

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

**FORM 10-Q**

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

For the quarterly period ended April 30, 2021

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        | CVGW              | Nasdaq Global 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 April 30, 2021 was 17,683,930



## 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 (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 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 in light of COVID-19, impact on our food service customers, increased costs that we must incur as a result of COVID-19, 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; 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 and the ability of our 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; 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, including FreshRealm; 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.

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, 2020 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)

|  | <u>April 30,</u><br><u>2021</u> | <u>October 31,</u><br><u>2020</u> |
|--|---------------------------------|-----------------------------------|
| <b>Assets</b>  |                                 |                                   |
| Current assets:  |                                 |                                   |
| Cash and cash equivalents  | \$ 5,582                        | \$ 4,055                          |
| Accounts receivable, net of allowances of \$4,338 (2021) and \$3,498 (2020)  | 90,112                          | 63,668                            |
| Inventories, net   | 53,335                          | 41,787                            |
| Prepaid expenses and other current assets  | 9,418                           | 10,733                            |
| Advances to suppliers  | 9,521                           | 5,061                             |
| Income taxes receivable  | 2,419                           | 10,591                            |
| <b>Total current assets</b>  | <b>170,387</b>                  | <b>135,895</b>                    |
| Property, plant, and equipment, net  | 130,787                         | 130,270                           |
| Operating lease right-of-use assets  | 58,169                          | 60,262                            |
| Investment in Limoneira Company  | 30,292                          | 23,197                            |
| Investments in unconsolidated entities   | 4,779                           | 6,065                             |
| Deferred income taxes  | 2,689                           | 2,486                             |
| Goodwill   | 28,653                          | 28,568                            |
| Intangibles, net   | 9,536                           | 10,323                            |
| Other assets   | 39,018                          | 32,558                            |
|  | <u>\$ 474,310</u>               | <u>\$ 429,624</u>                 |
| <b>Liabilities and shareholders' equity</b>  |                                 |                                   |
| Current liabilities:   |                                 |                                   |
| Payable to growers   | \$ 31,390                       | \$ 11,346                         |
| Trade accounts payable   | 14,012                          | 9,384                             |
| Accrued expenses   | 42,035                          | 36,922                            |
| Borrowings pursuant to credit facilities, current  | —                               | 20,550                            |
| Dividend payable   | —                               | 20,343                            |
| Current portion of operating leases  | 6,726                           | 6,443                             |
| Current portion of long-term obligations and finance leases  | 1,421                           | 1,343                             |
| <b>Total current liabilities</b>   | <b>95,584</b>                   | <b>106,331</b>                    |
| Long-term liabilities:   |                                 |                                   |
| Borrowings pursuant to credit facilities, long-term  | 42,250                          | —                                 |
| Long-term operating leases, less current portion   | 55,907                          | 58,273                            |
| Long-term obligations and finance leases, less current portion   | 5,635                           | 5,716                             |
| Other long-term liabilities  | 3,192                           | 3,302                             |
| <b>Total long-term liabilities</b>   | <b>106,984</b>                  | <b>67,291</b>                     |
| Commitments and contingencies  |                                 |                                   |
| Shareholders' equity:  |                                 |                                   |
| Common stock (\$0.001 par value, 100,000 shares authorized; 17,684 (2021) and 17,661 (2020) shares issued and outstanding) | 18                              | 18                                |
| Additional paid-in capital   | 166,709                         | 165,000                           |
| Noncontrolling interest  | 1,385                           | 1,472                             |
| Retained earnings  | 103,630                         | 89,512                            |
| <b>Total shareholders' equity</b>  | <b>271,742</b>                  | <b>256,002</b>                    |
|  | <u>\$ 474,310</u>               | <u>\$ 429,624</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 |                   | Six months ended |                   |
|---|--------------------|-------------------|------------------|-------------------|
|   | April 30,          |                   | April 30,        |                   |
|   | 2021               | 2020              | 2021             | 2020              |
| Net sales   | \$ 276,821         | \$ 281,166        | \$ 497,399       | \$ 554,516        |
| Cost of sales   | 254,221            | 259,091           | 456,960          | 516,633           |
| Gross profit  | 22,600             | 22,075            | 40,439           | 37,883            |
| Selling, general and administrative                                     | 13,683             | 14,504            | 27,857           | 30,802            |
| Gain on sale of Temecula packinghouse                                   | 54                 | 54                | 108              | 108               |
| Operating income  | 8,971              | 7,625             | 12,690           | 7,189             |
| Interest expense  | (191)              | (342)             | (365)            | (529)             |
| Other income, net   | 411                | 628               | 612              | 1,622             |
| Unrealized net gain (loss) on Limoneira shares                          | 3,506              | (10,349)          | 7,095            | (9,343)           |
| Income (loss) before income taxes and loss from unconsolidated entities | 12,697             | (2,438)           | 20,032           | (1,061)           |
| Income tax (provision) benefit  | (2,772)            | 1,208             | (4,715)          | 1,858             |
| Net loss from unconsolidated entities                                   | (1,131)            | (2,177)           | (1,286)          | (5,205)           |
| Net income (loss)   | 8,794              | (3,407)           | 14,031           | (4,408)           |
| Add: Net loss attributable to noncontrolling interest                   | 47                 | 129               | 87               | 192               |
| Net income (loss) attributable to Calavo Growers, Inc.                  | <u>\$ 8,841</u>    | <u>\$ (3,278)</u> | <u>\$ 14,118</u> | <u>\$ (4,216)</u> |
| Calavo Growers, Inc.'s net income (loss) per share:                     |                    |                   |                  |                   |
| Basic   | <u>\$ 0.50</u>     | <u>\$ (0.19)</u>  | <u>\$ 0.80</u>   | <u>\$ (0.24)</u>  |
| Diluted   | <u>\$ 0.50</u>     | <u>\$ (0.19)</u>  | <u>\$ 0.80</u>   | <u>\$ (0.24)</u>  |
| Number of shares used in per share computation:                         |                    |                   |                  |                   |
| Basic   | <u>17,619</u>      | <u>17,550</u>     | <u>17,609</u>    | <u>17,543</u>     |
| Diluted   | <u>17,679</u>      | <u>17,550</u>     | <u>17,668</u>    | <u>17,543</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)

|   | <u>Six months ended April 30,</u> |                 |
|---|-----------------------------------|-----------------|
|   | <u>2021</u>                       | <u>2020</u>     |
| <b>Cash Flows from Operating Activities:</b>  |                                   |                 |
| Net income (loss)   | \$ 14,031                         | \$ (4,408)      |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: |                                   |                 |
| Depreciation and amortization   | 8,371                             | 7,646           |
| Non-cash operating lease expense  | 59                                | 104             |
| Net loss from unconsolidated entities   | 1,286                             | 5,205           |
| Unrealized net gain on Limoneira shares   | (7,095)                           | 9,343           |
| Interest income on notes to FreshRealm  | —                                 | (1,489)         |
| Stock-based compensation expense  | 2,264                             | 2,717           |
| Gain on sale of Temecula packinghouse   | (108)                             | (108)           |
| Loss on disposal of property, plant, and equipment  | —                                 | 230             |
| Effect on cash of changes in operating assets and liabilities:                                  |                                   |                 |
| Accounts receivable, net  | (26,400)                          | (10,388)        |
| Inventories, net  | (11,579)                          | (9,327)         |
| Prepaid expenses and other current assets   | 2,700                             | (1,755)         |
| Advances to suppliers   | (4,460)                           | 7,329           |
| Income taxes receivable/payable   | 8,172                             | (5,985)         |
| Other assets  | (5,126)                           | 2,844           |
| Payable to growers  | 20,044                            | 14,574          |
| Trade accounts payable, accrued expenses and other long-term liabilities                        | 8,264                             | (19,554)        |
| Net cash provided (used) by operating activities  | <u>10,423</u>                     | <u>(3,022)</u>  |
| <b>Cash Flows from Investing Activities:</b>  |                                   |                 |
| Purchases of property, plant, and equipment   | (7,659)                           | (5,937)         |
| Acquisition of SFFI, net of cash acquired of \$623  | —                                 | (18,396)        |
| Investment in FreshRealm  | —                                 | (1,477)         |
| Infrastructure advance to tomato growers  | (1,326)                           | —               |
| Net cash used in investing activities   | <u>(8,985)</u>                    | <u>(25,810)</u> |
| <b>Cash Flows from Financing Activities:</b>  |                                   |                 |
| Payment of dividend to shareholders   | (20,343)                          | (19,354)        |
| Proceeds from revolving credit facility   | 172,600                           | 126,000         |
| Payments on revolving credit facility   | (150,900)                         | (81,000)        |
| Payments of minimum withholding taxes on net share settlement of equity awards                  | (602)                             | (1,179)         |
| Payments on long-term obligations and finance leases  | (713)                             | (410)           |
| Proceeds from stock option exercises  | 47                                | 86              |
| Net cash provided by financing activities   | <u>89</u>                         | <u>24,143</u>   |
| Net increase (decrease) in cash and cash equivalents  | 1,527                             | (4,689)         |
| Cash and cash equivalents, beginning of period  | 4,055                             | 7,973           |
| Cash and cash equivalents, end of period  | <u>\$ 5,582</u>                   | <u>\$ 3,284</u> |
| <b>Noncash Investing and Financing Activities:</b>  |                                   |                 |
| Right of use assets obtained in exchange for new financing lease obligations                    | \$ 665                            | \$ 390          |
| Notes receivable from FreshRealm converted to investment in FreshRealm                          | \$ —                              | \$ 2,761        |
| Property, plant, and equipment included in trade accounts payable and accrued expenses          | \$ 522                            | \$ 1,056        |

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

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

|  | Common Stock  |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Noncontrolling<br>Interest | Total             |
|--|---------------|--------------|----------------------------------|----------------------|----------------------------|-------------------|
|  | Shares        | Amount       |                                  |                      |                            |                   |
| <b>Balance, October 31, 2019</b>   | 17,595        | \$ 18        | \$ 161,606                       | \$ 122,557           | \$ 1,688                   | \$ 285,869        |
| Cumulative effect adjustment on ASC 842 related to leases                      | —             | —            | —                                | 1,165                | —                          | 1,165             |
| Exercise of stock options and income tax benefit                               | 2             | —            | 47                               | —                    | —                          | 47                |
| Stock compensation expense   | —             | —            | 931                              | —                    | —                          | 931               |
| Restricted stock issued  | 17            | —            | —                                | —                    | —                          | —                 |
| Avocados de Jalisco noncontrolling interest contribution                       | —             | —            | —                                | —                    | (63)                       | (63)              |
| Net loss attributable to Calavo Growers, Inc.                                  | —             | —            | —                                | (938)                | —                          | (938)             |
| <b>Balance, January 31, 2020</b>   | <u>17,614</u> | <u>18</u>    | <u>162,584</u>                   | <u>122,784</u>       | <u>1,625</u>               | <u>287,011</u>    |
| Exercise of stock options and income tax benefit                               | 2             | —            | 39                               | —                    | —                          | 39                |
| Stock compensation expense   | —             | —            | 667                              | —                    | —                          | 667               |
| Restricted stock issued  | 23            | —            | 1,119                            | —                    | —                          | 1,119             |
| Payments of minimum withholding taxes on net share settlement of equity awards | —             | —            | (1,179)                          | —                    | —                          | (1,179)           |
| Avocados de Jalisco noncontrolling interest contribution                       | —             | —            | —                                | —                    | (129)                      | (129)             |
| Net loss attributable to Calavo Growers, Inc.                                  | —             | —            | —                                | (3,278)              | —                          | (3,278)           |
| <b>Balance, April 30, 2020</b>   | <u>17,639</u> | <u>\$ 18</u> | <u>\$ 163,230</u>                | <u>\$ 119,506</u>    | <u>\$ 1,496</u>            | <u>\$ 284,250</u> |

|  | Common Stock  |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Noncontrolling<br>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 contribution                       | —             | —            | —                                | —                    | (40)                       | (40)              |
| Net Income attributable to Calavo Growers, Inc.                                | —             | —            | —                                | 5,277                | —                          | 5,277             |
| <b>Balance, January 31, 2021</b>   | <u>17,686</u> | <u>18</u>    | <u>165,487</u>                   | <u>94,789</u>        | <u>1,432</u>               | <u>261,726</u>    |
| Exercise of stock options and income tax benefit                               | —             | —            | —                                | —                    | —                          | —                 |
| 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 contribution                       | —             | —            | —                                | —                    | (47)                       | (47)              |
| Net Income attributable to Calavo Growers, Inc.                                | —             | —            | —                                | 8,841                | —                          | 8,841             |
| <b>Balance, April 30, 2021</b>   | <u>17,684</u> | <u>\$ 18</u> | <u>\$ 166,709</u>                | <u>\$ 103,630</u>    | <u>\$ 1,385</u>            | <u>\$ 271,742</u> |

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

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, 2020.

***Recently Adopted Accounting Standards***

In October 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This ASU was effective for us beginning the first day of our 2021 fiscal year. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

On November 1, 2020, the Company adopted an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update provides guidance regarding the capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract. This ASU was adopted prospectively and cloud computing implementation costs incurred on November 1, 2020 or later are included in other noncurrent assets in the consolidated balance sheet and are presented within operating cash flows. As of April 30, 2021, capitalized implementation costs included in other noncurrent assets were less than \$0.1 million and there was no accumulated amortization or amortization expense recorded during the three and six months ended April 30, 2021.

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

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On November 1, 2020, the Company adopted ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. This standard requires a financial asset to be presented at the net amount expected to be collected. The financial assets of the Company in scope of ASU 2016-13 were primarily accounts receivable. The Company estimates an allowance for expected credit losses on accounts receivable that result from the inability of customers to make required payments. In estimating the allowance for expected credit losses, consideration is given to the current aging of receivables, historical experience, and a review for potential bad debts. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

## 2. Information regarding our operations in different segments

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

|   | Three months ended April 30, 2021 |                  |                  |                   | Three months ended April 30, 2020 |                  |                  |                   |
|---|-----------------------------------|------------------|------------------|-------------------|-----------------------------------|------------------|------------------|-------------------|
|   | Fresh products                    | RFG              | Calavo Foods     | Total             | Fresh products                    | RFG              | Calavo Foods     | Total             |
| Avocados                                  | \$ 146,359                        | \$ —             | \$ —             | \$ 146,359        | \$ 149,865                        | \$ —             | \$ —             | \$ 149,865        |
| Tomatoes                                  | 13,433                            | —                | —                | 13,433            | 19,331                            | —                | —                | 19,331            |
| Papayas                                   | 2,647                             | —                | —                | 2,647             | 2,363                             | —                | —                | 2,363             |
| Other fresh income                        | 126                               | —                | —                | 126               | 112                               | —                | —                | 112               |
| Prepared avocado products                 | —                                 | —                | 20,915           | 20,915            | —                                 | —                | 19,118           | 19,118            |
| Salsa                                     | —                                 | —                | 696              | 696               | —                                 | —                | 609              | 609               |
| Fresh-cut fruit & veg. and prepared foods | —                                 | 97,011           | —                | 97,011            | —                                 | 94,186           | —                | 94,186            |
| Total gross sales                         | 162,565                           | 97,011           | 21,611           | 281,187           | 171,671                           | 94,186           | 19,727           | 285,584           |
| Less sales incentives                     | (879)                             | (722)            | (875)            | (2,476)           | (803)                             | (657)            | (1,874)          | (3,334)           |
| Less inter-company eliminations           | (717)                             | —                | (1,173)          | (1,890)           | (234)                             | —                | (850)            | (1,084)           |
| Net sales                                 | <u>\$ 160,969</u>                 | <u>\$ 96,289</u> | <u>\$ 19,563</u> | <u>\$ 276,821</u> | <u>\$ 170,634</u>                 | <u>\$ 93,529</u> | <u>\$ 17,003</u> | <u>\$ 281,166</u> |

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|   | Six months ended April 30, 2021 |            |              |            | Six months ended April 30, 2020 |            |              |            |
|---|---------------------------------|------------|--------------|------------|---------------------------------|------------|--------------|------------|
|   | Fresh products                  | RFG        | Calavo Foods | Total      | Fresh products                  | RFG        | Calavo Foods | Total      |
| Avocados                                  | \$ 250,130                      | \$ —       | \$ —         | \$ 250,130 | \$ 267,749                      | \$ —       | \$ —         | \$ 267,749 |
| Tomatoes                                  | 22,619                          | —          | —            | 22,619     | 32,324                          | —          | —            | 32,324     |
| Papayas                                   | 5,397                           | —          | —            | 5,397      | 5,007                           | —          | —            | 5,007      |
| Other fresh income                        | 454                             | —          | —            | 454        | 237                             | —          | —            | 237        |
| Prepared avocado products                 | —                               | —          | 37,753       | 37,753     | —                               | —          | 40,919       | 40,919     |
| Salsa                                     | —                               | —          | 1,408        | 1,408      | —                               | —          | 1,328        | 1,328      |
| Fresh-cut fruit & veg. and prepared foods | —                               | 188,262    | —            | 188,262    | —                               | 215,653    | —            | 215,653    |
| Total gross sales                         | 278,600                         | 188,262    | 39,161       | 506,023    | 305,317                         | 215,653    | 42,247       | 563,217    |
| Less sales incentives                     | (1,455)                         | (1,667)    | (1,967)      | (5,089)    | (1,259)                         | (1,190)    | (3,910)      | (6,359)    |
| Less inter-company eliminations           | (1,243)                         | —          | (2,292)      | (3,535)    | (700)                           | —          | (1,642)      | (2,342)    |
| Net sales                                 | \$ 275,902                      | \$ 186,595 | \$ 34,902    | \$ 497,399 | \$ 303,358                      | \$ 214,463 | \$ 36,695    | \$ 554,516 |

|  | Fresh products | RFG        | Calavo Foods | Interco. Elimins. | Total      |
|--|----------------|------------|--------------|-------------------|------------|
| <b>Three months ended April 30, 2021</b> |                |            |              |                   |            |
| Net sales                                | \$ 161,686     | \$ 96,289  | \$ 20,736    | \$ (1,890)        | \$ 276,821 |
| Cost of sales                            | 146,678        | 94,001     | 15,432       | (1,890)           | 254,221    |
| Gross profit                             | \$ 15,008      | \$ 2,288   | \$ 5,304     | \$ —              | \$ 22,600  |
| <b>Three months ended April 30, 2020</b> |                |            |              |                   |            |
| Net sales                                | \$ 170,868     | \$ 93,529  | \$ 17,853    | \$ (1,084)        | \$ 281,166 |
| Cost of sales                            | 156,463        | 90,793     | 12,919       | (1,084)           | 259,091    |
| Gross profit                             | \$ 14,405      | \$ 2,736   | \$ 4,934     | \$ —              | \$ 22,075  |
| <b>Six months ended April 30, 2021</b>   |                |            |              |                   |            |
| Net sales                                | \$ 277,145     | \$ 186,595 | \$ 37,194    | \$ (3,535)        | \$ 497,399 |
| Cost of sales                            | 248,992        | 184,329    | 27,174       | (3,535)           | 456,960    |
| Gross profit                             | \$ 28,153      | \$ 2,266   | \$ 10,020    | \$ —              | \$ 40,439  |
| <b>Six months ended April 30, 2020</b>   |                |            |              |                   |            |
| Net sales                                | \$ 304,058     | \$ 214,463 | \$ 38,337    | \$ (2,342)        | \$ 554,516 |
| Cost of sales                            | 283,071        | 208,853    | 27,051       | (2,342)           | 516,633    |
| Gross profit                             | \$ 20,987      | \$ 5,610   | \$ 11,286    | \$ —              | \$ 37,883  |

For the three months ended April 30, 2021 and 2020, intercompany sales and cost of sales of \$0.7 million and \$0.2 million between Fresh products and RFG were eliminated. For the six months ended April 30, 2021 and 2020, intercompany sales and cost of sales of \$1.2 million and \$0.7 million between Fresh products and RFG were eliminated. For the three months ended April 30, 2021 and 2020, intercompany sales and cost of sales of \$1.2 million and \$0.8 million between Calavo Foods and RFG were eliminated. For the six months ended April 30, 2021 and 2020, intercompany sales and cost of sales of \$2.3 million and \$1.6 million between Calavo Foods and RFG were eliminated.

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Sales to customers outside the U.S. were approximately \$8.8 million, and \$5.8 million for the three months ended April 30, 2021 and 2020. Sales to customers outside the U.S. were approximately \$16.9 million, and \$15.4 million for the six months ended April 30, 2021 and 2020.

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. The Mexican peso strengthened compared to the U.S. dollar from 20.22 (MX peso to U.S. dollar) at January 31, 2021 to 20.18 (MX peso to U.S. dollar) at April 30, 2021. Foreign currency remeasurement losses, net of gains, for the three months ended April 30, 2021 and 2020 was \$0.5 million and \$3.4 million. Foreign currency remeasurement gains, net of losses, for the six months ended April 30, 2021 was \$0.6 million. Foreign currency remeasurement losses, net of gains, for the six months ended April 30, 2020 was \$3.3 million.

Long-lived assets attributed to geographic areas as of April 30, 2021 and October 31, 2020, are as follows (in thousands):

|                  | <u>United States</u> | <u>Mexico</u> | <u>Consolidated</u> |
|------------------|----------------------|---------------|---------------------|
| April 30, 2021   | \$ 92,668            | \$ 38,119     | \$ 130,787          |
| October 31, 2020 | \$ 95,110            | \$ 35,160     | \$ 130,270          |

### 3. Inventories

Inventories consist of the following (in thousands):

|                                  | <u>April 30,<br/>2021</u> | <u>October 31,<br/>2020</u> |
|----------------------------------|---------------------------|-----------------------------|
| Fresh fruit                      | \$ 27,169                 | \$ 14,677                   |
| Packing supplies and ingredients | 14,315                    | 12,540                      |
| Finished prepared foods          | 11,851                    | 14,570                      |
|                                  | <u>\$ 53,335</u>          | <u>\$ 41,787</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 \$0.2 million in slow moving and obsolete packing supply inventory as of April 30, 2021 and October 31, 2020. No additional inventory reserve was considered necessary as of April 30, 2021 and October 31, 2020.

### 4. Related party transactions

Certain members of our Board of Directors market California avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. For the three months ended April 30, 2021 and 2020, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$5.0 million and \$5.9 million. For the six months ended April 30, 2021 and 2020, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$5.0 million and \$6.1 million. Amounts payable to these Board members were \$3.3 million as of April 30, 2021. We did not have any amounts payable to these Board members as of October 31, 2020.

During the three months ended April 30, 2021 and 2020, we received \$0.1 million as dividend income from Limoneira Company (Limoneira). During the six months ended April 30, 2021 and 2020, we received \$0.2 million and \$0.1 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate

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office. We paid rent expense to Limoneira totaling \$0.1 million for the three months ended April 30, 2021 and 2020. We paid rent expense to Limoneira totaling \$0.2 million for the six months ended April 30, 2021 and 2020. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. As of April 30, 2021, we own approximately 9% of Limoneira's outstanding shares.

We currently have a board member who served as a partner in the law firm of TroyGould PC, which has represented Calavo as legal counsel on certain matters, until his retirement in December 2020. During the three months ended April 30, 2021 and 2020, Calavo Growers, Inc. paid fees totaling \$0.1 million to TroyGould PC. During the six months ended April 30, 2021 and 2020, Calavo Growers, Inc. paid fees totaling \$0.2 million to TroyGould PC.

Calavo and Agricola Belher ("Belher") have an equal one-half ownership interest in Agricola Don Memo, S.A. de C.V. ("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 April 30, 2021, and October 31, 2020, we had an investment of \$4.8 million and \$6.0 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. As of April 30, 2021 and October 31, 2020, we had outstanding advances of \$4.2 million and \$2.4 million to Don Memo. In October 2020, we entered into an infrastructure loan agreement with Don Memo for \$2.4 million secured by certain property and equipment of Don Memo. This infrastructure loan will incur 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. This infrastructure loan agreement will mature in fiscal 2024. During the three months ended April 30, 2021 and 2020, we recorded \$0.4 million and \$0.6 million of cost of sales to Don Memo pursuant to our consignment agreement. During the six months ended April 30, 2021 and 2020, we recorded \$3.9 million and \$4.6 million of cost of sales to Don Memo pursuant to our consignment agreement.

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 \$4.5 million as of April 30, 2021 and October 31, 2020, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of \$1.8 million as of April 30, 2021 and October 31, 2020. The remaining principal balance is due in \$0.9 million installments on July 2021 and July 2022. Of these infrastructure advances \$0.9 million and \$0.6 million was recorded as a receivable in prepaid and other current assets as of April 30, 2021 and October 31, 2020. The remaining \$0.9 million of these infrastructure advances were recorded in other assets. During the three months ended April 30, 2021 and 2020, we recorded \$11.2 million and \$15.7 million of cost of sales to Belher pursuant to our consignment agreement. During the six months ended April 30, 2021 and 2020, we recorded \$14.5 million and \$19.6 million of cost of sales to Belher pursuant to our consignment agreement.

In August 2015, we entered into a Shareholder's Agreement with various Mexican partners and created Avocados de Jalisco, S.A.P.I. de C.V. ("Avocados de Jalisco"). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. As of April 30, 2021, 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 April 30, 2021 and 2020, we purchased approximately \$1.0 million and \$1.5 million of avocados from the partners of Avocados de Jalisco. During the six months ended April 30, 2021 and 2020, we purchased approximately \$3.2 million and \$1.9 million of avocados from the partners of Avocados de Jalisco.

FreshRealm is a start-up company, engaged in activities relating to the marketing of food products directly to consumers or other entities. On February 3, 2021, Calavo and FreshRealm entered into a Limited Liability Company Member Separation and Release Agreement (the Separation Agreement). See Note 12 for more information. Prior to the Separation Agreement, we had an equity investment in FreshRealm representing approximately 37% ownership of FreshRealm. We recorded an impairment of 100% of this equity investment, or \$2.8 million, in the third quarter of fiscal

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2020. We had a note receivable and trade receivables of approximately \$34.5 million at October 31, 2020 (which includes accrued interest) from FreshRealm. We recorded a reserve of \$34.5 million during fiscal 2020 for which the receivables continue to be fully reserved as of April 30, 2021.

One officer and five members of our board of directors have investments in FreshRealm as of April 30, 2021 and October 31, 2020. Prior to the Separation Agreement, three members of our board of directors served as board members of FreshRealm.

We provide storage services to FreshRealm from select Value-Added Depots and RFG facilities. We have recorded and received \$0.2 million and \$0.1 million in storage services revenue from FreshRealm in the three months ended April 30, 2021 and 2020. We have recorded and received \$0.3 million and \$0.3 million in storage services revenue from FreshRealm in the six months ended April 30, 2021 and 2020. For the three months ended April 30, 2020, RFG has sold less than \$0.1 million of products to FreshRealm. For the six months ended April 30, 2020, RFG has sold \$0.3 million of products to FreshRealm.

## 5. Other assets

Other assets consist of the following (in thousands):

|  | April 30,<br>2021 | October 31,<br>2020 |
|--|-------------------|---------------------|
| Mexican IVA (i.e. value-added) taxes receivable (see note 11)    | \$ 34,971         | \$ 30,126           |
| Infrastructure advances to Agricola Belher and Agricola Don Memo | 2,541             | 1,215               |
| Other  | 1,506             | 1,217               |
|  | <u>\$ 39,018</u>  | <u>\$ 32,558</u>    |

Intangible assets consist of the following (in thousands):

|                             | Weighted-<br>Average<br>Useful Life | April 30, 2021             |                        |                      | October 31, 2020           |                        |                      |
|-----------------------------|-------------------------------------|----------------------------|------------------------|----------------------|----------------------------|------------------------|----------------------|
|                             |                                     | Gross<br>Carrying<br>Value | Accum.<br>Amortization | Net<br>Book<br>Value | Gross<br>Carrying<br>Value | Accum.<br>Amortization | Net<br>Book<br>Value |
| Customer list/relationships | 7 years                             | \$ 17,340                  | \$ (9,315)             | \$ 8,025             | \$ 17,340                  | \$ (8,613)             | \$ 8,727             |
| Trade names                 | 11 years                            | 4,060                      | (2,913)                | 1,147                | 4,060                      | (2,852)                | 1,208                |
| Trade secrets/recipes       | 9 years                             | 630                        | (541)                  | 89                   | 630                        | (517)                  | 113                  |
| Brand name intangibles      | indefinite                          | 275                        | —                      | 275                  | 275                        | —                      | 275                  |
| Intangibles, net            |                                     | <u>\$ 22,305</u>           | <u>\$ (12,769)</u>     | <u>\$ 9,536</u>      | <u>\$ 22,305</u>           | <u>\$ (11,982)</u>     | <u>\$ 10,323</u>     |

We anticipate recording amortization expense of \$0.8 million for the remainder of fiscal 2021, \$1.6 million for fiscal year 2022, \$1.5 million for fiscal year 2023, \$1.5 million for fiscal year 2024, and \$3.9 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. This is a ten-year plan, with up to 1,500,000 shares issuable through December 2031.

In April 2021, the Board of Directors approved the vesting of all of the remaining restricted shares outstanding to our former Chief Executive Officer and Board member. With this vesting, we recognized stock-based compensation of \$0.7 million for the three and six months ended April 30, 2021.

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On November 2, 2020, 11 of our non-employee directors were each granted 1,500 restricted shares, as part of their annual compensation (total of 16,500 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$67.97. On January 2, 2022, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was \$0.3 million for the three months ended April 30, 2021. The total recognized stock-based compensation expense for these grants was \$0.4 million for the six months ended April 30, 2021.

On November 2, 2020, our executive officers were granted a total of 9,334 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 \$67.97. These shares vest in one-half increments, on an annual basis, beginning November 2, 2021. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was \$0.1 million for the three months ended April 30, 2021. The total recognized stock-based compensation expense for these grants was \$0.2 million for the six months ended April 30, 2021.

On November 2, 2020, key employees were granted a total of 2,600 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 \$67.97. These shares vest in one-third increments, on an annual basis, beginning November 2, 2021. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were insignificant for the three months ended April 30, 2021. The total recognized stock-based compensation expense for these grants were insignificant for the six months ended April 30, 2021.

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

|                                 | <b>Number of Shares</b> | <b>Weighted-Average Grant Price</b> | <b>Aggregate Intrinsic Value</b> |
|---------------------------------|-------------------------|-------------------------------------|----------------------------------|
| Outstanding at October 31, 2020 | 76                      | \$ 80.45                            |                                  |
| Vested                          | (45)                    | \$ 83.27                            |                                  |
| Granted                         | 23                      | \$ 67.97                            |                                  |
| Outstanding at April 30, 2021   | <u>54</u>               | \$ 72.29                            | <u>\$ 4,257</u>                  |

The total recognized stock-based compensation expense for restricted stock was \$1.4 million and \$1.8 million for the three months ended April 30, 2021 and 2020. The total recognized stock-based compensation expense for restricted stock was \$2.3 million and \$2.7 million for the six months ended April 30, 2021 and 2020. Total unrecognized stock-based compensation expense totaled \$3.5 million as of April 30, 2021 and will be amortized through fiscal year 2023.

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.

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

|                                 | <b>Number of Shares</b> | <b>Weighted-Average<br/>Exercise<br/>Price</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------|-------------------------|--|--|
| Outstanding at October 31, 2020 | 16                      | \$ 44.21                                       |  |
| Exercised                       | (2)                     | \$ 23.48                                       |  |
| Outstanding at April 30, 2021   | 14                      | \$ 47.17                                       | \$ 433                                   |
| Exercisable at April 30, 2021   | 12                      | \$ 45.59                                       | \$ 390                                   |

At April 30, 2021, outstanding and exercisable stock options had a weighted-average remaining contractual term of 3.0 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three and six months ended April 30, 2021 and 2020.

## 7. Other events

### *Dividend payment*

On December 4, 2020, we paid a \$1.15 per share dividend in the aggregate amount of \$20.3 million to shareholders of record on November 13, 2020.

### *Litigation*

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

### *Mexico tax audits*

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly-owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (the "2011 Assessment") totaling approximately \$2.2 billion Mexican pesos (approx. \$109.0 million USD at April 30, 2021) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal year 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM's 2011 Assessment on June 12, 2019. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities, forcing the legal office within the MFM to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Furthermore, in August 2018, we received a favorable ruling from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") central legal department in Mexico City on another tax matter (see footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019.



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In February 2021, the legal division of the MFM issued a resolution in which the 2011 Assessment was declared void. As a result, the legal division ordered the MFM to issue a new tax assessment, taking into consideration arguments made by the Company in its filing of the administrative appeal. Such new tax assessment is pending.

Additionally, we also received notice from the SAT, that CDM is currently under examination related to fiscal year 2013. In January 2017, we received preliminary observations from SAT outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and 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 working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (approx. \$128.8 million USD at April 30, 2021) related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.8 million USD at April 30, 2021).

We have consulted with both an internationally recognized tax advisor as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

In light of the foregoing, the Company is currently considering its options for resolution of the two tax assessments:

- In the unlikely event of an unfavorable resolution of the administrative appeal, we could file a nullification suit with the Mexican Tax Court. In order to file such suit, we would be required to post collateral or a bond for the total amount of the tax assessment (including inflation adjustments, penalties and surcharges) while the suit is in process, which could last from two to three years. If the suit results in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court while maintaining the collateral or bond in place.
- In the event of filing a nullification suit, the collateral or bonding requirement may be avoided by filing a nullification suit on substantive matters ("Juicio de Fondo"). This type of suit permits only arguments on the legal merits of the taxpayer's case, and limits arguments on procedural matters.

The estimated time for resolution of this matter could be affected by the situation related to the COVID-19 pandemic. We continue to believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

## **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).

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The following table sets forth our financial assets and liabilities as of April 30, 2021 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 April 30, 2021:</b>   |                  |                |                |                  |
| Investment in Limoneira Company <sup>(1)</sup>   | \$ 30,292        | -              | -              | \$ 30,292        |
| Total assets at fair value                       | <u>\$ 30,292</u> | <u>-</u>       | <u>-</u>       | <u>\$ 30,292</u> |
| <b>Assets at Fair Value at October 31, 2020:</b> |                  |                |                |                  |
| Investment in Limoneira Company <sup>(1)</sup>   | \$ 23,197        | -              | -              | \$ 23,197        |
| Total assets at fair value                       | <u>\$ 23,197</u> | <u>-</u>       | <u>-</u>       | <u>\$ 23,197</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 April 30, 2021 and 2020, we recognized gains of \$3.5 million and losses of \$10.3 million on the consolidated condensed statement of operations. For the six months ended April 30, 2021 and 2020, we recognized gains of \$7.1 million and losses of \$9.3 million 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 April 30,</u> |                 |
|---|-------------------------------------|-----------------|
|   | <u>2021</u>                         | <u>2020</u>     |
| Noncontrolling interest, beginning                                      | \$ 1,432                            | \$ 1,625        |
| Net loss attributable to noncontrolling interest of Avocados de Jalisco | (47)                                | (129)           |
| Noncontrolling interest, ending   | <u>\$ 1,385</u>                     | <u>\$ 1,496</u> |

| <u>Avocados de Jalisco noncontrolling interest</u>                      | <u>Six months ended April 30,</u> |                 |
|---|-----------------------------------|-----------------|
|   | <u>2021</u>                       | <u>2020</u>     |
| Noncontrolling interest, beginning                                      | \$ 1,472                          | \$ 1,688        |
| Net loss attributable to noncontrolling interest of Avocados de Jalisco | (87)                              | (192)           |
| Noncontrolling interest, ending   | <u>\$ 1,385</u>                   | <u>\$ 1,496</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 April 30,</u> |               |
|---|-------------------------------------|---------------|
|   | <u>2021</u>                         | <u>2020</u>   |
| <b>Numerator:</b>   |                                     |               |
| Net income (loss) attributable to Calavo Growers, Inc.                  | \$ 8,841                            | \$ (3,278)    |
| <b>Denominator:</b>   |                                     |               |
| Weighted average shares – Basic   | 17,619                              | 17,550        |
| Effect of dilutive securities – Restricted stock/options                | 60                                  | —             |
| Weighted average shares – Diluted                                       | <u>17,679</u>                       | <u>17,550</u> |
| <b>Net income (loss) per share attributable to Calavo Growers, Inc:</b> |                                     |               |
| Basic   | \$ 0.50                             | \$ (0.19)     |
| Diluted   | \$ 0.50                             | \$ (0.19)     |

|   | Six months ended<br>April 30, |            |
|---|-------------------------------|------------|
|   | 2021                          | 2020       |
| <b>Numerator:</b>   |                               |            |
| Net Income (loss) attributable to Calavo Growers, Inc.                  | \$ 14,118                     | \$ (4,216) |
| <b>Denominator:</b>   |                               |            |
| Weighted average shares - Basic   | 17,609                        | 17,543     |
| Effect on dilutive securities – Restricted stock/options                | 59                            | —          |
| Weighted average shares - Diluted                                       | 17,668                        | 17,543     |
| <b>Net income (loss) per share attributable to Calavo Growers, Inc:</b> |                               |            |
| Basic   | \$ 0.80                       | \$ (0.24)  |
| Diluted   | \$ 0.80                       | \$ (0.24)  |

#### 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 receivable from the Mexican government.

As of April 30, 2021, and October 31, 2020, CDM IVA receivables totaled \$35.0 million (705.8 million Mexican pesos) and \$30.2 million (640.7 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 2021, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances through regular administrative processes, but certain amounts may ultimately need to be recovered via legal means and/or administrative appeals.

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

In spite of the favorable ruling from the SAT’s central legal department in Mexico City, as discussed above, the local SAT office continues to believe that CDM is not properly documented relative to its declared tax structure. As a result, they believe CDM cannot claim certain refundable IVA balances, specifically regarding our IVA refunds related to January through December of 2013, 2014, and 2015, and January 2017. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. With assistance from our internationally recognized tax advisory firm, as of April 30, 2021, CDM has filed (or has plans to file) administrative appeals for the IVA related to the preceding months. A response to these administrative appeals is currently pending resolution.

In light of the foregoing, the Company is currently considering its options for resolution of the VAT receivables. In the unlikely event of an unfavorable resolution of the administrative appeals, we plan to file nullification suits with the

Mexican Tax Court. If the 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. This estimated time could be impacted by the situation of the COVID-19 pandemic.

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

## **12. FreshRealm Separation**

On February 3, 2021, Calavo and FreshRealm entered into a Limited Liability Company Member Separation and Release Agreement (the “Separation Agreement”) described below.

Calavo was previously a limited liability company member in FreshRealm and was a party to that certain FreshRealm, LLC Seventh Amended and Restated Limited Liability Company Agreement, dated as of February 27, 2019, by and among FreshRealm and its members. Calavo and FreshRealm were also parties to that certain Sixth Amended and Restated Senior Promissory Note, effective August 10, 2018, as amended (the “Prior Note”), pursuant to which Calavo loaned to FreshRealm principal plus accrued interest in the total sum of \$34.5 million. This note was fully reserved in fiscal 2020.

Pursuant to the Separation Agreement, among other terms: (i) Calavo terminated its limited liability company interest and equity ownership in FreshRealm; (ii) Calavo and FreshRealm simultaneously entered into an Amended and Restated Senior Secured Loan Agreement and Promissory Note (the “Amended Note”), which amended and restated the Prior Note; (iii) FreshRealm issued an additional Secured Promissory Note to Calavo in the amount of approximately \$5 million that is subordinated to the Amended Note (the “Second Note”, together with the Amended Note, the “Notes”); (iv) in the event FreshRealm pays Calavo the sum of \$6 million (the “Loan Payoff Amount”) by March 31, 2022 (the “Loan Payoff Period”), the Notes shall be deemed paid in full; (v) the parties agreed to a mutual release of any claims; and (vi) the parties agreed to indemnify each other from any subsequent third party claims.

In the event FreshRealm fails to pay the Loan Payoff Amount by the Loan Payoff Period, the Notes shall remain in full force and effect, and pursuant to a warrant issued to Calavo, Calavo shall have the right to purchase 4,207,397 equity units in Fresh Realm. The Notes have an interest rate of 1.46% per annum with a maturity date of April 1, 2022 and are secured in all of the assets and collateral of FreshRealm pursuant to that certain Third Amended and Restated Security Agreement dated February 3, 2021.

If FreshRealm (i) pays to Calavo the Loan Payoff Amount within the Loan Payoff Period; and (ii) undergoes a “Success Event” in the future, including: a merger, a majority sale of FreshRealm’s assets or equity ownership interests, a private placement, or an initial public offering where FreshRealm as a company is valued at \$100 million or more, FreshRealm must pay to the Company additional compensation in accordance with the following:

- FreshRealm must pay Calavo a \$10 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$100 million, but less than \$230 million;
- FreshRealm must pay Calavo a \$20 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$230 million, but less than \$380 million; or
- FreshRealm must pay Calavo a \$34 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$380 Million.

Aside from the above, if FreshRealm undergoes a sale of its business either through a merger or a majority sale of its assets or equity interests before February 3, 2022, FreshRealm must pay Calavo \$6 million, if it hasn’t already paid the Loan Payoff Amount, plus twenty percent (20%) of the purchase price proceeds from such sale of FreshRealm. Due to the substantial uncertainty, no amounts have been recorded on the balance sheet as of April 30, 2021.

### **13. Credit Facility**

On January 29, 2021, we entered into the Third Amendment to Credit Agreement (the “Third Amendment”) with Farm Credit West, PCA and Bank of America, N.A. relating to our Credit Agreement dated as of June 14, 2016, First Amendment to Credit Agreement dated as of August 29, 2016, and Second Amendment to Credit Agreement dated as of February 28, 2019 (collectively, the Credit Facility). This Third Amendment, among other things, provides for a five-year extension of the maturity date to January 29, 2026, a \$20 million increase in the revolving commitment to \$100 million (from \$80 million) (for a total facility size of \$150 million if the \$50 million accordion is exercised, up from a total size of \$130 million), and a 25 basis point increase in the interest rate. The new interest rate schedules are effective mid-June 2021. The weighted-average interest rate under the Credit Facility was 2.8% and 1.9% at April 30, 2021 and October 31, 2020. Under the Credit Facility, we had \$42.3 million and \$20.6 million outstanding as April 30, 2021 and October 31, 2020. In accordance with the extended due date, the outstanding balance of the Credit Facility has been classified to long-term in the accompanying balance sheet as of April 30, 2021.

The Credit Facility agreement contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all financial covenants at April 30, 2021.

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

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

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 and created significant volatility and disruption of financial markets. We believe we are well-positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We 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 COVID-19 pandemic began to have an adverse impact on our results of operations in the month of March 2020, resulting in cancelled orders, altered customer buying patterns, delays in potential new business opportunities, losses on product unable to be sold, reductions in margins related to lower manufacturing throughput, and changes to integration plans for an acquired entity. 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.

We may also experience additional costs related to increased workers’ compensation claims, health and safety inspections and group health insurance expenses as a result of the COVID-19 pandemic. We may also be subject to lawsuits from employees and others exposed to COVID-19 at our production and other facilities. Our professional and general liability insurance may not cover all claims against us. In addition, our operations and financial results may be further adversely affected by federal or state laws, regulations, orders, or other governmental or regulatory actions addressing the current COVID-19 pandemic. While we have managed the pandemic well, with minimal disruption to our overall business thus far, the continuing impact of the pandemic on our future consolidated results, financial position and cash flows are uncertain.

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 companywide.

## **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, 2020 of Calavo Growers, Inc. ("we", "Calavo", or the "Company").

### ***Recent Developments***

#### *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 and created significant volatility and disruption of financial markets. We believe we are well-positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We 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 COVID-19 pandemic began to have an adverse impact on our results of operations in the month of March 2020, resulting in cancelled orders, altered customer buying patterns, delays in potential new business opportunities, losses on product unable to be sold, reductions in margins related to lower manufacturing throughput, and changes to integration plans for an acquired entity. 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.

We may also experience additional costs related to increased workers' compensation claims, health and safety inspections and group health insurance expenses as a result of the COVID-19 pandemic. We may also be subject to lawsuits from employees and others exposed to COVID-19 at our production and other facilities. Our professional and general liability insurance may not cover all claims against us. In addition, our operations and financial results may be further adversely affected by federal or state laws, regulations, orders, or other governmental or regulatory actions addressing the current COVID-19 pandemic. While we have managed the pandemic well, with minimal disruption to our overall business thus far, the continuing impact of the pandemic on our future consolidated results, financial position and cash flows are uncertain.

#### *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 companywide.

#### *Dividend payment*

On December 4, 2020, we paid a \$1.15 per share dividend in the aggregate amount of \$20.3 million to shareholders of record on November 13, 2020.

#### *Litigation*

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

*Mexico tax audits*

We conduct business both domestically and internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly-owned subsidiary, Calavo de Mexico (CDM), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico (MFM) containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (the "2011 Assessment") totaling approximately \$2.2 billion Mexican pesos (approx. \$109.0 million USD at April 30, 2021) related to Income Tax, Flat Rate Business Tax and Value Added Tax, corresponding to the fiscal year 2011 tax audit. We have consulted with an internationally recognized tax advisor and continue to believe this tax assessment is without merit. Therefore, we filed an administrative appeal challenging the MFM's 2011 Assessment on June 12, 2019. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities, forcing the legal office within the MFM to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Furthermore, in August 2018, we received a favorable ruling from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") central legal department in Mexico City on another tax matter (see footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2011 Assessment. We believe this recent ruling undermines the Assessment we received in April 2019.

In February 2021, the legal division of the MFM issued a resolution in which the 2011 Assessment was declared void. As a result, the legal division ordered the MFM to issue a new tax assessment, taking into consideration arguments made by the Company in its filing of the administrative appeal. Such new tax assessment is pending.

Additionally, we also received notice from the SAT, that CDM is currently under examination related to fiscal year 2013. In January 2017, we received preliminary observations from SAT outlining certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers, and 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 working meetings attended by representatives of the SAT, CDM and the PRODECON. However, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, in July 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately \$2.6 billion Mexican pesos (approx. \$128.8 million USD at April 30, 2021) related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.8 million USD at April 30, 2021).

We have consulted with both an internationally recognized tax advisor as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, and as noted in the preceding paragraphs, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

In light of the foregoing, the Company is currently considering its options for resolution of the two tax assessments:

- In the unlikely event of an unfavorable resolution of the administrative appeal, we could file a nullification suit with the Mexican Tax Court. In order to file such suit, we would be required to post collateral or a bond for the total amount of the tax assessment (including inflation adjustments, penalties and surcharges) while the suit is in process, which could last from two to three years. If the suit results in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court while maintaining the collateral or bond in place.
- In the event of filing a nullification suit, the collateral or bonding requirement may be avoided by filing a nullification suit on substantive matters (“Juicio de Fondo”). This type of suit permits only arguments on the legal merits of the taxpayer’s case, and limits arguments on procedural matters.

The estimated time for resolution of this matter could be affected by the situation related to the COVID-19 pandemic. We continue to believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position.

#### *FreshRealm Separation*

On February 3, 2021, Calavo and FreshRealm entered into a Limited Liability Company Member Separation and Release Agreement (the “Separation Agreement”) described below.

Calavo was previously a limited liability company member in FreshRealm and was a party to that certain FreshRealm, LLC Seventh Amended and Restated Limited Liability Company Agreement, dated as of February 27, 2019, by and among FreshRealm and its members. Calavo and FreshRealm were also parties to that certain Sixth Amended and Restated Senior Promissory Note, effective August 10, 2018, as amended (the “Prior Note”), pursuant to which Calavo loaned to FreshRealm principal plus accrued interest in the total sum of \$34.5 million.

Pursuant to the Separation Agreement, among other terms: (i) Calavo terminated its limited liability company interest and equity ownership in FreshRealm; (ii) Calavo and FreshRealm simultaneously entered into an Amended and Restated Senior Secured Loan Agreement and Promissory Note (the “Amended Note”), which amended and restated the Prior Note; (iii) FreshRealm issued an additional Secured Promissory Note to Calavo in the amount of approximately \$5 million that is subordinated to the Amended Note (the “Second Note”, together with the Amended Note, the “Notes”); (iv) in the event FreshRealm pays Calavo the sum of \$6 million (the “Loan Payoff Amount”) by March 31, 2022 (the “Loan Payoff Period”), the Notes shall be deemed paid in full; (v) the parties agreed to a mutual release of any claims; and (vi) the parties agreed to indemnify each other from any subsequent third party claims.

In the event FreshRealm fails to pay the Loan Payoff Amount by the Loan Payoff Period, the Notes shall remain in full force and effect, and pursuant to a warrant issued to Calavo, Calavo shall have the right to purchase 4,207,397 equity units in Fresh Realm. The Notes have an interest rate of 1.46% per annum with a maturity date of April 1, 2022 and are secured in all of the assets and collateral of FreshRealm pursuant to that certain Third Amended and Restated Security Agreement dated February 3, 2021.

If FreshRealm (i) pays to Calavo the Loan Payoff Amount within the Loan Payoff Period; and (ii) undergoes a “Success Event” in the future, including: a merger, a majority sale of FreshRealm’s assets or equity ownership interests, a private placement, or an initial public offering where FreshRealm as a company is valued at \$100 million or more, FreshRealm must pay to the Company additional compensation in accordance with the following:

- FreshRealm must pay Calavo a \$10 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$100 million, but less than \$230 million;
- FreshRealm must pay Calavo a \$20 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$230 million, but less than \$380 million; or



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- FreshRealm must pay Calavo a \$34 million payment upon the closing of a Success Event if the valuation of FreshRealm at the time of the Success Event is equal to or greater than \$380 Million.

Aside from the above, if FreshRealm undergoes a sale of its business either through a merger or a majority sale of its assets or equity interests before February 3, 2022, FreshRealm must pay Calavo \$6 million, if it hasn't already paid the Loan Payoff Amount, plus twenty percent (20%) of the purchase price proceeds from such sale of FreshRealm. Due to the substantial uncertainty, no amounts have been recorded on the balance sheet as of April 30, 2021.

### ***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 (income) recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring and 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 (income) recognized from unconsolidated entities, (2) goodwill impairment, (3) write-off of long-lived assets, (4) acquisition-related costs, (5) restructuring and 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.

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**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<br>April 30, |                  | Six months ended<br>April 30, |                  |
|---|---------------------------------|------------------|-------------------------------|------------------|
|   | 2021                            | 2020             | 2021                          | 2020             |
| Net income (loss) attributable to Calavo Growers, Inc.      | \$ 8,841                        | \$ (3,278)       | \$ 14,118                     | \$ (4,216)       |
| Non-GAAP adjustments:                                       |                                 |                  |                               |                  |
| Non-cash losses recognized from unconsolidated entities (a) | 1,131                           | 2,177            | 1,286                         | 5,205            |
| Income from FreshRealm Recovery (b)                         | —                               | —                | (130)                         | —                |
| Certain management transition expenses (c)                  | 685                             | 1,119            | 685                           | 1,119            |
| Acquisition costs (d)                                       | —                               | 220              | 262                           | 510              |
| Net (gain) loss on Limoneira shares (e)                     | (3,506)                         | 10,349           | (7,095)                       | 9,343            |
| RFG rent expense add back (f)                               | 108                             | —                | 216                           | —                |
| Professional expenses related to FreshRealm                 | 50                              | —                | 141                           | —                |
| Tax impact of adjustments (g)                               | 367                             | (3,575)          | 1,166                         | (4,166)          |
| Adjusted net income attributed to Calavo Growers, Inc.      | <u>\$ 7,676</u>                 | <u>\$ 7,012</u>  | <u>\$ 10,649</u>              | <u>\$ 7,795</u>  |
| Calavo Growers, Inc.’s net income (loss) per share:         |                                 |                  |                               |                  |
| Diluted EPS (GAAP)  | <u>\$ 0.50</u>                  | <u>\$ (0.19)</u> | <u>\$ 0.80</u>                | <u>\$ (0.24)</u> |
| Adjusted Diluted EPS  | <u>\$ 0.43</u>                  | <u>\$ 0.40</u>   | <u>\$ 0.60</u>                | <u>\$ 0.44</u>   |
| Number of shares used in per share computation:             |                                 |                  |                               |                  |
| Diluted   | <u>17,679</u>                   | <u>17,550</u>    | <u>17,668</u>                 | <u>17,543</u>    |

- (a) For the three months ended April 30, 2020, FreshRealm realized losses totaling \$5.1 million, of which we recorded \$1.9 million of non-cash losses. For the six months ended April 30, 2020, FreshRealm realized losses totaling \$14.4 million, of which we recorded \$5.4 million of non-cash losses. For the three and six months ended April 30, 2021, we realized losses from Agricola Don Memo totaling \$1.1 million and \$1.3 million. For the three months ended April 31, 2020, we realized losses from Agricola Don Memo totaling \$0.3 million. For the six months ended April 31, 2020, we realized income from Agricola Don Memo totaling \$0.2 million.
- (b) As part of the FreshRealm Separation Agreement (See Note 12), we received \$0.1 million for previously reserved receivables.
- (c) The second quarter of fiscal 2021 includes higher stock-based compensation for the early vesting of restricted stock for the retirement of our former Chief Executive Officer and Board member. Second quarter of fiscal 2020 results include higher stock-based compensation expense related to senior management transitions, which does not impact the underlying cost structure of the company.
- (d) In the first quarter of 2021, we incurred professional service costs related to a considered but non-consummated acquisition. In the first quarter of 2020, we incurred transaction expenses related to the acquisition of SFFI Company, Inc. doing business as Simply Fresh Fruit.
- (e) For the three and six months ended April 30, 2021, we recorded \$3.5 million and \$7.1 million in unrealized gains related to these mark-to-market adjustments. For the three and six months ended April 30, 2020, we recorded \$10.3 million and \$9.3 million in unrealized losses related to these mark-to-market adjustments.
- (f) For the three and six months ended April 30, 2021, we incurred \$0.1 million and \$0.2 million related to rent paid for RFG corporate office space that we have vacated and plan to sublease.
- (g) Tax impact of non-GAAP adjustments are based on the prevailing year-to-date tax rates.

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**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).

|   | Three months ended<br>April 30, |                  | Six months ended<br>April 30, |                  |
|---|---------------------------------|------------------|-------------------------------|------------------|
|   | 2021                            | 2020             | 2021                          | 2020             |
| Net income (loss) attributable to Calavo Growers, Inc.      | \$ 8,841                        | \$ (3,278)       | \$ 14,118                     | \$ (4,216)       |
| Interest Income   | (17)                            | (688)            | (89)                          | (1,634)          |
| Interest Expense  | 191                             | 342              | 365                           | 529              |
| Provision (benefit) for Income Taxes                        | 2,772                           | (1,208)          | 4,715                         | (1,858)          |
| Depreciation & Amortization                                 | 4,077                           | 4,010            | 8,371                         | 7,646            |
| Stock-Based Compensation                                    | 1,357                           | 1,787            | 2,264                         | 2,717            |
| EBITDA  | <u>\$ 17,221</u>                | <u>\$ 965</u>    | <u>\$ 29,744</u>              | <u>\$ 3,184</u>  |
| Adjustments:  |                                 |                  |                               |                  |
| Non-cash losses recognized from unconsolidated entities (a) | 1,131                           | 2,177            | 1,286                         | 5,205            |
| Net (gain) loss on Limoneira shares (e)                     | (3,506)                         | 10,349           | (7,095)                       | 9,343            |
| Income from FreshRealm recovery (b)                         | —                               | —                | (130)                         | —                |
| Professional expenses related to FreshRealm                 | 50                              | —                | 141                           | —                |
| RFG rent expense add back (f)                               | 108                             | —                | 216                           | —                |
| Acquisition costs (d)                                       | —                               | 220              | 262                           | 510              |
| Adjusted EBITDA   | <u>\$ 15,004</u>                | <u>\$ 13,711</u> | <u>\$ 24,424</u>              | <u>\$ 18,242</u> |
| Adjusted EBITDA per dilutive share                          | <u>\$ 0.85</u>                  | <u>\$ 0.78</u>   | <u>\$ 1.38</u>                | <u>\$ 1.04</u>   |

See prior page for footnote references

**Net Sales**

The following table summarizes our net sales by business segment for each of the three and six months ended April 30, 2021 and 2020:

|                                | Three months ended April 30, |             |                   | Six months ended April 30, |              |                   |
|--------------------------------|------------------------------|-------------|-------------------|----------------------------|--------------|-------------------|
|                                | 2021                         | Change      | 2020              | 2021                       | Change       | 2020              |
| Gross sales:                   |                              |             |                   |                            |              |                   |
| Fresh products                 | \$ 161,686                   | (5)%        | \$ 170,868        | \$ 277,145                 | (9)%         | \$ 304,058        |
| RFG                            | 96,289                       | 3 %         | 93,529            | 186,595                    | (13)%        | 214,463           |
| Calavo Foods                   | 20,736                       | 16 %        | 17,853            | 37,194                     | (3)%         | 38,337            |
| Less intercompany eliminations | (1,890)                      | 74 %        | (1,084)           | (3,535)                    | 51 %         | (2,342)           |
| Total net sales                | <u>\$ 276,821</u>            | <u>(2)%</u> | <u>\$ 281,166</u> | <u>\$ 497,399</u>          | <u>(10)%</u> | <u>\$ 554,516</u> |
| As a percentage of sales:      |                              |             |                   |                            |              |                   |
| Fresh products                 | 58.0 %                       |             | 60.5 %            | 55.3 %                     |              | 54.6 %            |
| RFG                            | 34.5 %                       |             | 33.1 %            | 37.2 %                     |              | 38.5 %            |
| Calavo Foods                   | 7.4 %                        |             | 6.3 %             | 7.4 %                      |              | 6.9 %             |
|                                | <u>100.0 %</u>               |             | <u>100.0 %</u>    | <u>100.0 %</u>             |              | <u>100.0 %</u>    |

**Summary**

Net sales for the three months ended April 30, 2021, compared to the corresponding period in fiscal 2020, decreased by \$4.3 million, or approximately 2%. The decrease was due to a decline in the Fresh products segment. Net sales for

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the six months ended April 30, 2021, compared to the corresponding period in fiscal 2020, decreased by \$57.1 million, or approximately 10%. This decrease was due to declines across all segments.

For the three and six months ended April 30, 2021, the decrease in Fresh product sales was due to declines in sales of avocados and tomatoes. For the six months ended April 30, 2021, the decrease in Calavo Foods was due primarily to a decrease in the sales of prepared avocado products. For the six months ended April 30, 2021, the decrease in RFG sales was due primarily to decreased sales from fresh-cut fruit & vegetables and prepared foods products. See discussion below for further details.

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

*Fresh products*

Second Quarter 2021 vs. Second Quarter 2020

Net sales for the Fresh products business decreased by approximately \$9.2 million, or 5%, for the second quarter of fiscal 2021 compared to the corresponding period in fiscal 2020. This decrease in Fresh product sales during the second quarter of fiscal 2021 was primarily related to decreased sales prices of tomatoes due to higher supply of tomatoes in the marketplace. In addition, avocado sales decreased due to a decline in avocado sales prices.

Sales of tomatoes decreased \$5.9 million, or 31%, for the second quarter of 2021, when compared to the prior year period. This decrease in tomato sales was primarily due to a 25% decrease in the average sales price per carton compared to the prior year period, in addition to a decrease of 8% of the number of tomato cartons sold due to a delay in the start of the growing season.

Sales of avocados decreased \$3.6 million, or 2%, for the second quarter of 2021 compared to the prior year period. The average avocado sales price per carton decreased 10% compared to the prior year period. This decrease in the sales price per carton was mainly due to an increase of supply of avocados in the marketplace. The volume of avocados sold in the second quarter of 2021 increased 9% compared to the prior year period.

Six Months Ended April 30, 2021 vs. Six Months Ended April 30, 2020

Net sales for the Fresh products business decreased by approximately \$26.9 million, or 9%, for the six months ended April 30, 2021, compared to the corresponding period in fiscal 2020. This decrease was primarily related to decreased sales prices of avocados due to higher supply of avocados in the marketplace. In addition, tomato sales decreased due to a decline of tomato sales prices.

Sales of avocados decreased \$17.8 million, or 7%, for the six months ended April 30, 2021, compared to the prior year period. The average avocado sales price per carton decreased 11% compared to the prior year period. This decrease in the sales price per carton was mainly due to an increase of supply of avocados in the marketplace. The volume of avocados sold in the six months ended April 30, 2021 increased 5% compared to the prior year period.

Sales of tomatoes decreased \$9.7 million, or 30%, for the six months ended April 30, 2021, compared to the prior year period. This decrease in tomato sales was primarily due to a 25% decrease in the average sales price per carton compared to the prior year period, in addition to a decrease of 6% of the number of tomato cartons sold due to a delay in the start of the growing season.

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## Second Quarter 2021 vs. Second Quarter 2020

Net sales for RFG for the quarter ended April 30, 2021, compared to the corresponding period in fiscal 2020, increased \$2.8 million, or 3%. The increase was primarily due to additional sales in regions where RFG has added manufacturing capacity. This was partially offset by a decrease due to lower sales out of the Midwest, relating to the closure of RFG's co-packing partner in that region, which occurred in April 2020.

## Six Months Ended April 30, 2021 vs. Six Months Ended April 30, 2020

Net sales for RFG for the six months end April 30, 2021, compared to the corresponding period in fiscal 2020, decreased \$27.9 million, or 13%. The decrease was primarily due to lower sales out of the Midwest, relating to the closure of RFG's co-packing partner in that region, which occurred in April 2020. This was partially offset by additional sales in regions where RFG has added manufacturing capacity. Additionally, changing consumer demand and buying patterns related to COVID-19 adversely impacted RFG's sales during the quarter.

*Calavo Foods*

## Second Quarter 2021 vs. Second Quarter 2020

Net sales for Calavo Foods for the quarter ended April 30, 2021, compared to the corresponding period in fiscal 2020, increased \$2.9 million, or 16%. Sales of prepared avocado products increased by approximately \$2.8 million, or 16%, primarily related to an increase in the total volume of pounds sold.

## Six Months Ended April 30, 2021 vs. Six Months Ended April 30, 2020

Net sales for Calavo Foods for the six months ended April 30, 2021, compared to the corresponding period in fiscal 2020, decreased \$1.1 million, or 3%. Sales of prepared avocado products decreased by approximately \$1.2 million, or 3%, primarily related to an decreased in the total volume of pounds sold. Sales of prepared avocado products were impacted primarily by a decline in demand from foodservice customers related to COVID-19 during the year.

**Gross Profit**

The following table summarizes our gross profit and gross profit percentages by business segment for the three and six months ended April 30, 2021 and 2020:

|                                  | <u>Three months ended April 30,</u> |               |                  | <u>Six months ended April 30,</u> |               |                  |
|----------------------------------|-------------------------------------|---------------|------------------|-----------------------------------|---------------|------------------|
|                                  | <u>2021</u>                         | <u>Change</u> | <u>2020</u>      | <u>2021</u>                       | <u>Change</u> | <u>2020</u>      |
| <b>Gross Profit:</b>             |                                     |               |                  |                                   |               |                  |
| Fresh products                   | \$ 15,008                           | 4 %           | \$ 14,405        | \$ 28,153                         | 34 %          | \$ 20,987        |
| RFG                              | 2,288                               | (16)%         | 2,736            | 2,266                             | (60)%         | 5,610            |
| Calavo Foods                     | 5,304                               | 7 %           | 4,934            | 10,020                            | (11)%         | 11,286           |
| Total gross profit               | <u>\$ 22,600</u>                    | 2 %           | <u>\$ 22,075</u> | <u>\$ 40,439</u>                  | 7 %           | <u>\$ 37,883</u> |
| <b>Gross profit percentages:</b> |                                     |               |                  |                                   |               |                  |
| Fresh products                   | 9.3 %                               |               | 8.4 %            | 10.2 %                            |               | 6.9 %            |
| RFG                              | 2.4 %                               |               | 2.9 %            | 1.2 %                             |               | 2.6 %            |
| Calavo Foods                     | 25.6 %                              |               | 27.6 %           | 26.9 %                            |               | 29.4 %           |
| Consolidated                     | 8.2 %                               |               | 7.9 %            | 8.1 %                             |               | 6.8 %            |

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### *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 preparing food products, and other direct expenses pertaining to products sold.

Gross profit increased by approximately \$0.5 million, or 2%, for the second quarter of fiscal 2021 compared to the corresponding period in fiscal 2020. The increase was primarily attributable to gross profit improvements in the Fresh products segment and the Calavo Foods segment, partially offset by the RFG segment. Gross profit increased by approximately \$2.6 million, or 7%, for the six months ended April 30, 2021, compared to the corresponding period in fiscal 2020. The increase was primarily attributable to gross profit improvements in the Fresh products segment, partially offset by the Calavo Foods and RFG segments.

### *Fresh products*

The increase in our Fresh products segment gross profit percentage for the quarter ended April 30, 2021, was the result of increased gross profit for avocados. For the second quarter of fiscal 2021, the gross profit percentage for avocados was 9.2% compared to 8.4% for the second quarter of 2020. In fiscal 2021, we were able to manage the spread between the sales price and the fruit cost of avocados more effectively compared to the prior year period.

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 \$0.5 million net loss related the remeasurement of peso-dominated net assets at our Mexican subsidiaries. During the same period last year, we had a remeasurement loss of \$3.4 million.

The increase in our Fresh products segment gross profit percentage for the six months ended April 30, 2021 was the result of increased gross profit for avocados. For the six months ended April 30, 2021, the gross profit percentage for avocados was 10.1% compared to 6.9% for the prior year period. In fiscal 2021, we were able to manage the spread between the sales price and the fruit cost of avocados more effectively compared to the prior year period.

Gross profit for the six month period was also affected by the strengthening of the U.S. dollar in relation to the Mexican peso during the six months ended April 30, 2021, which resulted in a \$0.6 million net gain related the remeasurement of peso-dominated net assets at our Mexican subsidiaries. During the same period last year, we had a remeasurement loss of \$3.3 million.

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 Fresh products segment.

### *RFG*

RFG's gross profit percentage for the quarter ended April 30, 2021 was 2.4%, compared to 2.9% for the prior year period. RFG's gross profit percentage for the six months ended April 30, 2021 was 1.2%, compared to 2.6% for the prior year period. The declines in gross profit for the quarter and six months ended April 30, 2021, were due to increased commodity costs, lack of availability of key commodities, lower supply of labor that caused increase overtime costs, and extraordinary weather events. In addition, we experienced losses due to the closure of our Midwest co-packing partner.

### *Calavo Foods*

Calavo Foods' gross profit percentage for the second quarter of fiscal 2021 was 25.6%, compared to 27.6% for the prior year period. Calavo Foods' gross profit percentage for the six months ended April 30, 2021 was 26.9%, compared to 29.4% for the prior year period. The decreases in Calavo Foods gross profit percentage were due primarily to higher per pound manufacturing costs primarily related to less pounds produced. Partially offsetting these higher costs, we had declines in overall fruit costs due to a large supply of avocados in the marketplace. Any significant fluctuation in the

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cost of fruit used in the production process or the exchange rate between the U.S. dollar and the Mexican peso may have a material impact on future gross profit for our Calavo Foods segment.

***Selling, General and Administrative***

|                                     | <u>Three months ended April 30,</u> |               |             | <u>Six months ended April 30,</u> |               |             |
|-------------------------------------|-------------------------------------|---------------|-------------|-----------------------------------|---------------|-------------|
|                                     | <u>2021</u>                         | <u>Change</u> | <u>2020</u> | <u>2021</u>                       | <u>Change</u> | <u>2020</u> |
|                                     | <u>(Dollars in thousands)</u>       |               |             | <u>(Dollars in thousands)</u>     |               |             |
| Selling, general and administrative | \$ 13,683                           | (6)%          | \$ 14,504   | \$ 27,857                         | (10)%         | \$ 30,802   |
| Percentage of net sales             | 4.9 %                               |               | 5.2 %       | 5.6 %                             |               | 5.6 %       |

Selling, general and administrative expenses of \$13.7 million for the three months ended April 30, 2021 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses decreased by \$0.8 million, or 6%, for the three months ended April 30, 2021 compared to the prior year period. This decrease was primarily due to prior year stock grants for certain management transition expenses (\$1.1 million), a decrease in broker commission (\$0.3 million) and a decrease in salaries and benefit expense due to the eliminations of staff positions (\$0.2 million). Partially offsetting these decreases was the vesting of restricted stock for the retirement of Lecil Cole, our former Chief Executive Officer and Board member (\$0.7 million).

Selling, general and administrative expenses decreased by \$2.9 million, or 10%, for the six months ended April 30, 2021 compared to the prior year period. This decrease was primarily due to a decrease in salaries and benefit expense due to the eliminations of staff positions (\$2.1 million), prior year stock grants for certain management transition expenses (\$1.1 million), and a decrease in broker commission (\$0.6 million). Partially offsetting these decreases was the vesting of restricted stock for the retirement of Mr. Cole (\$0.7 million).

***Loss from unconsolidated entities***

|                                   | <u>Three months ended April 30,</u> |               |             | <u>Six months ended April 30,</u> |               |             |
|-----------------------------------|-------------------------------------|---------------|-------------|-----------------------------------|---------------|-------------|
|                                   | <u>2021</u>                         | <u>Change</u> | <u>2020</u> | <u>2021</u>                       | <u>Change</u> | <u>2020</u> |
|                                   | <u>(Dollars in thousands)</u>       |               |             | <u>(Dollars in thousands)</u>     |               |             |
| Loss from unconsolidated entities | \$ (1,131)                          | (48)%         | \$ (2,177)  | \$ (1,286)                        | (75)%         | \$ (5,205)  |

Losses from unconsolidated entities includes our participation in earnings or losses from our investments in FreshRealm and Don Memo. For the three and six months ended April 30, 2021, we realized losses from Agricola Don Memo totaling \$1.1 million and \$1.3 million. For the three months ended April 31, 2020, we realized losses from Agricola Don Memo totaling \$0.3 million. For the six months ended April 31, 2020, we realized income from Agricola Don Memo totaling \$0.2 million. For the three months ended April 30, 2020, FreshRealm realized losses totaling \$5.1 million, of which we recorded \$1.9 million of non-cash losses. For the six months ended April 30, 2020, FreshRealm realized losses totaling \$14.4 million, of which we recorded \$5.4 million of non-cash losses.

***Income Taxes (Provision) Benefit***

|                                | <u>Three months ended April 30,</u> |               |             | <u>Six months ended April 30,</u> |               |             |
|--------------------------------|-------------------------------------|---------------|-------------|-----------------------------------|---------------|-------------|
|                                | <u>2021</u>                         | <u>Change</u> | <u>2020</u> | <u>2021</u>                       | <u>Change</u> | <u>2020</u> |
| Income tax benefit (provision) | \$ (2,772)                          | NA            | \$ 1,208    | \$ (4,715)                        | NA            | \$ 1,858    |
| Effective tax rate             | 24.0 %                              |               | 26.2 %      | 25.2 %                            |               | 29.7 %      |

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

For the first quarter ended in fiscal 2020, we recorded a discrete income tax benefit of approximately \$0.2 million, pursuant to ASU 2016-09, *Improvements to Employee Share-based Payment Accounting*. Our effective tax rate was higher in the first quarter of fiscal 2020 as a result of discrete excess tax benefits on vesting share-based compensation in

addition to the tax benefit associated with the quarter-to-date loss. We recognize the effects of tax legislation in the period in which the law is enacted. Our deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years we estimate the related temporary differences to reverse.

### **Liquidity and Capital Resources**

Cash provided by operating activities was \$10.4 million for the six months ended April 30, 2021, compared to cash used by operating activities of \$3.0 million for the corresponding period in fiscal 2020. Cash used by operating activities for the six months ended April 30, 2021 reflect primarily our net income of \$14.0 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, deferred taxes, loss on disposal of property, plant and equipment, loss on the reserve for FreshRealm and gain on the sale of the Temecula packinghouse) of \$4.8 million and a net decrease in the components of our working capital of approximately \$8.4 million.

Decreases in operating cash flows caused by working capital changes include an increase in accounts receivable of \$26.4 million, an increase in inventory of \$11.6 million, an increase in other assets of \$5.1 million, and an increase in advances to suppliers of \$4.5 million, partially offset by an increase in payable to growers of \$20.0 million, a net increase in accounts payable and accrued expenses of \$8.3 million, a decrease in income taxes receivable of \$8.2 million, and an increase in prepaid expenses and other current assets of \$2.7 million.

The increase in our accounts receivable, as of April 30, 2021 when compared to October 31, 2020, is primarily due an increase in sales in April 2021 compared to October 2020. The increase in our inventory, as of April 30, 2021 when compared to October 31, 2020, is primarily due to higher inventory of California and Mexican Avocados. The increase in other assets is primarily related to the increase in IVA receivable in fiscal 2021. The increase in advances to suppliers is mainly due to advances to our tomato growers in the first six months of fiscal 2021. The increase in payable to growers is mostly due to increased volumes and sales prices for California and Mexican avocados in the month of April 2021 compared to October 2020. The increase in accounts payable and accrued expenses is primarily related to an increase in payables related to an increase in the volume of California and Mexican avocados. The decrease in income taxes receivable is due to the net income and the timing of estimated payments made during the six months ended April 30, 2021.

Cash used in investing activities was \$9.0 million for the six months ended April 30, 2021, which primarily related to the purchases of property, plant and equipment of \$7.7 million and infrastructure advances to Don Memo for \$1.3 million.

Cash provided by financing activities was \$0.1 million for the six months ended April 30, 2021, which related principally to the net proceeds on our credit facilities totaling \$21.7 million, partially offset by, payment of our \$20.3 million dividend, payments on long-term obligations of \$0.7 million and the payment of minimum withholding taxes on net share settlement of equity awards of \$0.6 million.

Our principal sources of liquidity are our existing cash balances, cash generated from operations, amounts available for borrowing under our existing Credit Facility, and our investment in Limoneira shares. Cash and cash equivalents as of April 30, 2021 and October 31, 2020 totaled \$5.6 million and \$4.1 million. Our working capital at April 30, 2021 was \$74.8 million, compared to \$29.6 million at October 31, 2020.

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 is \$100 million and it expires in January 2026. See Note 13 to the consolidated condensed financial statements included in this Quarterly Report for more information. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding \$50 million. For our Credit



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Facility, the weighted-average interest rate was 2.8% and 1.9% at April 30, 2021 and October 31, 2020. Under the Credit Facility, we had \$42.3 million and \$20.6 million outstanding as April 30, 2021 and October 31, 2020.

The Credit Facility agreement contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at April 30, 2021 and at the date of this Quarterly Report.

**Contractual Obligations**

There have been no 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, 2020. For a summary of the contractual commitments at October 31, 2020, see Part II, Item 7, in our 2020 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 April 30, 2021.

| (All amounts in thousands)                   | Expected maturity date April 30, |      |      |      |        |            | Total     | Fair Value |
|--|----------------------------------|------|------|------|--------|------------|-----------|------------|
|  | 2022                             | 2023 | 2024 | 2025 | 2026   | Thereafter |           |            |
| <b>Assets</b>                                |                                  |      |      |      |        |            |           |            |
| Cash and cash equivalents (1)                | \$ 5,582                         | \$ — | \$ — | \$ — | \$ —   | \$ —       | \$ 5,582  | \$ 5,582   |
| Accounts receivable (1)                      | 90,112                           | —    | —    | —    | —      | —          | 90,112    | 90,112     |
| Advances to suppliers (1)                    | 9,521                            | —    | —    | —    | —      | —          | 9,521     | 9,521      |
| <b>Liabilities</b>                           |                                  |      |      |      |        |            |           |            |
| Payable to growers (1)                       | \$ 31,390                        | \$ — | \$ — | \$ — | \$ —   | \$ —       | \$ 31,390 | \$ 31,390  |
| Accounts payable (1)                         | 14,012                           | —    | —    | —    | —      | —          | 14,012    | 14,012     |
| Borrowings pursuant to credit facilities (1) | —                                | —    | —    | —    | 42,250 | —          | —         | —          |

(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 April 30, 2021 and 2020, net of gains, was \$0.5 million and \$3.4 million. Total foreign currency remeasurement gains for the six months ended April 30, 2021, net of losses, was \$0.6 million. Total foreign currency remeasurement losses for the six months ended April 30, 2020, net of gains, was \$3.3 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.

There were no changes in the Company’s internal control over financial reporting during the quarter ended April 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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.

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

The risk factors set forth below update the risk factors in our Annual Report on Form 10-K for the year ended October 31, 2020. In addition to the risk factors below, you should carefully consider the risk factors discussed in our most recent Form 10-K report, which could materially affect our business, financial position, results of operations and the trading price of our common stock. The risks and uncertainties that we face are not limited to those set forth below and/or in the 2020 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.

***The recovery from the COVID-19 pandemic and the current economic climate is increasing labor costs, commodity costs and logistical costs which will likely adversely affect our business operations, financial condition, and results of operations.***

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. The availability of sufficient labor is increasing costs companywide.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In December 2020, Calavo withheld 12,448 shares from certain officers for the payments of minimum withholding of taxes on the net share settlement of equity awards. In February 2021, Calavo withheld 1,664 shares from our chief executive officer for the payment of minimum withholding of taxes on the net share settlement of equity awards.

**ITEM 6. EXHIBITS**

- 10.1 [2020 Equity Incentive Plan, approved by shareholders on April 21, 2021.\\*](#)
- 10.2 [Limited Liability Company Member Separation and Release Agreement, dated February 3, 2021, by and between FreshRealm LLC and Calavo Growers, Inc. \(1\)](#)
- 10.3 [Amended and Restated Senior Secured Loan Agreement and Promissory Note, dated February 3, 2021, by and between FreshRealm LLC and Calavo Growers, Inc. \(1\)](#)
- 10.4 [Secured Promissory Note, dated February 3, 2021, by and between FreshRealm LLC and Calavo Growers, Inc. \(1\)](#)
- 10.5 [Warrant Agreement, dated February 3, 2021, by and between FreshRealm LLC and Calavo Growers, Inc. \(1\)](#)
- 10.6 [Third Amended and Restated Security Agreement, dated February 3, 2021, by and between FreshRealm LLC and Calavo Growers, Inc. \(1\)](#)
- 10.7 [Third Amendment to Credit Agreement, dated January 29, 2021, by and between Calavo Growers, Inc., Farm Credit West, PCA and Bank of America, N.A. \(2\)](#)
- 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 Principal 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 April 30, 2021, formatted in Inline XBRL (Extensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of April 30, 2021 and October 31, 2020; (2) Consolidated Condensed Statements of Operations for the three and six months ended April 30, 2021 and 2020; (3) Consolidated Condensed Statements of Cash Flows for the three and six months ended April 30, 2021 and 2020; (4) Consolidated Statements of Shareholders' Equity for the three and six months ended April 30, 2021 and 2020; and (5) Notes to Consolidated Condensed Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL).

(1) Previously filed on February 9, 2021 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

(2) Previously filed on February 2, 2021 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: June 8, 2021

By /s/ James Gibson  
James Gibson  
Chief Executive Officer  
(Principal Executive Officer)

Date: June 8, 2021

By /s/ Kevin Manion  
Kevin Manion  
Chief Financial Officer  
(Principal Financial Officer)

## CALAVO GROWERS, INC.

## 2020 EQUITY INCENTIVE PLAN

Adopted by the Board of Directors on December 9, 2020

## 1. GENERAL.

(a) **Award Recipients.** The persons eligible to receive Awards are Employees, Directors and Consultants.

(b) **Available Awards.** The Plan provides for the grant of the following Awards: (i) Incentive Stock Options; (ii) Nonstatutory Stock Options; (iii) Stock Appreciation Rights (SARs); (iv) Restricted Stock Awards; (v) Restricted Stock Unit Awards; (vi) Performance Stock Awards; (vii) Performance Cash Awards; and (viii) Other Stock Awards.

(c) **Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1(a), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in the value of the Common Stock through the granting of Awards.

(d) **Successor to the 2011 Management Incentive Plan.** The Plan is the successor to the Company's 2011 Management Incentive Plan. As provided in Section 1.3 of the 2011 Management Incentive Plan, no awards shall be made under the 2011 Management Incentive Plan after December 9, 2020. All awards made under the 2011 Management Incentive Plan prior to December 10, 2020 shall remain subject to the terms of that plan.

(e) **Definitions.** Section 13 sets forth the definitions of certain capitalized terms used in the Plan.

## 2. ADMINISTRATION.

(a) **Administration of the Plan.** The Plan shall be administered by the Administrator. To the extent that applicable laws permit, the Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c). Notwithstanding the foregoing, the Board (rather than a Committee) shall be responsible for granting Awards to Non-Employee Directors and for administering the provisions of the Plan that are applicable to such Awards.

(b) **Powers of the Administrator.** The Administrator shall have the power and authority, subject to, and within the limitations of, the provisions of the Plan:

(i) To determine from time to time: (A) which of the persons eligible under the Plan shall be granted Awards; (B) when and how each Award shall be granted; (C) what type or combination of types of Awards shall be granted; (D) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive cash or Common Stock pursuant to a Stock Award; (E) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person; and (F) the Fair Market Value applicable to a Stock Award;

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration; and the Administrator, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective;

(iii) To settle all controversies regarding the Plan and Awards granted under it;

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(iv) To accelerate the time at which an outstanding Award may first be exercised or the time at which an outstanding Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award Agreement stating the time at which it may first be exercised or the time at which it shall vest, but such acceleration shall be permitted only (A) as a result of a Participant's termination of Continuous Service by reason of the Participant's death or Disability, (B) in connection with (including following) the consummation of a Change in Control or a dissolution or liquidation of the Company, or (C) pursuant to the terms of a written employment agreement between the Participant and the Company or an Affiliate in connection with the Participant's termination of Continuous Service;

(v) To amend, suspend or terminate the Plan at any time; provided that amendment, suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant;

(vi) To submit any amendment to the Plan for shareholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 422 of the Code regarding "incentive stock options" or (B) Rule 16b-3 under the Exchange Act;

(vii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to the Administrator's discretion; provided, however, that a Participant's rights under any Award shall not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant and (B) such Participant consents in writing; notwithstanding the foregoing, subject to the limitations of applicable law, if any, the Administrator may amend the terms of any one or more Awards without the affected Participant's consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option or to bring the Award into compliance with Section 409A of the Code;

(viii) To exercise such powers and to perform such acts as the Administrator deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards; and

(ix) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States.

**(c) Delegation to a Committee.**

**(i) General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, re-vest in the Board some or all of the powers previously delegated to a Committee or Committees. References in the Plan to the "Administrator" shall refer, as applicable, to the Board and/or the Committee or Committees.

**(ii) Members of the Committee.** Unless otherwise determined by the Board, the Committee shall be comprised of at least two Directors, each of whom shall be an Outside Director. The failure of the Committee to be comprised solely of Outside Directors shall not affect the validity of any action of the Committee (including the grant of any Award) that otherwise complies with the terms of the Plan.

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**(d) Delegation to the Chief Executive Officer.** If and to the extent that may be permitted by the California General Corporation Law, the Board may delegate to the Company's Chief Executive Officer the authority to do one or both of the following: (i) designate Employees who are not Officers to be recipients of Options and Stock Appreciation Rights (and, to the extent permitted by applicable law, other Stock Awards) and the terms thereof, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; provided, however, that the Board resolutions regarding such delegation shall specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by the Chief Executive Officer and that the Chief Executive Officer may not grant a Stock Award to himself or herself.

**(e) Effect of the Administrator's Determinations.** All determinations, interpretations and constructions made by the Administrator shall be final, binding and conclusive on all persons.

**(f) Indemnification.** To the maximum extent permitted by applicable law and the Company's Bylaws, each Director (including, without limitation, each Committee member) shall be indemnified and held harmless by the Company from and against (i) any expense (including attorneys' fees) that may be actually and reasonably incurred by such person in connection with or resulting from any action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or omitted to be taken under the Plan or any Award Agreement and (ii) any and all amounts paid by such person, with the Company's approval, in settlement of such action, suit or proceeding, or paid by such person in satisfaction of any judgment or fine in any such action, suit or proceeding against such person. The Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding, and, once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The preceding right to indemnification shall be in addition to any other indemnification rights to which a Director is entitled under the Company's Bylaws, under applicable law or under an agreement entered into with the Company.

### **3. SHARES SUBJECT TO THE PLAN.**

**(a) Share Reserve.** Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards granted under the Plan from and after the Effective Date shall not exceed 1,500,000 shares (the "Share Reserve"), of which up to 1,500,000 shares may be issued pursuant to Incentive Stock Options. To the extent permitted by Nasdaq Listing Rule 5635(c)(3) or other applicable national stock exchange rule, shares of Common Stock may be issued by the Company in connection with a merger or acquisition without reducing the number of shares available for issuance under the Plan. Furthermore, if a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or (ii) is settled in cash by reason of the Participant receiving cash rather than stock, the number of shares of Common Stock subject to such Stock Award that were not issued with respect to such Stock Award shall not be treated as having been issued for purposes of this Section 3(a) and the Share Reserve shall be increased by such number of shares.

#### **(b) Share Counting; Reversion of Shares to the Share Reserve.**

(i) A "Full Value Award" means any Restricted Stock Award, Restricted Stock Unit Award or other Stock Award settled in Common Stock, excluding, however, (A) an Option, (B) a Stock Appreciation Right, or (C) a Restricted Stock Award or an Other Stock Award under which the Company will receive monetary consideration equal to the Fair Market Value (determined on the effective date of grant) of the shares subject to such Award. Each share of Common Stock subject to an Award other than a Full Value Award shall be counted against the Share Reserve limit set forth in Section 3(a) as one share. Each share of Common Stock subject to a Full Value Award shall be counted against the Share Reserve as two shares of Common Stock; provided, however, that each share of Common Stock subject to a Full Value Award that is forfeited or repurchased pursuant to the first sentence of Section 3(b)(ii), and each share of Common Stock subject to a Full Value Award that is not issued because a Stock Award expires, terminates without issuance or is settled in cash as described in the last sentence of Section 3(a), shall be counted as two shares of Common Stock for purposes of determining the number of shares of Common Stock again becoming available for issuance under the Plan.

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(ii) If any shares of Common Stock issued pursuant to a Stock Award are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited or repurchased shall revert to and again become available for issuance under the Plan. Shares of Common Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Shares of Common Stock that are reacquired or withheld by the Company pursuant to Section 8(f) in connection with a tax withholding obligation or as consideration for the exercise of an Option, SAR or any other Stock Award shall not again become available for issuance under the Plan. The payment of dividends and dividend equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares of Common Stock available for issuance under the Plan.

(c) **Source of Shares.** The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

#### **4. ELIGIBILITY AND AWARD LIMITATIONS.**

(a) **Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a “parent corporation” or “subsidiary corporation” thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; provided, however, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any “parent” of the Company, as such term is defined in Rule 405 of the Securities Act, unless the stock underlying such Stock Awards is treated as “service recipient stock” under Section 409A of the Code because the Stock Awards are granted pursuant to a corporate transaction (such as a spin-off transaction) or unless such Stock Awards comply with the distribution requirements of Section 409A of the Code.

(b) **Ten Percent Shareholders.** A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least 110% of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five years from the date of grant.

(c) **Incentive Stock Option \$100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds \$100,000, the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any provision to the contrary in the applicable Option Agreements.

(d) **Vesting Condition Limitation.** Notwithstanding any other provision in the Plan to the contrary, an Award granted under the Plan shall vest no earlier than the first anniversary of the date the Award is granted; provided, however, that (i) Awards that result in the issuance of an aggregate of up to five percent of the shares of Common Stock available pursuant to Section 3(a) (as such number of shares of Common Stock may be increased from time to time in accordance with the Plan) may be granted to any one or more eligible Directors, Consultants or Employees without respect to such one-year minimum vesting condition; (ii) Awards to Non-Employee Directors may vest on the earlier of the one-year anniversary of the date of grant or the next annual meeting of shareholders (provided that such vesting period may not be less than 50 weeks after the date of grant); and (iii) Awards may vest without respect to the minimum vesting condition limitation described in this Section 4(d) above (A) as a result of a Participant’s termination of Continuous Service by reason of the Participant’s death or Disability, (B) in connection with (including following) the consummation of a Change in Control or a dissolution or liquidation of the Company, or (C) pursuant to the terms of a written employment agreement between the Participant and the Company or an Affiliate in connection with the Participant’s termination of Continuous Service.

(e) **No Repricing of Stock Awards or Cancellation and Re-Grant of Stock Awards.** Except with respect to adjustments that are made in accordance with Section 9(a) or 9(c), the Administrator shall not have the authority to (i) reduce the exercise price of any outstanding Option or SAR or take any other action that would be treated, for accounting purposes, as a “repricing” of any outstanding Stock Award under the Plan or (ii) cancel and re-grant any outstanding Stock Award under the Plan, unless the shareholders of the Company approve such reduction, cancellation, re-grant or other action.

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**(f) Limitation on Annual Compensation to Non-Employee Directors.** In no event shall the compensation payable by the Company to a Non-Employee Director for services performed as a Non-Employee Director, including, without limitation, the grant date value (determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 or any amendment or successor to such standard) of Awards, cash retainers, Committee fees and other compensation, exceed \$450,000 in the aggregate during any fiscal year, which limit shall be increased to \$650,000 in the fiscal year of a Non-Employee Director's initial service as a Non-Employee Director, and in no event shall the number of shares of Common Stock subject to Stock Awards (including, without limitation, Options) granted to any Non-Employee Director, subject to the provisions of Section 9(a) relating to Capitalization Adjustments, exceed 20,000 shares during any fiscal year. The limitation of 20,000 shares described in this Section 4(f) refers to the actual number of shares of Common Stock that is subject to each Stock Award and such limitation shall be calculated without regard to the provision set forth in Section 3(b)(i) that each share of Common Stock subject to a Full Value Award shall be counted against the Plan's Share Reserve limit in Section 3(a) as two shares of Common Stock.

## **5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.**

Each Option or SAR shall be in such form and shall contain such terms and conditions as the Administrator shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, then the Option shall be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; provided, however, that each Option Agreement or Stock Appreciation Right Agreement shall conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** The term of each Option and SAR shall be set by the Administrator in its sole discretion; provided, however, that the term shall not be more than ten years from the date the Option or SAR is granted or five years from the date an Incentive Stock Option is granted to a Ten Percent Shareholder. The Administrator shall determine the time period, including the time period following any termination of a Participant's Continuous Service, during which the Participant has the right to exercise a vested Option or SAR, which time period may not extend beyond the expiration date of the Option or SAR term. Except as limited by the requirements of Section 409A or Section 422 of the Code, the Administrator may extend the term of any outstanding Option or SAR, and may extend the time period during which a vested Option or SAR may be exercised, in connection with any termination of the Participant's Continuous Service, and may amend any other term or condition of such Option or SAR relating to such a termination of Continuous Service, provided, however, that such term or time period shall not be extended beyond the date described in the first sentence of this paragraph.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Shareholders, the exercise price (or strike price) of each Option or SAR shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Option or SAR is granted. Notwithstanding the foregoing, an Option or SAR may be issued with an exercise price (or strike price) lower than 100% of the Fair Market Value of the Common Stock subject to the Option or SAR if such Option or SAR is issued pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Change in Control and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Administrator in its sole discretion, by any combination of the methods of payment set forth below. The Administrator shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The permitted methods of payment are as follows:

- (i) By cash, check, bank draft or money order payable to the Company;
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(ii) Pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to a broker to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) By delivery to the Company of shares of Common Stock already owned by the Participant and valued at the Fair Market Value as of the date of delivery to the Company;

(iv) If the option is a Nonstatutory Stock Option, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; provided, however, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; provided, further, that shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are reduced to pay the exercise price pursuant to the "net exercise," (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; and

(v) In any other form of legal consideration that may be acceptable to the Administrator and specified in the applicable Award Agreement.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (i) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR and with respect to which the Participant is exercising the SAR on such date over (ii) the strike price that will be determined by the Administrator at the time of grant of the SAR. The appreciation distribution in respect to a SAR may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Administrator and contained in the Stock Appreciation Right Agreement evidencing such SAR.

**(e) Transferability of Options and SARs.** The Administrator may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Administrator shall determine. In the absence of such a determination by the Administrator to the contrary, the following restrictions on the transferability of Options and SARs shall apply:

**(i) Restrictions on Transfer.** An Option or SAR shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant; provided, however, that the Administrator may, in its sole discretion, permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws upon the Participant's request. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

**(ii) Domestic Relations Orders.** Notwithstanding the foregoing, an Option or SAR may be transferred pursuant to a domestic relations order; provided, however, that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(iii) Beneficiary Designation.** Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Participant, shall thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, the executor or administrator of the Participant's estate shall be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise.

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**(f) Vesting Generally.** Subject to Section 4(d), the total number of shares of Common Stock subject to an Option or SAR may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Administrator may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or except as otherwise extended by the Administrator, if a Participant's Continuous Service terminates (other than for Cause or upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement) or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate except as otherwise determined by the Administrator. Notwithstanding any provision in the Plan to the contrary, the Administrator may, in its sole discretion and subject to whatever terms and conditions it elects, provide in the Award Agreement for continued vesting of an Option or SAR following a termination of Continuous Service.

**(h) Extension of Termination Date.** If the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause or upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR shall terminate on the earlier of (i) the expiration of a total period of three months (that need not be consecutive) after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement or as otherwise determined by the Administrator. In addition, unless otherwise provided in a Participant's Award Agreement or as otherwise determined by the Administrator, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

**(i) Disability of a Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or except as otherwise extended by the Administrator, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement) or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR (as applicable) shall terminate except as otherwise determined by the Administrator.

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**(j) Death of a Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or except as otherwise extended by the Administrator, if (i) a Participant's Continuous Service terminates as a result of the Participant's death or (ii) the Participant dies within the period (if any) specified in the Award Agreement after the termination of the Participant's Continuous Service for a reason other than death, then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date twelve months following the date of death (or such longer or shorter period specified in the Award Agreement) or (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate except as otherwise determined by the Administrator.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Award Agreement or except as otherwise extended by the Administrator, if a Participant's Continuous Service is terminated for Cause, the Option or SAR shall terminate upon the date on which the Participant's Continuous Service terminated, and the Participant shall be prohibited from exercising his or her Option or SAR from and after the date of such termination of Continuous Service.

## **6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARS.**

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Administrator shall deem appropriate. To the extent consistent with the Company's Bylaws, at the Administrator's election, shares of Common Stock may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse or (ii) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Administrator. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; provided, however, that each Restricted Stock Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration that may be acceptable to the Administrator, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Subject to Section 4(d), shares of Common Stock awarded under the Restricted Stock Award Agreement shall be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Administrator.

**(iii) Termination of a Participant's Continuous Service.** If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Administrator shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

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**(b) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Administrator shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; provided, however, that each Restricted Stock Unit Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Administrator will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Administrator, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Subject to Section 4(d), at the time of the grant of a Restricted Stock Unit Award, the Administrator may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(iii) Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Administrator and contained in the Restricted Stock Unit Award Agreement.

**(iv) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Administrator, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(v) Termination of a Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

**(c) Performance Awards.**

**(i) Performance Stock Awards.** A Performance Stock Award is a Stock Award that may vest or may be exercised contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Administrator, in its sole discretion. The Administrator may provide for or, subject to such terms and conditions as the Administrator may specify, may permit a Participant to elect for, the payment of any Performance Stock Award to be deferred to a specified date or event. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Administrator may determine that cash may be used in payment of Performance Stock Awards.

**(ii) Performance Cash Awards.** A Performance Cash Award is a cash award that may be paid contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Administrator, in its sole discretion. The Administrator may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Administrator may specify, to be paid in whole or in part in cash or other property.

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**(iii) Discretion.** The Administrator shall have the right to reduce, eliminate or increase the amount that is payable under a Performance Stock Award or Performance Cash Award by taking into account additional factors that the Administrator may deem relevant, including the assessment of individual or corporate performance for the Performance Period.

**(d) Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards, which shall be set forth in Other Stock Award Agreements.

**(e) Dividends and Dividend Equivalents.** Dividends or dividend equivalents may be paid or credited, as applicable, with respect to any shares of Common Stock subject to a Stock Award (other than an Option or SAR), as determined by the Administrator and contained in the applicable Stock Award Agreement; provided, however, that (i) any dividends or dividend equivalents that are paid or credited with respect to any such shares shall be subject to all of the terms and conditions applicable to such shares under the terms of such Stock Award Agreement (including, without limitation, any vesting conditions), and (ii) any dividends or dividend equivalents that are paid or credited with respect to any such shares shall be subject to forfeiture to the Company on the date, if any, such shares are forfeited to or repurchased by the Company due to a failure to meet any vesting conditions under the terms of such Stock Award Agreement.

## 7. COVENANTS OF THE COMPANY.

**(a) Availability of Shares.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock reasonably required to satisfy such Stock Awards.

**(b) Securities Law Compliance.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

**(c) No Obligation to Notify or Minimize Taxes.** The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

## 8. MISCELLANEOUS.

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

**(b) Corporate Action Constituting the Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Administrator, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant.

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**(c) Shareholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to a Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms, if applicable, and (ii) the issuance of the Common Stock subject to such Stock Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without Cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(e) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award, and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then-currently effective registration statement under the Securities Act or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then-applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(f) Withholding Obligations.** Unless prohibited by the terms of an Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(g) Electronic Delivery.** Any reference herein to a "written" agreement or document shall include any agreement or document delivered electronically, filed publicly at [www.sec.gov](http://www.sec.gov) (or any successor website thereto) or posted on the Company's intranet.

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**(h) Compliance with Section 409A of the Code.**

**(i) General.** The Company intends that all Awards shall be structured to comply with, or to be exempt from, Section 409A of the Code, such that no adverse tax consequences, interest or penalties under Section 409A of the Code shall apply. To the extent that the Administrator determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall be deemed to incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. In addition and notwithstanding any provision to the contrary in the Plan or any Award Agreement, the Administrator may, without a Participant's consent, amend the Plan or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and retroactive actions) as are necessary or appropriate to preserve the intended tax treatment of Awards, including any such actions intended to (A) exempt the Plan or any Award from Section 409A of the Code or (B) comply with Section 409A of the Code. However, the Company makes no representations or warranties as to an Award's tax treatment under Section 409A of the Code or otherwise, and the Company has no obligation under the Plan or otherwise to avoid the taxes, penalties or interest under Section 409A of the Code with respect to any Award and shall have no liability to any Participant or any other person if any Award, compensation or other benefit under the Plan is determined to constitute nonqualified deferred compensation subject to taxes, penalties or interest under Section 409A of the Code.

**(ii) Participant's Termination of Continuous Service.** If an Award constitutes "nonqualified deferred compensation" under Section 409A of the Code, any payment or settlement of such Award upon a termination of a Participant's Continuous Service shall, to the extent necessary to avoid taxes under Section 409A of the Code, be made only upon the Participant's "separation from service" within the meaning of Section 409A of the Code, whether such "separation from service" occurs upon or after the termination of the Participant's Continuous Service.

**(iii) Payments to Specified Employees.** Notwithstanding any provision to the contrary in the Plan (and unless the Award Agreement specifically provides otherwise), if a Participant holding an Award that constitutes nonqualified deferred compensation under Section 409A of the Code is a "specified employee" for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made upon a "separation from service" before a date that is six months following the date of such Participant's "separation from service" (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant's death, unless such distribution or payment can be made in a manner that complies with Section 409A of the Code.

**(iv) Deferrals.** To the extent permitted by applicable law, the Administrator, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants shall be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Administrator may provide for distributions while a Participant is still an Employee or otherwise providing services to the Company or an Affiliate. The Administrator is authorized to make deferrals of Awards and determine when, and in what annual percentages, a Participant may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(i) Clawback Provisions.** All Awards granted under the Plan shall be subject to recoupment in accordance with any clawback, recovery or recoupment policy that Company may adopt, including any such policy adopted pursuant to the listing standards of any national securities exchange on which the Company's securities are listed or pursuant to other requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Administrator may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Administrator determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting Cause. No recovery of compensation under such a clawback policy shall be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under the Plan or any agreement with the Company.

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## 9. ADJUSTMENTS UPON CHANGES IN THE COMMON STOCK; OTHER CORPORATE EVENTS.

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Administrator shall appropriately and proportionately adjust (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Section 4(f), and (iii) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Administrator shall make such adjustments, and its determination shall be final, binding and conclusive.

**(b) Dissolution or Liquidation.** Except as otherwise provided in the applicable Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service; provided, however, that the Administrator may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

### **(c) Change in Control.**

(i) In the event of a Change in Control, if a Participant's entire Award is not (A) continued in full force and effect by the Company, (B) assumed in full and continued in full force and effect by the Entity or its parent that is the surviving, purchasing or continuing corporation or other Entity in the Change in Control (the "Acquiror"), or (C) replaced by the Acquiror with a substantially equivalent award with respect to the Acquiror's capital stock, with appropriate adjustments as to the number of securities and exercise prices, the Award shall fully vest (and as to Options and SARs, become fully exercisable) effective immediately prior to, but conditioned on the consummation of, the Change in Control, and, except as otherwise provided in an Award Agreement evidencing an Award, for each such Award that vests subject to the attainment of one or more Performance Goals, the applicable Performance Goals shall be deemed achieved at the greater of target or actual performance (with the Performance Goals equitably adjusted to reflect a shortened Performance Period ending as of the Change in Control). For purposes of this Section 9(c), if so determined by the Administrator in its sole discretion, an Award denominated in shares of Common Stock shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Common Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Common Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Administrator may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each share of Common Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Common Stock pursuant to the Change in Control.

(ii) A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after the termination of the Participant's Continuous Service in connection with the consummation of a Change in Control (including within a specified period following a Change in Control) as may be provided in any written employment agreement or Stock Award Agreement between the Company or any Affiliate and the Participant or as may be otherwise determined by the Administrator.

(iii) Notwithstanding any other provision of the Plan to the contrary, with respect to an Award that constitutes "nonqualified deferred compensation" subject to the provisions of Section 409A of the Code, an event shall not be considered to be a Change in Control under the Plan unless such event is also a "change in ownership," a "change in effective control" or a "change in the ownership of a substantial portion of the assets" of the Company, in each case within the meaning of Section 409A of the Code.

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## 10. AMENDMENT, TERMINATION OR SUSPENSION OF THE PLAN.

**(a) Amendment of the Plan.** The Board has the power and authority to amend any provision of the Plan at any time; provided, however, that without the approval of the Company's shareholders given within twelve months before or after any such Plan amendment, the Board shall not have the right or authority (i) to increase the aggregate number of shares of Common Stock (including upon the exercise of Incentive Stock Options) that may be issued under the Plan pursuant to Section 3(a), provided that an increase that is made pursuant to Section 9(a) in connection with a Capitalization Adjustment shall not require shareholder approval and may be made by the Board, (ii) to amend Section 4(e) relating to the repricing, cancellation and re-grant of Stock Awards, (iii) to amend the Plan in any respect that requires shareholder approval under the rules of The Nasdaq Stock Market LLC (or under the rules of any other national securities exchange on which the Common Stock may subsequently be traded), or (iv) to amend the Plan in any respect that requires shareholder approval under the Code or any other applicable law.

**(b) Termination or Suspension of the Plan.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan shall automatically terminate on the fifth anniversary of the date that the Plan was adopted by the Board. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

**(c) No Impairment of Rights upon the Plan's Amendment, Suspension or Termination.** Unless otherwise provided in the applicable Award Agreement, the amendment, suspension or termination of the Plan shall not impair rights and obligations under any Award that is granted prior to such amendment, suspension or termination, except with the written consent of the affected Participant.

## 11. EFFECTIVE DATE OF THE PLAN.

The Plan shall become effective on the Effective Date. The Plan shall be submitted for the approval of the Company's shareholders at the 2021 annual meeting of shareholders. Awards may be granted prior to such shareholder approval, provided that such Awards shall not be exercisable, shall not vest, the restrictions thereon shall not lapse and no shares of Common Stock shall be issued pursuant to such Awards prior to the date that the Plan is approved by the Company's shareholders. If such shareholder approval is not obtained at the 2021 annual meeting of shareholders, all Awards previously granted under the Plan shall be cancelled and become null and void.

## 12. CHOICE OF LAW.

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to that state's conflict of laws rules.

## 13. DEFINITIONS.

As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

(a) "Acquiror" has the meaning set forth in Section 9(c)(i).

(b) "Administrator" means the Board or a Committee to the extent that the Board's power or authority under the Plan has been delegated to such Committee.

(c) "Affiliate" means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405 of the Securities Act. The Administrator shall have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

(d) "Award" means a Stock Award or a Performance Cash Award.

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(e) "Award Agreement" means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(f) "Board" means the Board of Directors of the Company.

(g) "Capitalization Adjustment" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, spin-off, split-off, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any amendment or successor to such standard). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

(h) "Cause" shall have the meaning ascribed to such term in any written agreement between the Participant and the Company or an Affiliate defining such term and, in the absence of such agreement, such term shall mean, with respect to a Participant, the occurrence of any of the following events: (i) the Participant's commission of an act of fraud, embezzlement or dishonesty that has a material adverse impact on the Company or an Affiliate; (ii) the Participant's conviction of, or plea of "guilty" or "no contest" to, a felony; (iii) the Participant's unauthorized use or disclosure of confidential information or trade secrets of the Company or an Affiliate that has a material adverse impact on such entity; or (iv) the Participant's intentional misconduct that has a material adverse impact on the Company or an Affiliate. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(i) "Change in Control" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) Any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then-outstanding securities other than by virtue of a merger, consolidation or similar transaction; notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the "Subject Person") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this clause) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then-outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(ii) There is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the shareholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

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(iii) There is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than 50% of the combined voting power of the voting securities of which are Owned by shareholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(iv) Individuals who, at the beginning of any twelve-month period following the Effective Date of the Plan, are members of the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the members of the Board on any subsequent date during such twelve-month period; provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of the Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing or any other provision of the Plan, (i) the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company; and (ii) the definition of Change in Control (or any analogous term) in a written employment agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Awards subject to such agreement; provided, however, that if no definition of Change in Control or any analogous term is set forth in such an employment agreement, the foregoing definition shall apply.

(j) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

(k) "Committee" means a committee of two or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(l) "Common Stock" means the common stock of the Company.

(m) "Company" means Calavo Growers, Inc., a California corporation.

(n) "Consultant" means any individual, including an advisor, who is engaged by the Company or an Affiliate to render bona fide consulting or advisory services to the Company or an Affiliate, provided that such services are not in connection with the offer or sale of the Company's securities in a capital-raising transaction and that such services do not directly or indirectly promote or maintain a market for the Company's securities. Service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a "Consultant" for purposes of the Plan.

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(o) “Continuous Service” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s service with the Company or an Affiliate, shall not terminate a Participant’s Continuous Service; provided, however, if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Administrator, in its sole discretion, such Participant’s Continuous Service shall be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Administrator or the Chief Executive Officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of (i) any leave of absence approved by the Administrator or Chief Executive Officer, including sick leave, military leave or any other personal leave or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company’s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(p) “Director” means a member of the Board.

(q) “Disability” means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months, as provided in Sections 22(e)(3) and 409A(a)(2)(C)(i) of the Code, and shall be determined by the Administrator on the basis of such medical evidence as the Administrator deems warranted under the circumstances.

(r) “Effective Date” means the effective date of the Plan, which is December 9, 2020 and which is the date on which the Board approved and adopted the Plan; provided, however, that the Plan is subject to approval by the Company’s shareholders at the 2021 annual meeting of shareholders.

(s) “Employee” means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an “Employee” for purposes of the Plan.

(t) “Entity” means a corporation, partnership, limited liability company or other entity.

(u) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) “Exchange Act Person” means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, or (iv) an Entity Owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their Ownership of stock of the Company.

(w) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be, unless otherwise determined by the Administrator, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Administrator deems reliable;

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(ii) Unless otherwise provided by the Administrator, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists; and

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Administrator in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(x) “Full Value Award” has the meaning set forth in Section 3(b)(i).

(y) “Incentive Stock Option” means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an “incentive stock option” within the meaning of Section 422 of the Code.

(z) “Incumbent Board” has the meaning set forth in Section 13(i)(iv).

(aa) “Non-Employee Director” means a Director who not an Employee.

(bb) “Nonstatutory Stock Option” means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(cc) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(dd) “Option” means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(ee) “Option Agreement” means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(ff) “Optionholder” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(gg) “Other Stock Award” means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

(hh) “Other Stock Award Agreement” means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(ii) “Outside Director” means a Director who is (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act and (ii) an “independent director” under applicable rules of The Nasdaq Stock Market LLC (or under the rules of any other national securities exchange on which the Common Stock may subsequently be traded), including the independence rules of such stock exchange relating to compensation committee members.

(jj) “Own,” “Owned,” “Owner,” “Ownership” means that a person or Entity owns, owned, is the owner of or has acquired ownership of securities, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise and has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(kk) “Participant” means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

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(ll) "Performance Cash Award" means an award of cash granted pursuant to the terms and conditions of Section (6)(c)(ii).

(mm) "Performance Criteria" means the one or more criteria that the Administrator shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Administrator: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total shareholder return; (v) return on equity or average shareholders' equity; (vi) return on assets, investment or capital employed; (vii) stock price performance; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit, operating profit or net operating profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share (in the aggregate or by segment); (xx) cash flow; (xxi) cash flow per share; (xxii) debt levels or debt reduction; (xxiii) objective measures of productivity and operating efficiency; (xxiv) performance of business acquisitions; (xxv) measures of customer satisfaction or retention; (xxvi) success in compliance with applicable laws and regulations and applicable accounting requirements; (xxvii) investor relations activities and success; (xxviii) shareholders' equity; (xxix) capital expenditures; (xxx) measures of workforce diversity or retention; (xxxii) growth of net income or operating income; and (xxxii) any other measures of performance selected by the Administrator.

(nn) "Performance Goals" means, for a Performance Period, the one or more goals established by the Administrator for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Administrator (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Administrator may, in its sole discretion, make appropriate adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (A) to exclude restructuring and/or other nonrecurring charges; (B) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (C) to exclude the effects of changes to generally accepted accounting principles; (D) to exclude the effects of any statutory adjustments to corporate tax rates; (E) to exclude the effects of any "extraordinary items" as determined under generally accepted accounting principles; (F) to exclude the dilutive effects of acquisitions or joint ventures; (G) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (H) to exclude the effect of any change in the outstanding shares of Common Stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to shareholders other than regular cash dividends; (I) to exclude the effects of stock-based compensation and/or the award of bonuses under the Company's bonus plans; (J) to exclude expenses incurred in the acquisition or disposition of businesses; and (K) to exclude the effect of any other unusual, non-recurring gain or loss or other extraordinary item. In addition, the Administrator retains the sole discretion to define the manner of calculating the Performance Criteria it selects to use for such Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

(oo) "Performance Period" means the period of time selected by the Administrator over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Performance Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Administrator.

(pp) "Performance Stock Award" means a Stock Award granted under the terms and conditions of Section 6(c)(i).

(qq) "Plan" means this Calavo Growers, Inc. 2020 Equity Incentive Plan, as it may be amended from time to time.

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(rr) “Restricted Stock Award” means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(ss) “Restricted Stock Award Agreement” means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(tt) “Restricted Stock Unit Award” means a right to receive shares of Common Stock (and/or cash or other consideration of equal value) which is granted pursuant to the terms and conditions of Section 6(b).

(uu) “Restricted Stock Unit Award Agreement” means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

(vv) “Securities Act” means the Securities Act of 1933, as amended.

(ww) “Share Reserve” has the meaning set forth in Section 3(a).

(xx) “Stock Appreciation Right” or “SAR” means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(yy) “Stock Appreciation Right Agreement” means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

(zz) “Stock Award” means an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award granted under the Plan.

(aaa) “Stock Award Agreement” means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(bbb) “Subject Person” has the meaning set forth in Section 13(i)(i).

(ccc) “Subsidiary” means, with respect to the Company, (i) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%.

(ddd) “Ten Percent Shareholder” means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any Affiliate.

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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, James Gibson, 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: June 8, 2021

/s/ James Gibson  
James Gibson  
Chief 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, Kevin Manion, 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: June 8, 2021

/s/ Kevin Manion  
Kevin Manion  
Chief Financial Officer  
(Principal Financial Officer)

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WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER

Each of the undersigned, the Chief Executive Officer, and 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 April 30, 2021, 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: June 8, 2021

/s/ James Gibson

James Gibson  
Chief Executive Officer

/s/ Kevin Manion

Kevin Manion  
Chief Financial Officer

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