in accordance with the liquidation rights of any preferred shares as specified in the Articles of Incorporation, in the process of the winding up of the Corporation.

**Section 2.03 Special Meetings.** Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Chairman of the Board, the President, the Board of Directors or by one (1) or more shareholders entitled to cast not less than ten percent (10%) of the votes at the meeting. Upon request in writing to the Chairman of the Board, the President, any Vice President or the Secretary by any person, other than the Board of Directors, entitled to call a special meeting of shareholders, such officer shall cause notice to be given forthwith, but in no event later than twenty (20) days after receipt of the request, that a meeting will be held at the time requested by the person or persons calling the meeting, which time shall be not less than thirty-five (35) and not more than sixty (60) days after receipt of the request. Except in special cases where other express provision is made by statute and as set forth herein, notice of such special meetings shall be given in the same manner as for annual meetings of shareholders. Notices of any special meeting shall specify, in addition to the place, date and hour of such meeting, the general nature of the business to be transacted.

**Section 2.04 Adjourned Meetings and Notice Thereof.** Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by a vote of a majority of the shares, the holders of which are either present in person or by proxy thereat, but in the absence of a quorum, no other business may be transacted at any such meeting except as provided in Section 2.07 of this Article.

When any shareholders' meeting, either annual or special, is adjourned for forty-five (45) days or less, the time and place of the adjourned meeting shall be announced at the meeting at which the adjournment is taken. When any shareholders' meeting, either annual or special, is adjourned for more than forty-five (45) days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting as in the case of an original meeting. Except as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting, and at the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

**Section 2.05 Entry of Notice of Delivery.** An affidavit executed by the Secretary, any Assistant Secretary or any transfer agent to the effect that any notice or report required to be given to a shareholder by law or these Bylaws was duly given to such shareholder shall be sufficient evidence that such notice or report was duly given to such shareholder. If any notice or report addressed to a shareholder at the address of such shareholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice or report to the shareholder at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available for the shareholder upon written demand of the shareholder at the principal

executive office of the Corporation for a period of one (1) year from the date of the giving of the notice or report to all other shareholders.

**Section 2.06 Voting by Shareholders; Cumulative Voting for Directors.** Except as otherwise provided in the Articles of Incorporation and in this Section, at all meetings of shareholders every shareholder entitled to vote shall have the right to vote in person or by proxy the number of shares standing in his or her name on the stock records of the Corporation. Such vote may be given by viva voce or by ballot; provided, however, that all elections for directors shall be by ballot upon demand made by a shareholder at any election and before the voting begins.

At each election of directors of the Corporation, each shareholder entitled to vote shall have the right to cast as many votes as shall equal the number of votes to which his or her shares are normally entitled multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate or may distribute them among some or all of the candidates as he or she sees fit. The candidates receiving the highest number of affirmative votes up to the number of directors to be elected shall be elected; provided, however, that such candidates must satisfy the nomination requirements described in Section 2.12 of these Bylaws.

The affirmative vote of the majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number is required by law or by the Articles of Incorporation or these Bylaws, and except as set forth in Section 2.07 of this Article and at elections of directors as set forth in this Section.

**Section 2.07 Quorum.** The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken, other than adjournment, is approved by at least a majority of the shares required to constitute a quorum.

**Section 2.08 Consent of Absentees.** The proceedings and transactions of any meeting of shareholders, either annual or special, however called and noticed and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, a consent to the holding of such meeting or an approval of the minutes thereof. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of shareholders need be specified in any written waiver of notice, consent to the holding of the meeting or approval of the minutes thereof unless otherwise provided in the Articles of Incorporation or these Bylaws, except for the matters referred to in subparagraphs (a) through (e) of Section 2.02 of this Article. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a person at a meeting shall constitute a waiver of notice of and presence at such meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a

meeting is not a waiver of any right to object to the consideration of matters required by law to be included in the notice but not so included, if such objection is expressly made at the meeting.

**Section 2.09 Action Without Meeting.** Any action which may be taken at any annual or special meeting of the shareholders may be taken without a meeting and without prior notice, if authorized by a written consent setting forth the action so taken, signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, and filed with the Secretary of the Corporation; provided, however, that directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors, except that a vacancy on the Board of Directors (other than a vacancy created by removal of a director) not filled by the Board of Directors may be filled by the written consent of a majority of the outstanding shares entitled to vote. Any shareholder giving a written consent, such shareholder's proxyholders, a transferee of the shares or a personal representative of such shareholder or their respective proxyholders, may revoke any such consent by a writing received by the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary of the Corporation, but may not do so thereafter. Such revocation shall be effective upon its receipt by the Secretary of the Corporation.

Unless the consents of all shareholders entitled to vote have been solicited in writing and have been received, prompt notice shall be given, in the same manner as for annual meetings of shareholders except as set forth in this Section, to those shareholders entitled to vote who have not consented in writing, of the taking of any corporate action approved by shareholders without a meeting. Such notice shall be given at least ten (10) days before the consummation of the action authorized by such approval with respect to the following:

- (a) Approval of any transaction referred to in subparagraph (a), (c) or (e) of Section 2.02 of this Article; or
- (b) Approval required by law of the indemnification of any person.

**Section 2.10 Proxies.** Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his or her duly authorized agent; provided, however, that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless otherwise provided in the proxy.

**Section 2.11 Districts.** For purposes of administering the Corporation, the Board of Directors may divide the territory in which the Corporation has shareholders into two (2) or more districts. The number of such districts may correspond to the authorized number of directors of the Corporation. The boundaries and number of the districts shall be determined by the Board of Directors, which shall have authority to revise and redefine the number and boundaries of the districts from time to time. If the Board of Directors establishes such districts, it shall assign each shareholder to a district based upon the district in which the shareholder (if a grower) has the largest acreage or production and on other factors deemed relevant by the Board of Directors.

The Board of Directors may establish policies and procedures for informational meetings of the members of the various districts that shall be held from time to time. However, any such meetings are not intended to function as a substitute for the annual and special meetings of the Corporation's shareholders that are discussed in these Bylaws. Furthermore, voting for directors shall not be conducted on a district basis but shall instead be conducted in the manner described in the preceding sections of this Article II. In each such election, each shareholder shall be entitled to cast votes for the number of directors that are to be elected and shall not be limited to voting only for directors from his or her district.

The determinations of the Board of Directors on all matters relating to the Corporation's districts shall be final, binding and conclusive on all persons.

## **Section 2.12 Advance Notice of Shareholder Business and Nominations.**

### **(a) Annual Meetings of Shareholders.**

(i) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders only (1) pursuant to the Corporation's notice of meeting (or any supplement thereto), (2) by or at the direction of the Board of Directors or any duly authorized committee of the Board of Directors, or (3) by any shareholder of the Corporation who was a shareholder of record of the Corporation at the time the notice provided for in this Section 2.12 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting, and who complies with the notice procedures set forth in this Section 2.12.

(ii) For nominations or other business to be properly brought before an annual meeting of shareholders by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation and any such proposed business must constitute a proper matter for shareholder action under applicable law. To be timely, a shareholder's notice must be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the ninetieth day, nor earlier than the close of business on the one hundred twentieth day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than sixty days after such anniversary date, notice by the shareholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting of shareholders commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. To be in proper written form, a shareholder's notice to the Secretary (whether pursuant to this Section 2.12(a)(ii) or Section 2.12(b)) must set forth:

(1) as to each person, if any, whom the shareholder proposes to nominate for election as a director (A) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended



(the “Exchange Act”), and (B) such person’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected;

(2) if the notice relates to any business (other than the nomination of persons for election as directors) that the shareholder proposes to bring before the meeting, (A) a brief description of the business desired to be brought before the meeting, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Articles of Incorporation or Bylaws of the Corporation, the language of the proposed amendment), (C) the reasons for conducting such business at the meeting, and (D) any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and

(3) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (A) the name and address of such shareholder, as they appear on the Corporation’s books, and of such beneficial owner, (B) the class or series and number of shares of capital stock of the Corporation that are, directly or indirectly, owned beneficially and of record by such shareholder and by such beneficial owner, (C) any derivative positions with respect to shares of capital stock of the Corporation held or beneficially held by or on behalf of such shareholder and by or on behalf of such beneficial owner, the extent to which any hedging or other transaction or series of transactions has been entered into with respect to the shares of capital stock of the Corporation by or on behalf of such shareholder and by or on behalf of such beneficial owner, and the extent to which any other agreement, arrangement or understanding has been made, the effect or intent of which is to increase or decrease the voting power of such shareholder and such beneficial owner with respect to shares of capital stock of the Corporation, (D) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and (E) a representation as to whether the shareholder or the beneficial owner, if any, intends or is part of a group that intends (aa) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation’s outstanding capital stock required to approve or adopt the proposal or elect the nominee or (bb) otherwise to solicit proxies from shareholders in support of such proposal or nomination.

The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine (x) the eligibility of such proposed nominee to serve as a director of the Corporation and (y) whether such nominee qualifies as an “independent director” or “audit committee financial expert” under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the Corporation.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 2.12 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least one hundred days prior to the first anniversary of the preceding year’s annual meeting, a shareholder’s notice required by this Section 2.12 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Shareholders.

Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or any duly authorized committee thereof or (ii) provided that the Board of Directors or any duly authorized committee thereof has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time the notice provided for in this Section 2.12 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election, and who complies with the notice procedures set forth in this Section 2.12. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the shareholder's notice in the same form as required by paragraph (a)(ii) of this Section 2.12 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

(c) General.

(i) Only such persons who are nominated in accordance with the procedures set forth in this Section 2.12 shall be eligible to be elected at an annual or special meeting of shareholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.12. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty (1) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 2.12 and (2) if any proposed nomination or business was not made or proposed in compliance with this Section 2.12, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 2.12, unless otherwise required by law, if the shareholder (or a qualified representative of the shareholder) does not appear at the annual or special meeting of shareholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be considered, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 2.12, to be considered a qualified representative of the shareholder, a person must be authorized by a writing executed by such shareholder or an electronic transmission delivered by such shareholder to act for such shareholder as proxy at the meeting of shareholders and such person must produce

such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of shareholders.

(ii) For purposes of this Section 2.12, “public announcement” shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act.

(iii) Nothing in this Section 2.12 shall be deemed to affect any rights of shareholders to request inclusion of proposals or nominations in the Corporation’s proxy statement pursuant to Rule 14a-8 (or any successor thereto) promulgated under the Exchange Act (and any proposal included in the Corporation’s proxy statement pursuant to such Rule shall not be subject to any of the advance notice requirements in this Section 2.12).

### ARTICLE III — DIRECTORS

**Section 3.01 Powers; Committees of Directors, Including Executive Committee and Nominating Committee.** Subject to limitations of the Articles of Incorporation, of these Bylaws and of the California General Corporation Law as to action to be authorized or approved by the shareholders or by the outstanding shares, and subject to the duties of directors as prescribed by these Bylaws, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the following powers:

(a) To select and remove all officers, agents and employees of the Corporation, prescribe such powers and duties for them as may not be inconsistent with law, with the Articles of Incorporation or these Bylaws, fix their compensation and require from them security for faithful service;

(b) To conduct, manage and control the affairs and business of the Corporation, and to make such rules and regulations therefor not inconsistent with law, the Articles of Incorporation or these Bylaws, as they may deem best;

(c) To change the principal office for the transaction of the business of the Corporation from one location to another within or without the State of California, as provided in Section 1.01 of Article I; to fix and locate from time to time one (1) or more branch or subsidiary offices of the Corporation within or without the State of California, as provided in Section 1.02 of Article I; to designate any place within or without the State of California for the holding of any shareholders’ meetings; and to adopt, make and use a corporate seal, to prescribe the form of certificates of stock and to alter the form of such seal and of such stock certificates from time to time as in their judgment they may deem best, provided such seal and such certificates shall at all times comply with the provisions of law;

(d) To authorize the issue of stock of the Corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done, services actually rendered to the Corporation or for its benefit or in its formation or reorganization, debts or securities cancelled, tangible or intangible property actually received either by the Corporation or by a wholly-owned subsidiary, or as a share dividend, or upon a stock split, reverse stock split, reclassification or

conversion of outstanding shares into shares of another class, exchange of outstanding shares for shares of another class, or other change affecting outstanding shares;

(e) To borrow money and incur indebtedness for the purposes of the Corporation and to cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations or other evidences of debt and security therefor; and

(f) To designate one (1) or more committees and to appoint members and alternate members therefor, by resolution adopted by a majority of the authorized number of directors, each committee consisting of two (2) or more directors and any alternate directors as may be designated to replace any absent members at any meeting thereof, to serve at the pleasure of the Board of Directors and to delegate to any such committee any of the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except the following powers: to approve any action which by law or by these Bylaws also requires shareholders' approval or approval of the outstanding shares, to fill vacancies on the Board of Directors or any committee thereof, to fix the compensation of directors for serving on the Board of Directors or any committee thereof, to amend or repeal bylaws or adopt new bylaws, to amend or repeal any resolution of the Board of Directors which by its express terms is not so amendable or repealable, to authorize a distribution to the shareholders of the Corporation (other than a dividend in shares of the Corporation) except at a rate or in a periodic amount or within a price range determined by the Board of Directors or to appoint other committees of the Board of Directors or the members thereof.

Without limiting the generality of the preceding paragraph:

There shall be an Executive Committee consisting of the Corporation's Chairman of the Board and four (4) other directors who shall be appointed by a majority of the authorized number of directors. The Executive Committee shall have all of the functions and powers of the Board of Directors that are delegated to it by the Board of Directors except as otherwise provided by law and subject to the direction and control of the Board of Directors.

The Board of Directors may also appoint a Nominating Committee, which shall consist of two (2) or more directors, to assist it in the identification and nomination of candidates for election as directors. The Nominating Committee shall have the functions and powers that are delegated to it from time to time by the Board of Directors, although it shall remain subject to the direction and control of the Board of Directors. With the assistance of any such Nominating Committee that is appointed, the Board of Directors shall establish such rules and procedures for its selection of director nominees as it deems appropriate. Among other things, the Board of Directors shall have discretion to nominate a candidate from each district that is described in Section 2.11 of these Bylaws, although it shall not be obligated to follow such nomination procedure.

**Section 3.02 Number of Directors.** The authorized number of directors of the Corporation shall be not less than eight (8) nor more than fifteen (15), and the exact number of directors within such limits shall be ten (10) unless and until such exact number is changed from time to time, within such specified limits, by a resolution which is duly adopted by the Board of Directors or by the shareholders. The minimum and maximum number of directors may be changed, or the Corporation may implement a board structure that specifies a fixed number of directors without minimum and maximum numbers, by amendment of the Articles of Incorporation or by a bylaw

amending this Section of these Bylaws duly adopted by the affirmative vote or written consent of a majority of the outstanding shares entitled to vote; provided, however, that no such amendment reducing the number of directors to a number less than five (5) shall be adopted if the votes cast against its adoption at a meeting, or the shares not consenting thereto in the case of action by written consent, are equal to more than sixteen and two-thirds percent (16 2/3%) of the outstanding shares entitled to vote.

**Section 3.03 Election and Term of Office; Removal of Directors.** The directors shall be elected at each annual meeting of the shareholders, but if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of the shareholders held for that purpose. Each director shall hold office until the expiration of the term for which elected and until his or her successor is elected and qualified or until his or her death, resignation or removal from office.

As provided in Section 302 of the California Corporations Code, the Board of Directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony. As provided in Section 304 of the California Corporations Code, the superior court of the proper county may, at the suit of shareholders holding at least ten percent (10%) of the number of outstanding shares of any class, remove from office any director in case of fraudulent or dishonest acts or gross abuse of authority or discretion with reference to the Corporation and may bar from reelection any director so removed for a period prescribed by the court.

Any or all of the directors may be removed from office without cause by the affirmative vote or written consent of a majority of the outstanding shares entitled to vote. However, no director may be removed from office (unless the entire Board of Directors is removed) when the votes cast against such director's removal, or not consenting in writing to the removal, would be sufficient to elect that director if voted cumulatively at an election at which the same total number of votes were cast (or, if the action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected. The removal of a director without cause shall be subject to any other applicable limitations that are set forth in Section 303 of the California Corporations Code.

**Section 3.04 Vacancies.** Vacancies in the Board of Directors, other than those created by the removal of a director, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his or her successor is elected and qualified at an annual or special meeting of the shareholders or until his or her death, resignation or removal from office.

A vacancy or vacancies in the Board of Directors shall be deemed to exist when any authorized position of director is not filled by a duly elected and acting director, whether caused by the death, resignation or removal of any director, increase in the authorized number of directors, failure of the shareholders, at any annual or special meeting of shareholders at which any director or directors are elected, to elect the full authorized number of directors to be voted for at that meeting or otherwise.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies created by the removal of a director or not filled by the directors. Any such election by written consent other than to fill a vacancy created by removal (which shall require the unanimous written consent of all shares entitled to vote for the election of directors) shall require the written consent of a majority of the outstanding shares entitled to vote. If the resignation of a director is given to take effect at a future time, the Board of Directors or the shareholders shall have power to elect a successor to take office when the resignation is to become effective.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his or her term of office.

**Section 3.05 Place of Meeting.** Meetings of the Board of Directors or any committee thereof shall be held at any place within or without the State of California which has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, from time to time by resolution of the Board of Directors or committee, as the case may be. In the absence of such designation, meetings shall be held at the principal executive office of the Corporation.

**Section 3.06 Organizational Meeting.** Immediately following each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers and the transaction of other business. Notice of such meetings is hereby dispensed with.

**Section 3.07 Other Regular Meetings.** Other regular meetings of the Board of Directors and regular meetings of committees of the Board of Directors shall be held without call on such dates as may be fixed by the Board of Directors or the committee, as the case may be. Notice of all such regular meetings of the Board of Directors and committees thereof is hereby dispensed with.

**Section 3.08 Special Meetings.** Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, by the President, by any Vice President, by the Secretary or by any two (2) or more directors. Special meetings of any committee of the Board of Directors for any purpose or purposes may be called at any time by the President, by the Chairman or by any vice-chairman of the committee, by the Secretary or by any two (2) or more members of the committee.

Notice of the time and place of special meetings shall be delivered personally to all directors or committee members as the case may be, either in writing or orally or by telephone, or shall be sent to each such director by first-class mail, facsimile, telegram or other electronic or voice mail message, charges prepaid, addressed to him or her at his or her address as it is shown upon the records of the Corporation or, if it is not shown on such records or is not readily ascertainable, at the place in which the meetings of the directors are regularly held. In case such notice is mailed, it shall be deposited with the United States Postal Service in the place where the principal office of the Corporation is located at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered by facsimile, telegram or other electronic or voice mail message or personally as above provided, it shall be delivered at least forty-eight (48) hours prior to the time of the holding of the meeting.

Such notice need not specify the purpose of the special meeting. Such mailing, telegraphing or personal delivery as above provided shall be due, timely, legal and personal notice to such director.

**Section 3.09 Notice of Adjournment.** Unless a directors' or committee meeting has been adjourned for more than twenty-four (24) hours, notice of the time and place of holding an adjourned meeting need not be given to absent directors or committee members if the time and place be fixed at the meeting adjourned. If the meeting has been adjourned for more than twenty-four (24) hours, notice of such adjournment and the time and place of the adjourned meeting shall be given prior to the time of the adjourned meeting to all directors or committee members who were not present at the time of the adjournment, in the same manner as provided in Section 3.08 of this Article for special meetings of the Board of Directors or committee thereof.

**Section 3.10 Entry of Notice.** Whenever any director has been absent from any special meeting of the Board of Directors or committee thereof, an affidavit executed by the Secretary or any Assistant Secretary to the effect that notice has been duly given as required by law and these Bylaws shall be sufficient evidence that due notice of such special meeting was given to such director.

**Section 3.11 Waiver of Notice.** The transactions of any meeting of the Board of Directors or committee thereof, however called and noticed and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors or committee members not present, and each director or committee member who is present but did not receive due notice thereof and protests such lack of notice prior to such meeting or at its commencement, signs a written waiver of notice, a consent to holding such meeting or an approval of the minutes thereof. Such waiver of notice need not specify the purpose of the meeting. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

**Section 3.12 Quorum.** A majority of the authorized number of directors on the Board of Directors or any committee thereof shall be necessary to constitute a quorum for the transaction of business by such Board or committee, as the case may be. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors or committee members, if any action taken is approved by at least a majority of the required quorum for such meeting. Subject to the foregoing sentence of this Section, every act or decision done or made by a majority of the directors or committee members present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors or committee thereof, as the case may be, unless a greater number is required by law, the Articles of Incorporation or these Bylaws. Directors shall be deemed present at any meeting of the Board of Directors or any committee thereof and may participate therein if present through use of conference telephone or similar communications equipment, so long as all directors participating in such meeting can hear one another.

**Section 3.13 Adjournment.** A majority of the directors or committee members present, whether or not a quorum is present, may adjourn any directors' or committee meeting to meet again at a stated time, place and hour.

**Section 3.14 Action Without Meeting.** Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be. Such action by written consent shall have the same force and effect as a unanimous vote of such directors or committee members.

**Section 3.15 Fees and Compensation.** Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, a fixed fee, with or without expenses of attending, may be allowed for attendance at each meeting. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation therefor.

#### ARTICLE IV — OFFICERS

**Section 4.01 Officers.** The officers of the Corporation shall be the Chairman of the Board, the Chief Executive Officer, the President, the Secretary and the Chief Financial Officer.

The Corporation may also have, at the discretion of the Board of Directors, a Vice Chairman of the Board, one (1) or more Vice Presidents, one (1) or more Assistant Secretaries, one (1) or more Assistant Chief Financial Officers and such other officers as may be appointed in accordance with the provisions of Section 4.02 of this Article. Officers other than the Chairman of the Board need not be directors. Any number of offices may be held by the same person.

**Section 4.02 Appointment.** The officers of the Corporation shall be chosen by the Board of Directors, and each shall hold his or her office until his or her successor is appointed or until he or she resigns, dies or is removed from office.

**Section 4.03 Subordinate Officers.** The Board of Directors may appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

**Section 4.04 Removal and Resignation.** Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at a regular or special meeting of the Board of Directors.

Any officer may resign at any time by giving written notice to the Board of Directors, the Chief Executive Officer, the President or the Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

**Section 4.05 Vacancies.** A vacancy in any office because of death, resignation, removal or any other cause shall be filled by the Board of Directors at a regular or special meeting.



**Section 4.06 Chairman of the Board.** The Chairman of the Board shall, if present, preside at all meetings of the Board of Directors, and exercise and perform such other powers and duties as may from time to time be assigned to him or her by the Board of Directors or as prescribed by these Bylaws. The Board of Directors may also designate one of its members as Vice Chairman of the Board. The Vice Chairman of the Board shall, during the absence or inability to act of the Chairman of the Board, have the powers and perform the duties of the Chairman of the Board and shall have such other powers and perform such other duties as may from time to time be assigned to him or her by the Board of Directors or as prescribed by these Bylaws.

**Section 4.07 Chief Executive Officer.** The Chief Executive Officer shall be the general manager and chief executive officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and affairs of the Corporation. He or she shall preside at all meetings of the shareholders, and in the absence of the Chairman or Vice Chairman of the Board, at all meetings of the Board of Directors. He or she shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws. Unless and until otherwise determined by the Board of Directors, the Chairman of the Board shall also serve as the Chief Executive Officer.

**Section 4.08 President.** The President shall, after the Chief Executive Officer, have general supervision, direction and control of the business and affairs of the Corporation, subject to the control of the Board of Directors and the Chief Executive Officer. The President shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

**Section 4.09 Vice President.** In the absence or disability of the President, the Vice Presidents, if there shall be any such officers, in order of their rank as fixed by the Board of Directors or, if not ranked, the Vice President designated by the Board of Directors, shall perform all the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors or these Bylaws.

**Section 4.10 Secretary.** The Secretary shall keep, or cause to be kept, a book of minutes in written form at the principal executive office of the Corporation, of all meetings of directors, committees of the Board of Directors and shareholders, with the time and place of holding, whether regular or special, and if special how authorized, the notice thereof given, the names of those directors and shareholders present, the names of those present at directors' or committee meetings, the number of shares present or represented at shareholders' meetings and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the Corporation's transfer agent or registrar of shares, a share register, or a duplicate share register, in written form or in any other form capable of being converted into written form, showing the names of the shareholders and their addresses, and the number and classes of shares held by each of them.

The Secretary shall give or cause to be given notice of all meetings of shareholders and the Board of Directors, as required by these Bylaws or by law to be given, and he or she shall keep the seal

of the Corporation in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

**Section 4.11 Chief Financial Officer.** The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, in written form or in any other form capable of being converted into written form, adequate and correct books and records of account of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and shares.

The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors and shall render to the President and directors, as required by Section 5.05 of Article V of these Bylaws and at such other times as they may request, an account of all of his or her transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

## ARTICLE V — MISCELLANEOUS

**Section 5.01 Record Date.** The Board of Directors may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any meeting of shareholders, or to receive any dividend, distribution or allotment of rights, or to exercise rights in respect of any other lawful action. The record date so fixed shall not be more than sixty (60) nor less than ten (10) days prior to the date of the meeting, nor more than sixty (60) days prior to any other action, for which it is fixed. When a record date is so fixed, only shareholders of record at the close of business on the record date shall be entitled to notice of and to vote at such meeting, or to receive such dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date, except as otherwise provided in the Articles of Incorporation or by agreement or by law. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, but the Board of Directors shall fix a new record date if the meeting is adjourned for more than forty-five (45) days from the date set for the original meeting.

**Section 5.02 Inspection of Corporate Records.** The record of shareholders, the accounting books and records, and minutes of proceedings of the shareholders, the Board of Directors and committees of the Board of Directors, shall be open to inspection in written form upon the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to his or her interests as a shareholder or holder of a voting trust certificate. Such inspection may be made in person or by an agent or attorney and shall include the right to copy and make extracts. Demand of inspection shall be made in writing upon the President, Secretary or Assistant Secretary of the Corporation. The rights of inspection described in this paragraph shall extend to the records of each subsidiary of the Corporation.

A shareholder or shareholders holding at least five percent (5%) in the aggregate of the outstanding voting shares of the Corporation or holding at least one percent (1%) of those voting shares and having filed a Schedule 14A with the United States Securities and Exchange Commission shall have an absolute right to do either or both of the following: (i) inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours upon five (5) business days' prior written demand upon the Corporation, or (ii) obtain from the transfer agent for the Corporation, if any, upon written demand and upon the tender of its usual charges for such a list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the names and addresses of the shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand. The list shall be made available on or before the later of five (5) business days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

Every director shall have the absolute right at any reasonable time to inspect in written form and copy all books, records and documents of every kind and to inspect the physical properties of the Corporation and its subsidiary corporations, domestic or foreign. Such inspection may be made in person or by agent or attorney, and the right of inspection includes the right to copy and make extracts.

**Section 5.03 Checks, Drafts and Notes.** All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to the Corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

**Section 5.04 Seal.** The Corporation shall have a common seal, and shall have inscribed thereon the name of the Corporation, the date of its incorporation and the word California.

**Section 5.05 Financial Reports.** The Chief Financial Officer shall prepare and submit, or cause to be prepared and submitted, to the Board of Directors, not later than one hundred twenty (120) days after the close of each fiscal year of the Corporation, an annual report containing a balance sheet as of the end of that fiscal year and an income statement and statement of changes in financial position for that fiscal year, accompanied by the report thereon, if any, of any independent accountants engaged by the Corporation or the certificate of an authorized officer of the Corporation that the financial statements were prepared without audit from the books and records of the Corporation. The requirement of Section 1501 of the California Corporations Code that the Board of Directors shall cause the annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the Corporation's fiscal year and at least fifteen (15) days prior to the annual meeting of shareholders is hereby expressly waived until such time as the Corporation has one hundred (100) or more holders of record of its shares.

A shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of the Corporation may make a written request to the Corporation for an income statement of the Corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request and a balance sheet of the Corporation as of the end of such period and, in addition, if no annual report for the last fiscal year has been sent to shareholders, such annual report, accompanied by the report thereon, if any, of

any independent accountants engaged by the Corporation or the certificate of an authorized officer of the Corporation that such financial statements were prepared without audit from the books and records of the Corporation. The annual report or statements so requested shall be delivered or mailed to the person making the request within thirty (30) days thereafter.

A copy of each such annual, semi-annual, and quarterly financial statement shall be kept on file for a period of twelve (12) months after delivery to the Board of Directors, and shall be exhibited at all reasonable times to any shareholder demanding an examination thereof or a copy shall be mailed to the shareholder.

**Section 5.06 Execution of Documents.** The Board of Directors, except as these Bylaws or the Articles of Incorporation otherwise provide, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent, or employee shall have any power or authority to bind the Corporation by any contract or agreement or to pledge its credit to render it liable for any purpose or to any amount.

**Section 5.07 Certificates of Stock.** A certificate or certificates for shares of the capital stock of the Corporation shall be issued to each shareholder when any such shares are fully paid. All such certificates shall be signed by the Chairman of the Board or the President or a Vice President, and by the Chief Financial Officer or an Assistant Chief Financial Officer, Secretary or an Assistant Secretary, or shall be authenticated by facsimiles of such signatures.

Certificates for shares may be issued prior to full payment thereof, under such restrictions and for such purposes as the Board of Directors or these Bylaws may provide; provided, however, that any such certificates so issued prior to full payment shall state the total amount of the consideration to be paid therefor and the amount paid thereon, and such statement shall be conspicuous.

There shall also appear on each certificate, to the extent applicable, statements: that the shares represented thereby are subject to restrictions upon transfer, to an irrevocable proxy under Section 705(e) of the California Corporations Code, or to restrictions upon voting rights contractually imposed by the Corporation; that such shares are redeemable or assessable or subject to conversion and the period for conversion, and any such statement that such shares are subject to restrictions upon transfer or are assessable shall be conspicuous. If the shares of the Corporation are classified or if any class of shares has two (2) or more series, there shall also appear on each certificate the office or agency of the Corporation from which shareholders may obtain, upon request and without charge, a statement of the rights, preferences, privileges and restrictions granted to or imposed upon each class or series of shares authorized to be issued and upon the holders thereof.

Notwithstanding the foregoing provisions of this Section 5.07, the Board of Directors is entitled to elect to cause the Corporation to adopt a system of issuance, recordation and transfer of its shares by electronic or other means not involving any issuance of certificates, subject, however, to compliance with Section 416 of the California Corporations Code and other applicable law regarding such system.

**Section 5.08 Representation of Shares of Other Corporations.** Subject to the instructions and control of the Board of Directors, the Chief Executive Officer, the President or any Vice President and the Secretary or Assistant Secretary of the Corporation, acting jointly, are authorized to vote, represent and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority herein granted to said officers to vote or represent on behalf of the Corporation any and all shares held by the Corporation in any other corporation or corporations may be exercised either by such officers in person or by any person authorized so to do by proxy or power of attorney duly executed by said officers.

**Section 5.09 Inspection of Bylaws.** The Corporation shall keep in its principal executive office in the State of California, or if there be no such office at its principal business office in such State, the original or a copy of these Bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office is outside such State and the Corporation has no principal business office in such State, the Corporation shall upon the written request of any shareholder, made in writing upon the President, Secretary or Assistant Secretary of the Corporation, furnish to such shareholder a copy of these Bylaws as amended to date.

**Section 5.10 Lost, Stolen, Destroyed, or Mutilated Certificates.** If the holder of any shares of the Corporation's stock alleges that the certificate evidencing such shares has been lost, stolen, destroyed, or mutilated, the Corporation may issue to the holder a new certificate for such shares upon the surrender of the mutilated certificate or, in the case of the loss, theft, or destruction of the certificate, upon satisfactory proof of such loss, theft, or destruction, including an affidavit from the holder attesting to such loss, theft, or destruction of the certificate, and upon such other terms as the Board of Directors may specify in its sole discretion. The Board of Directors may, in its sole discretion, condition the issuance of a replacement certificate upon the holder's delivery of (a) a satisfactory bond, in such sum and with such surety as the Board of Directors may specify, to protect the Corporation and its transfer agent against any claim that may be made (and liabilities and expenses that may be incurred) on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate and/or (b) a satisfactory indemnification agreement executed by the holder and indemnifying the Corporation and/or its transfer agent against any claim that may be made (and liabilities and expenses that may be incurred) on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate. A replacement certificate may be issued without requiring a surety bond or an indemnification agreement when, in the sole judgment of the Board of Directors, it is appropriate to do so.

## ARTICLE VI – RESTRICTIVE LEGENDS ON STOCK CERTIFICATES

**Section 6.01 Restrictive Legends on stock Certificates.** If deemed necessary or appropriate by the Board of Directors, a legend to the following effect (in addition to any other legends required by applicable federal or state securities laws) shall be placed (i) on certificates that represent shares of the Corporation's stock that are beneficially owned by the Corporation's directors and executive officers and by any other shareholders that the Board of Directors determines are or may be "affiliates" of the Corporation within the meaning of Rule 144 under the Securities Act of 1933,

as amended, and (ii) on certificates that represent shares of the Corporation's stock that are "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended.

"THE SHARES THAT ARE REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, OFFERED FOR SALE, ASSIGNED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS SUCH TRANSFER IS REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS COVERING SUCH SHARES OR UNLESS THE CORPORATION RECEIVES AN OPINION OF COUNSEL OR OTHER EVIDENCE SATISFACTORY TO THE CORPORATION TO THE EFFECT THAT SUCH REGISTRATION AND QUALIFICATION ARE NOT REQUIRED."

## ARTICLE VII — INDEMNIFICATION

**Section 7.01 Indemnification of Directors.** The Corporation shall, to the maximum extent permitted by applicable law but subject to the terms and conditions of any indemnification agreement that may be entered into between the director and the Corporation, indemnify each of its directors against expenses (as defined in Section 317(a) of the California Corporations Code), judgments, fines, settlements and other amounts actually and reasonably incurred by such director in connection with any proceeding (as defined in Section 317(a) of the California Corporations Code) arising by reason of the fact that such director (i) is or was a director of the Corporation, (ii) was a director of the Corporation's predecessor, Calavo Growers of California, a California nonprofit cooperative association, or (iii) is or was serving at the request of the Corporation as a director of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise. For purposes of this Article VII, a "director" includes any person who is or was a director of the Corporation.

**Section 7.02 Indemnification of Officers, Employees and Other Agents.** In addition to the indemnification that is required to be provided to directors of the Corporation under Section 7.01 of this Article, the Corporation shall have the power, to the extent and in the manner permitted by applicable law, to indemnify each of its officers, employees and other agents against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an officer, employee or other agent of the Corporation. For purposes of this Article VII, an "employee," "officer" or "agent" of the Corporation includes any person (i) who is or was an officer, employee or other agent of the Corporation, (ii) who is or was serving at the request of the Corporation as a director, officer, employee or other agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an officer, employee or other agent of Calavo Growers of California or of another enterprise at the request of Calavo Growers of California.

**Section 7.03 Advance of Expenses.** Attorneys' fees and other expenses incurred in defending any proceeding may be advanced by the Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the indemnified party to repay such amounts if it shall ultimately be determined that the indemnified party is not entitled to be indemnified as authorized or provided by this Article VII.

**Section 7.04 Indemnification Not Exclusive.** The indemnification authorized or provided by this Article VII shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnification hereunder shall continue as to a person who has ceased to be a director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such person.

**Section 7.05 Insurance.** The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or other agent of the Corporation against any liability asserted against or incurred by such person in such capacity or arising out of that person's status as such, whether or not the Corporation would have the power to indemnify that person against such liability under the provisions of this Article VII.

**Section 7.06 Conflicts.** No indemnification or advance shall be made under this Article VII, except where such indemnification or advance is mandated by law or the order, judgment or decree of any court of competent jurisdiction, in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the Corporation's Articles of Incorporation, these Bylaws, a resolution of the shareholders or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

**Section 7.07 Indemnification Agreements.** Notwithstanding anything to the contrary in this Article VII, the Corporation is authorized to enter into a contract with any director, officer, employee or other agent of the Corporation (or with any person who is or was serving at the request of the Corporation as a director, officer, employee or other agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, or any person who was a director, officer, employee or agent of a corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation) which provides for indemnification rights equivalent to or, if the Board of Directors so determines and to the extent permitted by applicable law, greater than those provided for in this Article VII.

**Section 7.08 Amendment, Repeal or Modification.** No amendment, repeal or modification of any provision of this Article VII shall adversely affect any right or protection of any director, officer, employee or other agent of the Corporation which exists at the time of such amendment, repeal or modification.

## ARTICLE VIII — AMENDMENTS

**Section 8.01 Power of Shareholders.** New Bylaws may be adopted or these Bylaws may be amended or repealed by the affirmative vote or written consent of a majority of the outstanding shares entitled to vote, except as may be specifically set forth in the Articles of Incorporation or these Bylaws to the contrary.

**Section 8.02 Power of Directors.** Subject to the right of the shareholders as provided in Section 8.01 of this Article to adopt, amend or repeal these Bylaws, Bylaws other than a Bylaw or amendment thereof changing the authorized number of directors may be adopted, amended or repealed by the affirmative vote of at least seventy-five percent (75%) of the authorized number of directors. The adoption of a resolution by the Board of Directors that fixes the exact number of directors within the authorized range of directors specified in Section 3.02 of these Bylaws shall not be considered an amendment of these Bylaws.



CERTIFICATION PURSUANT TO  
15 U.S.C. § 7241  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Kocher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calavo Growers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 1, 2022

/s/ Brian Kocher

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Brian Kocher  
President and Chief Executive Officer (Principal Executive  
Officer)

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CERTIFICATION PURSUANT TO  
15 U.S.C. § 7241  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Shawn Munsell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calavo Growers, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 1, 2022

/s/ Shawn Munsell

Shawn Munsell

Chief Financial Officer (Principal Financial Officer)

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WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The undersigned, the Chief Executive Officer, and our Interim Chief Financial Officer of Calavo Growers, Inc. (the Company), hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the Report), fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 1, 2022

/s/ Brian Kocher

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Brian Kocher  
President and Chief Executive Officer

/s/ Shawn Munsell

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Shawn Munsell  
Chief Financial Officer

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