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

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**FORM 10-Q**

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

For the quarterly period ended January 31, 2022

or

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

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

Commission file number: 000-33385

**CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

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

**1141-A Cummings Road, Santa Paula, California**  
(Address of principal executive offices)

**93060**  
(Zip Code)

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

**Not Applicable**  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

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

Registrant's number of shares of common stock outstanding as of January 31, 2022 was 17,716,314

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains statements relating to future events and results of Calavo Growers, Inc. and its consolidated subsidiaries (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, impact on our food service customers, increased costs, the impact of governmental trade restrictions imposed as a result of COVID-19 and the possible adverse impact of COVID-19 on our goodwill and other intangible assets; our ability to raise prices, particularly in our RFG and Foods segments, to offset increased costs of goods sold, and the impact of such price increases on future net sales; seasonality of our business; sensitivity of our business to changes in market prices of avocados and other agricultural products and other raw materials including fuel, packaging and paper; potential disruptions to our supply chain; risks associated with potential future acquisitions, including integration; potential exposure to data breaches and other cyber-attacks on our systems or those of our suppliers or customers; dependence on large customers; dependence on key personnel 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, volatility in the value of our common stock; the impact of macroeconomic trends and events; and the resolution of pending investigations, legal claims and tax disputes, including an assessment imposed by the Servicio de Administracion Tributaria in Mexico (the “SAT”) and our defenses against collection activities commenced by the SAT.

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

**CALAVO GROWERS, INC.**

**INDEX**

	PAGE
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements (unaudited):</u></b>	
<u>Consolidated Condensed Balance Sheets – January 31, 2022 and October 31, 2021</u>	4
<u>Consolidated Condensed Statements of Operations – Three Months Ended January 31, 2022 and 2021</u>	5
<u>Consolidated Condensed Statements of Cash Flows – Three Months Ended January 31, 2022 and 2021</u>	6
<u>Consolidated Condensed Statements of Shareholders' Equity – Three Months Ended January 31, 2022 and 2021</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	20
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	33
<b><u>Item 4. Controls and Procedures</u></b>	33
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	34
<b><u>Item 1A. Risk Factors</u></b>	34
<b><u>Item 5. Other Information</u></b>	34
<b><u>Item 6. Exhibits</u></b>	35
<u>Signatures</u>	36

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	January 31, 2022	October 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,826	\$ 1,885
Restricted cash	970	970
Accounts receivable, net of allowances of \$5,012 (2022) and \$4,816 (2021)	89,467	78,866
Inventories	52,402	40,757
Prepaid expenses and other current assets	10,905	11,946
Advances to suppliers	9,951	6,693
Income taxes receivable	8,016	11,524
Total current assets	179,537	152,641
Property, plant, and equipment, net	116,034	118,280
Operating lease right-of-use assets	58,568	59,842
Investment in Limoneira Company	24,925	27,055
Investments in unconsolidated entities	3,810	4,346
Deferred income taxes	5,316	5,316
Goodwill	28,653	28,653
Intangibles, net	8,381	8,769
Other assets	43,408	40,500
	<u>\$ 468,632</u>	<u>\$ 445,402</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Payable to growers	\$ 37,798	\$ 23,033
Trade accounts payable	11,848	9,794
Accrued expenses	47,761	42,063
Dividend payable	—	20,330
Other current liabilities	11,000	11,000
Current portion of operating leases	6,876	6,817
Current portion of long-term obligations and finance leases	1,593	1,587
Total current liabilities	116,876	114,624
Long-term liabilities:		
Borrowings pursuant to credit facilities, long-term	64,000	37,700
Long-term operating leases, less current portion	56,277	57,561
Long-term obligations and finance leases, less current portion	5,171	5,553
Other long-term liabilities	3,026	3,081
Total long-term liabilities	128,474	103,895
Commitments and contingencies		
Shareholders' equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 17,716 (2022) and 17,686 (2021) shares issued and outstanding)	18	18
Additional paid-in capital	168,692	168,133
Noncontrolling interest	1,251	1,368
Retained earnings	53,321	57,364
Total shareholders' equity	223,282	226,883
	<u>\$ 468,632</u>	<u>\$ 445,402</u>

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

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

	Three months ended January 31,	
	2022	2021
Net sales	\$ 274,092	\$ 220,578
Cost of sales	260,864	202,739
Gross profit	13,228	17,839
Selling, general and administrative	15,337	14,174
Expenses related to Mexican tax matters	367	—
Impairment and charges related to RFG Florida facility closure	565	—
Gain on sale of Temecula packinghouse	(54)	(54)
Operating income (loss)	(2,987)	3,719
Interest expense	(327)	(174)
Other income, net	659	201
Unrealized net gain (loss) on Limoneira shares	(2,130)	3,589
Income (loss) before income taxes and loss from unconsolidated entities	(4,785)	7,335
Income tax (provision) benefit	1,160	(1,943)
Net loss from unconsolidated entities	(535)	(155)
Net income (loss)	(4,160)	5,237
Add: Net loss attributable to noncontrolling interest	117	40
Net income (loss) attributable to Calavo Growers, Inc.	<u>\$ (4,043)</u>	<u>\$ 5,277</u>
Calavo Growers, Inc.'s net income (loss) per share:		
Basic	<u>\$ (0.23)</u>	<u>\$ 0.30</u>
Diluted	<u>\$ (0.23)</u>	<u>\$ 0.30</u>
Number of shares used in per share computation:		
Basic	<u>17,653</u>	<u>17,599</u>
Diluted	<u>17,653</u>	<u>17,669</u>

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

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

	<b>Three months ended January 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (4,160)	\$ 5,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,312	4,294
Non-cash operating lease expense	49	16
Net loss from unconsolidated entities	535	155
Unrealized net loss (gain) on Limoneira shares	2,130	(3,589)
Impairment and non-cash charges related to closure of RFG Florida facility	317	—
Stock-based compensation expense	556	907
Gain on sale of Temecula packinghouse	(54)	(54)
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable, net	(10,601)	(7,935)
Inventories, net	(11,735)	81
Prepaid expenses and other current assets	(1,559)	(1,298)
Advances to suppliers	(3,258)	152
Income taxes receivable/payable	3,508	3,888
Other assets	(308)	(3,638)
Payable to growers	14,765	210
Trade accounts payable, accrued expenses and other liabilities	7,891	14,739
Net cash provided by operating activities	2,388	13,165
<b>Cash Flows from Investing Activities:</b>		
Purchases of property, plant, and equipment	(2,044)	(4,768)
Net cash used in investing activities	(2,044)	(4,768)
<b>Cash Flows from Financing Activities:</b>		
Payment of dividend to shareholders	(20,330)	(20,343)
Proceeds from revolving credit facility	96,300	91,000
Payments on revolving credit facility	(70,000)	(74,400)
Payments of minimum withholding taxes on net share settlement of equity awards	(44)	(467)
Payments on long-term obligations and finance leases	(376)	(121)
Proceeds from stock option exercises	47	47
Net cash provided by (used in) financing activities	5,597	(4,284)
Net decrease in cash, cash equivalents and restricted cash	5,941	4,113
Cash, cash equivalents and restricted cash, beginning of period	2,855	4,055
Cash, cash equivalents and restricted cash, end of period	<u>\$ 8,796</u>	<u>\$ 8,168</u>
<b>Noncash Investing and Financing Activities:</b>		
Right of use assets obtained in exchange for new financing lease obligations	\$ —	\$ 301
Property, plant, and equipment included in trade accounts payable and accrued expenses	<u>\$ 173</u>	<u>\$ 863</u>

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount				
<b>Balance, October 31, 2020</b>	17,661	\$ 18	\$ 165,000	\$ 89,512	\$ 1,472	\$ 256,002
Exercise of stock options and income tax benefit	2	—	47	—	—	47
Payment of min. withholding of taxes on net share settlement of equity awards	—	—	(467)	—	—	(467)
Stock compensation expense	—	—	907	—	—	907
Restricted stock issued	23	—	—	—	—	—
Avocados de Jalisco noncontrolling interest 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>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount				
<b>Balance, October 31, 2021</b>	17,686	\$ 18	\$ 168,133	\$ 57,364	\$ 1,368	\$ 226,883
Exercise of stock options and income tax benefit	2	—	47	—	—	47
Payment of min. withholding of taxes on net share settlement of equity awards	—	—	(44)	—	—	(44)
Stock compensation expense	—	—	556	—	—	556
Restricted stock issued	28	—	—	—	—	—
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	(117)	(117)
Net loss attributable to Calavo Growers, Inc.	—	—	—	(4,043)	—	(4,043)
<b>Balance, January 31, 2022</b>	<u>17,716</u>	<u>18</u>	<u>168,692</u>	<u>53,321</u>	<u>1,251</u>	<u>223,282</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, 2021.

***Recently Adopted Accounting Standards***

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

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

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 January 31, 2022				Three months ended January 31, 2021			
	Fresh products	RFG	Calavo Foods	Total	Fresh products	RFG	Calavo Foods	Total
Avocados	\$ 150,505	\$ —	\$ —	\$ 150,505	\$ 103,858	\$ —	\$ —	\$ 103,858
Tomatoes	9,987	—	—	9,987	9,187	—	—	9,187
Papayas	3,040	—	—	3,040	2,751	—	—	2,751
Other fresh income	25	—	—	25	326	—	—	326
Fresh-cut fruit	—	43,373	—	43,373	—	42,944	—	42,944
Fresh-cut vegetables	—	28,086	—	28,086	—	29,589	—	29,589
Prepared products	—	24,818	18,409	43,227	—	18,718	16,838	35,556
Salsa	—	—	421	421	—	—	712	712
Total gross sales	163,557	96,277	18,830	278,664	116,122	91,251	17,550	224,923
Less sales allowances	(972)	(513)	(1,702)	(3,187)	(663)	(945)	(1,092)	(2,700)
Less inter-company eliminations	(603)	—	(782)	(1,385)	(526)	—	(1,119)	(1,645)
Net sales	\$ 161,982	\$ 95,764	\$ 16,346	\$ 274,092	\$ 114,933	\$ 90,306	\$ 15,339	\$ 220,578

	Fresh products	RFG	Calavo Foods	Interco. Elimin.	Total
	(All amounts are presented in thousands)				
<b>Three months ended January 31, 2022</b>					
Net sales	\$ 162,585	\$ 95,764	\$ 17,128	\$ (1,385)	\$ 274,092
Cost of sales	150,919	96,416	14,914	(1,385)	260,864
Gross profit (loss)	\$ 11,666	\$ (652)	\$ 2,214	\$ —	\$ 13,228
<b>Three months ended January 31, 2021</b>					
Net sales	\$ 115,459	\$ 90,306	\$ 16,458	\$ (1,645)	\$ 220,578
Cost of sales	102,314	90,329	11,741	(1,645)	202,739
Gross profit (loss)	\$ 13,145	\$ (23)	\$ 4,717	\$ —	\$ 17,839

For the three months ended January 31, 2022 and 2021, intercompany sales and cost of sales of \$0.6 million and \$0.5 million between Fresh products and RFG were eliminated. For the three months ended January 31, 2022 and 2021, intercompany sales and cost of sales of \$0.8 million and \$1.1 million between Calavo Foods and RFG were eliminated.

Sales to customers outside the U.S. were approximately \$7.1 million, and \$8.1 million for the three months ended January 31, 2022 and 2021.

Our foreign operations in Mexico are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries in Mexico is the United States dollar (U.S. dollar). As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements and foreign currency transactions are recognized within cost of sales. We recognized foreign currency remeasurement losses in the current quarter. These losses were due primarily to certain long-term net peso receivables. Foreign currency remeasurement losses, net of gains, for the three months ended January 31, 2022 was \$0.6 million. Foreign currency remeasurement gains, net of losses, for the three months ended January 31, 2021 was \$1.0 million.

Long-lived assets attributed to geographic areas as of January 31, 2022 and October 31, 2021, are as follows (in thousands):

	United States	Mexico	Consolidated
January 31, 2022	\$ 79,245	\$ 36,789	\$ 116,034
October 31, 2021	\$ 81,059	\$ 37,221	\$ 118,280

### 3. Inventories

Inventories consist of the following (in thousands):

	January 31, 2022	October 31, 2021
Fresh fruit	\$ 29,704	\$ 17,648
Packing supplies and ingredients	14,642	13,088
Finished prepared foods	8,056	10,021
	<u>\$ 52,402</u>	<u>\$ 40,757</u>

Inventories are stated at the lower of cost or net realizable value. We periodically review the value of items in inventory and record any necessary write downs of inventory based on our assessment of market conditions. Inventory includes reserves of \$0.5 million and \$0.2 million in slow moving and obsolete packing supply inventory as of January 31, 2022 and October 31, 2021. No additional inventory reserve was considered necessary as of January 31, 2022 and October 31, 2021.

### 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 January 31, 2022, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$0.2 million. There were no avocados procured from entities owned or controlled by members of our Board of directors for the three months ended January 31, 2021. Amounts payable to these Board members were \$0.2 million as of January 31, 2022. We did not have any amounts payable to these Board members as of October 31, 2021.

During the three months ended January 31, 2022 and 2021, we received \$0.1 million as dividend income from Limoneira Company (Limoneira). In addition, we lease office space from Limoneira for our corporate office. We paid rent expense to Limoneira totaling \$0.1 million for the three months ended January 31, 2022 and 2021. Harold Edwards, who resigned as a member of our Board of Directors in February 2022, is the Chief Executive Officer of Limoneira Company. As of January 31, 2022, we own approximately 9% of Limoneira's outstanding shares. In February 2022, Limoneira ended its marketing agreement with Calavo. The termination of this agreement is not expected to have a significant effect on either sales or results of operations.

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 January 31, 2022, and October 31, 2021, we had an investment of \$3.8 million and \$4.3 million, representing Calavo's 50% ownership in Don Memo, which was included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission and aforementioned advances. As of January 31, 2022 and October 31, 2021, we had outstanding advances of \$4.2 million and \$4.2 million to Don Memo. In October 2020, we entered into an infrastructure loan agreement with Don Memo for up to \$2.4 million secured by certain property and equipment of Don Memo. This infrastructure loan

accrues interest at 7.25%. In October 2020, we funded \$0.7 million related to this loan agreement, and we funded an additional \$0.7 million, and \$0.6 million in the first, and second quarters of fiscal 2021, for a total outstanding balance at January 31, 2022 of \$2.0 million (\$0.4 million is included in prepaids and other current assets and \$1.6 million in other assets). This infrastructure loan agreement will mature in fiscal 2024. During the three months ended January 31, 2022 and 2021, we incurred \$3.4 million and \$3.5 million of cost of sales to Don Memo pursuant to our purchase 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 and \$4.5 million as of January 31, 2022 and October 31, 2021, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of \$0.9 million as of January 31, 2022 and October 31, 2021. These infrastructure advances were recorded as a receivable in prepaid and other current assets as of January 31, 2022 and October 31, 2021. In July 2021, we made a bridge loan of \$3.5 million to Belher. This loan is secured by certain farmland in Mexico and accrues interest at 10%. In the first quarter of fiscal 2022, this loan has been amended to be due with installments of \$0.9 million on July 31, 2022, \$0.9 million on July 31, 2023 and \$1.7 million on July 31, 2024. This bridge loan has been recorded as \$0.9 million in prepaid expenses and other current assets and \$2.6 million in other assets. During the three months ended January 31, 2022 and 2021, we incurred \$3.4 million and \$3.3 million of cost of sales to Belher pursuant to our purchase 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 January 31, 2022, this entity was approximately 83% owned by Calavo and was consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico, which began operations in June of 2017. During the three months ended January 31, 2022 and 2021, we purchased approximately \$3.5 million and \$2.2 million of avocados from the partners of Avocados de Jalisco.

## 5. Other assets and Intangibles

Other assets consist of the following (in thousands):

	January 31, 2022	October 31, 2021
Mexican IVA (i.e. value-added) taxes receivable (see note 11)	\$ 38,217	\$ 37,493
Infrastructure advances to Agricola Belher	1,641	1,641
Bridge loan to Agricola Belher	2,600	—
Other	950	1,366
	<u>\$ 43,408</u>	<u>\$ 40,500</u>

Intangible assets consist of the following (in thousands):

	Weighted- Average Useful Life	January 31, 2022			October 31, 2021		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	7 years	\$ 17,340	\$ (10,335)	\$ 7,005	\$ 17,340	\$ (9,989)	\$ 7,351
Trade names	8 years	4,060	(3,010)	1,050	4,060	(2,980)	1,080
Trade secrets/recipes	9 years	630	(579)	51	630	(567)	63
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		<u>\$ 22,305</u>	<u>\$ (13,924)</u>	<u>\$ 8,381</u>	<u>\$ 22,305</u>	<u>\$ (13,536)</u>	<u>\$ 8,769</u>

We anticipate recording amortization expense of \$1.2 million for the remainder of fiscal 2022, \$1.5 million for fiscal year 2023, \$1.5 million for fiscal year 2024, \$1.5 million for fiscal year 2025, and \$2.4 million thereafter.

## 6. Stock-Based Compensation

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

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

On January 3, 2022, all 10 of our current directors were granted 2,814 restricted shares each (for a total of 28,140 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing share price of our stock on such grant date was \$42.64. As of January 3, 2023, these shares will vest and become unrestricted subject to the continued service of the director. The total recognized stock-based compensation expense for these grants was \$0.1 million for the three months ended January 31, 2022.

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

On February 1, 2022, Brian Kocher, our new Chief Executive Officer, was granted 28,993 of restricted shares as part of his employment agreement. The closing share price of our stock on such grant date was \$41.39. These shares will vest over three years on an annual basis, beginning February 1, 2023.

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

	<u>Number of Shares</u>	<u>Weighted-Average Grant Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at October 31, 2021	43	\$ 64.89	
Vested	(27)	\$ 42.28	
Granted	35	\$ 42.28	
Outstanding at January 31, 2022	<u>51</u>	\$ 47.41	<u>\$ 2,112</u>

The total recognized stock-based compensation expense for restricted stock was \$0.6 million and \$0.9 million for the three months ended January 31, 2022 and 2021. Total unrecognized stock-based compensation expense totaled \$2.5 million as of January 31, 2022 and will be amortized through fiscal year 2024.

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

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

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

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at October 31, 2021	19	\$ 42.89	
Exercised	(2)	\$ 23.48	
Outstanding at January 31, 2022	<u>17</u>	<u>\$ 47.62</u>	<u>\$ 106</u>
Exercisable at January 31, 2022	<u>12</u>	<u>\$ 51.12</u>	<u>\$ 117</u>

At January 31, 2022, outstanding and exercisable stock options had a weighted-average remaining contractual term of 2.2 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three months ended January 31, 2022 and 2021.

## 7. Other events

### *Dividend payment*

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

### *Litigation*

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

### *Mexico tax audits*

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

#### **2011 Assessment**

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. 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 related to Income Tax, Flat Rate Business Tax, and value added tax, corresponding to the fiscal year 2011 tax audit.

On June 16, 2021, Calavo reached a settlement agreement with the MFM regarding the 2011 Assessment. Under the terms of the settlement, Calavo agreed to pay approximately \$47.8 million Mexican pesos (approximately \$2.4 million USD) as a full and final settlement of all taxes, fines and penalties asserted by the MFM. The settlement included \$1.5 million USD of income taxes and \$0.9 million USD of value added taxes, with both amounts including penalties and interest and inflationary adjustments, which have been recorded in the financial statements as a discrete item in Income Tax Provision and in Expenses related to Mexican tax matters, respectively.

#### **2013 Assessment**

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

these preliminary observations during our second fiscal quarter of 2017. During the period from our third fiscal quarter of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through the conclusive agreement submitted before PRODECON, having several 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 (which includes annual adjustments for inflation, and equals approximately \$126.6 million USD at January 31, 2022) related to Income Tax, Flat Rate Business Tax, and value added tax, related to this fiscal 2013 tax audit. This amount has been adjusted for inflation as of January 31, 2022 to the amount of \$3.08 billion Mexican pesos (approx. \$148.6 million USD). Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.7 million USD at January 31, 2022).

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, appealing our case to the SAT's central legal department in Michoacan. Furthermore, in August 2018, we received a favorable ruling from the SAT's central legal department in Michoacan on another tax matter (see Note 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.

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

We strongly disagree with above actions taken and conclusions reached by the SAT. We have taken several measures in vigorous defense of our position, as explained below.

On August 27, 2021, we filed a formal complaint, or *queja*, (the Complaint) before the PRODECON to request its assistance with having the SAT act upon the Reconsideration. This complaint was withdrawn in September, but may still be reinstated if deemed appropriate in the future. It should be noted that although the SAT is not obligated to act upon the Reconsideration, however, we believe that having the option of re-filing the PRODECON Complaint makes it likely that the SAT will respond to the Administrative Reconsideration and be open to settlement discussions.

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

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

On September 22, 2021, we had an initial in-person meeting with the SAT in Mexico City to formally present and discuss the Reconsideration. The SAT agreed to review our Reconsideration in more detail; however, on January 3, 2022, the SAT formally rejected our request for the Reconsideration. In response to this rejection, on January 21, 2022, we filed an Injunction Suit (*Juicio de Amparo*) with a federal district court seeking to nullify the arguments against the Reconsideration made by the SAT on constitutional grounds. On February 25, 2022, we filed a supplemental Injunction Suit in which we seek to have the liens against the bank accounts of CDM lifted. The injunction suits have been accepted

by the court and we are expecting a response by September 2022. The main purpose of the Amparo was to challenge the response issued to the Reconsideration, and with that, to keep the Reconsideration alive until the Amparo is decided. This would allow time to continue the discussions with SAT at the administrative level and would give SAT the legal basis to issue a new resolution in terms of what may be agreed in the ongoing discussions with SAT. This Amparo represents a further opportunity as well for a Court of Law to analyze this matter from a constitutional perspective.

On February 4, 2022, we had a follow-up meeting with the SAT in Mexico City to begin a dialog with the objective of reaching a settlement of the 2013 Assessment. The SAT agreed in principle to continue this dialog, but requested that we provide a financial guaranty to secure the related tax as a pre-requisite to these discussions. On March 10, 2022, we met with the SAT and offered an Administrative Guaranty (*Embargo en Via Administrativa*) to secure the 2013 Assessment, which provides the SAT with certain administrative rights to CDM assets in the unlikely event we do not prevail in our actions through the Federal Tax Court (see below) or in the Reconsideration process. Once the Administrative Guaranty is in place, the existing liens over the assets of CDM will be removed and the SAT collection process will be suspended.

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

On March 4, 2022, the Annulment Suit was formally accepted by the Federal Tax Court, which simultaneously granted a provisional suspension of the collections proceedings by the SAT. The acceptance by the court of the Annulment Suit renders the 2013 Assessment as non-definitive, until such time as the suit is resolved. The Company has presented the Federal Tax Court with evidence of the above offer of the Administrative Guaranty to the SAT, and in connection therewith, expects that the Federal Tax Court will issue a definitive suspension of collections proceedings.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the Annulment Suit in the Tax Court, we also believe it is in the best interest of CDM and the Company to settle the 2013 Assessment as quickly as possible. Furthermore, we believe that the above actions taken by CDM will encourage the SAT agree to reach a settlement. In accordance with our cumulative probability analysis, based on factors such as recent settlements made by the SAT in other cases, the 2011 Assessment settlement reached by CDM with the MFM, and the value of CDM assets, we recorded a provision of \$11 million USD, in the third quarter of fiscal 2021, as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We believe that this provision remains appropriate as of January 31, 2022 based on our cumulative probability analysis. We incurred \$0.4 million of related professional fees for the three months ended January 31, 2022, which have been recorded in Expenses related to Mexican Tax matters.

## **8. Fair value measurements**

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(All amounts are presented in thousands)			
<b>Assets at Fair Value at January 31, 2022:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 24,925	-	-	\$ 24,925
Total assets at fair value	<u>\$ 24,925</u>	<u>-</u>	<u>-</u>	<u>\$ 24,925</u>
<b>Assets at Fair Value at October 31, 2021:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 27,055	-	-	\$ 27,055
Total assets at fair value	<u>\$ 27,055</u>	<u>-</u>	<u>-</u>	<u>\$ 27,055</u>

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company common stock. We currently own approximately 9% of Limoneira's outstanding common stock. These securities are measured at fair value using quoted market prices. For the three months ended January 31, 2022 and 2021, we recognized losses of \$2.1 million and gains of \$3.6 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 January 31,</u>	
	<u>2022</u>	<u>2021</u>
Noncontrolling interest, beginning	\$ 1,368	\$ 1,472
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(117)	(40)
Noncontrolling interest, ending	<u>\$ 1,251</u>	<u>\$ 1,432</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 January 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>Numerator:</b>		
Net income (loss) attributable to Calavo Growers, Inc.	\$ (4,043)	\$ 5,277
<b>Denominator:</b>		
Weighted average shares – Basic	17,653	17,599
Effect of dilutive securities – Restricted stock/options (1)	—	70
Weighted average shares – Diluted	<u>17,653</u>	<u>17,669</u>
<b>Net income (loss) per share attributable to Calavo Growers, Inc:</b>		
Basic	\$ (0.23)	\$ 0.30
Diluted	\$ (0.23)	\$ 0.30

(1) At January 31, 2022, approximately 43,000 shares of common stock equivalents were excluded in the computation of diluted net loss per share, as the effect would be anti-dilutive since the Company reported a net loss.



## **11. Mexican IVA taxes receivable**

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

As of January 31, 2022, and October 31, 2021, CDM IVA receivables totaled \$38.2 million (792.6 million Mexican pesos) and \$37.5 million (762.1 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2022, the tax authorities began 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 primarily through regular administrative processes, but these amounts may ultimately need to be recovered through Administrative Appeals and/or legal means.

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

In spite of the favorable ruling from the SAT's Legal Administration in Michoacan, 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 2013, 2014, 2015, and 2016, and January and February of 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 January 31, 2022, CDM has filed Administrative Appeals for months for which IVA refunds have been denied by the SAT, and will continue filing such appeals for any months for which refunds are denied in the future. 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 Annulment Suits with the Mexican Federal Tax Court. If these suits result in an unfavorable ruling, there is an option to appeal to the Collegiate Circuit Court. The estimated time for the resolution of these suits could be 2 – 3 years.

We believe that our operations in Mexico are properly documented, and our internationally recognized tax advisors believe that there are legal grounds to prevail in collecting the corresponding IVA amounts. Therefore, we believe that it is probable that the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

## **12. Credit Facility**

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

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

The Company also pledged the 1,677,000 shares it holds of Limoneira stock as collateral (which was in addition to the general business assets of the Company that already secure the credit facility).

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

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

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

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

We expect to remain in compliance with the Credit Agreement, as so amended, through March 2023.

### **13. 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. This has resulted in inflationary and cost pressures that have significantly increased, and continue to adversely impact, our production and distribution costs, including costs of raw materials, packaging, labor, and freight. We are also experiencing pressure in our supply chain due to strained transportation capacity and lack of sufficient labor availability. We believe, however, that we are well-positioned for the future as we continue to navigate the crisis and have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses, as well as those related to our Peru partner in consignment avocado sales.

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

In early 2021, health agencies approved vaccines for combating the COVID-19 virus. In November 2021, the omicron variant of the SARS-COV-2 virus has started to spread throughout the world, which led to further pandemic restrictions. While many of such restrictions have since been lifted, the pace of the recovery from the COVID-19 pandemic is not presently known. We cannot reasonably estimate the duration or extent of the pandemic's adverse impact on our business, operating results, and long-term liquidity position.

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

On November 15, 2021, the Green Cove facility of RFG has ceased operations. The Company's Fresh avocado operations at this facility will continue in operation and are not affected. RFG will continue to serve customers of this location from its other food processing locations, primarily in Georgia.

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

As of January 31, 2022 and October 31, 2021, the Company had right of use assets with a net book value of \$4.4 million and \$4.8 million respectively, and lease liabilities of \$5.5 million and \$6.0 million, respectively, recorded on the balance sheet related to the closed facility. The facility lease has a maturity date of October 31, 2031. The Company intends to seek a sub-lease tenant to assume the vacated space, and believes such a sub-lease can be obtained at a lease rate, and for a lease period, sufficient to realize the right of use asset. Management will continue to evaluate the actual amounts and duration of expected future sub-lease revenues. Should the actual sub-lease revenues be less than those currently expected, the Company may need to record impairment of some or all of its investment in the right of use asset.

During the first quarter of fiscal 2022, we incurred \$0.7 million of incremental restructuring and related costs due to the transition to other facilities.

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

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

### ***Recent Developments***

#### *Mexican Avocado Imports*

On February 11, 2022, the United States Department of Agriculture halted all imports of avocados coming into the United States from Mexico. This ban was lifted on February 18, 2022. This stoppage of imports did not significantly impact our operations or our customers and we do not expect this to have a negative impact on our financial results.

#### *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. This has resulted in inflationary and cost pressures that have significantly increased, and continue to adversely impact, our production and distribution costs, including costs of raw materials, packaging, labor, and freight. We are also experiencing pressure in our supply chain due to strained transportation capacity and lack of sufficient labor availability. We believe that we are well-positioned for the future as we continue to navigate the crisis and have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales.

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

In early 2021, health agencies approved vaccines for combating the COVID-19 virus. In November 2021, the omicron variant of the SARS-COV-2 virus has started to spread throughout the world, which led to further pandemic restrictions. While many of such restrictions have since been lifted, the pace of the recovery from the COVID-19 pandemic is not presently known. We cannot reasonably estimate the duration or extent of the pandemic's adverse impact on our business, operating results, and long-term liquidity position.

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

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

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

#### *Dividend payment*

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

#### *Litigation*

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

#### *Project Uno*

During the third quarter of 2021, the Company launched Project Uno, a strategic set of initiatives that seeks to identify areas of operating efficiencies and cost savings to expand profit margins, cash flow and return on invested capital. We have undertaken multiple productivity and transformation initiatives, including (1) closure of the RFG Florida plant and transfer of its viable operations into RFG Georgia, (2) implementing broader supply chain operational improvements, (3) integrating our commercial, logistics, IT, procurement and accounting functions across the three divisions, (4) product rationalization initiatives which are aimed at eliminating unprofitable or slow moving SKUs and (5) outsourcing certain functions in our North American business to third-party service providers and the associated implementation of new procurement technology solutions. The Company will continue to carry out the existing productivity initiatives as well as additional initiatives under this strategy in fiscal 2022.

#### *Mexico tax audits*

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

##### *2011 Assessment*

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. 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 related to Income Tax, Flat Rate Business Tax, and value added tax, corresponding to the fiscal year 2011 tax audit.

On June 16, 2021, Calavo reached a settlement agreement with the MFM regarding the 2011 Assessment. Under the terms of the settlement, Calavo agreed to pay approximately \$47.8 million Mexican pesos (approximately \$2.4 million USD) as a full and final settlement of all taxes, fines and penalties asserted by the MFM. The settlement included \$1.5 million USD of income taxes and \$0.9 million USD of value added taxes, with both amounts including penalties and interest and inflationary adjustments, which have been recorded in the financial statements as a discrete item in Income Tax Provision and in Expenses related to Mexican tax matters, respectively.

##### *2013 Assessment*

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

of 2017 through our third fiscal quarter of 2018, we attempted to resolve our case with the SAT through the conclusive agreement submitted before PRODECON, having several 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 (which includes annual adjustments for inflation, and equals approximately \$126.6 million USD at January 31, 2022) related to Income Tax, Flat Rate Business Tax, and value added tax, related to this fiscal 2013 tax audit. This amount has been adjusted for inflation as of January 31, 2022 to the amount of \$3.08 billion Mexican pesos (approx. \$148.6 million USD). Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.7 million USD at January 31, 2022).

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, appealing our case to the SAT's central legal department in Michoacan. Furthermore, in August 2018, we received a favorable ruling from the SAT's central legal department in Michoacan on another tax matter (see Note 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.

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

We strongly disagree with above actions taken and conclusions reached by the SAT. We have taken several measures in vigorous defense of our position, as explained below.

On August 27, 2021, we filed a formal complaint, or *queja*, (the Complaint) before the PRODECON to request their assistance with having the SAT act upon the Reconsideration. This complaint was later withdrawn in September, but may still be reinstated if deemed appropriate in the future. It should be noted that although the SAT is not obligated to act upon the Reconsideration, however, we believe that having the option of re-filing the PRODECON Complaint makes it likely that the SAT will respond to the Administrative Reconsideration and be open to settlement discussions.

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

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

On September 22, 2021, we had an initial in-person meeting with the SAT in Mexico City to formally present and discuss the Reconsideration. The SAT agreed to review our Reconsideration in more detail; however, on January 3, 2022, the SAT formally rejected our request for the Reconsideration. In response to this rejection, on January 21, 2022, we filed an Injunction Suit (*Juicio de Amparo*) with a federal district court seeking to nullify the arguments against the Reconsideration made by the SAT on constitutional grounds. On February 25, 2022, we filed a supplemental Injunction Suit in which we seek to have the liens against the bank accounts of CDM lifted. The injunction suits have been accepted by the court and we are expecting a response by September 2022. The main purpose of the Amparo was to challenge the

response issued to the Reconsideration, and with that, to keep the Reconsideration alive until the Amparo is decided. This would allow time to continue the discussions with SAT at the administrative level and would give SAT the legal basis to issue a new resolution in terms of what may be agreed in the ongoing discussions with SAT. This Amparo represents a further opportunity as well for a Court of Law to analyze this matter from a constitutional perspective.

On February 4, 2022, we had a follow-up meeting with the SAT in Mexico City to begin a dialog with the objective of reaching a settlement of the 2013 Assessment. The SAT agreed in principle to continue this dialog, but requested that we provide a financial guaranty to secure the related tax as a pre-requisite to these discussions. On March 10, 2022, we met with the SAT and offered an Administrative Guaranty (*Embargo en Via Administrativa*) to secure the 2013 Assessment, which provides the SAT with certain administrative rights to CDM assets in the unlikely event we do not prevail in our actions through the Federal Tax Court (see below) or in the Reconsideration process. Once the Administrative Guaranty is in place, the existing liens over the assets of CDM will be removed and the SAT collection process will be suspended.

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

On March 4, 2022, the Annulment Suit was formally accepted by the Federal Tax Court, which simultaneously granted a provisional suspension of the collections proceedings by the SAT. The acceptance by the court of the Annulment Suit renders the 2013 Assessment as non-definitive, until such time as the suit is resolved. The Company has presented the Federal Tax Court with evidence of the above offer of the Administrative Guaranty to the SAT, and in connection therewith, expects that the Federal Tax Court will issue a definitive suspension of collections proceedings.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the Annulment Suit in the Tax Court, we also believe it is in the best interest of CDM and the Company to settle the 2013 Assessment as quickly as possible. Furthermore, we believe that the above actions taken by CDM will encourage the SAT agree to reach a settlement. In accordance with our cumulative probability analysis, based on factors such as recent settlements made by the SAT in other cases, the 2011 Assessment settlement reached by CDM with the MFM, and the value of CDM assets, we recorded a provision of \$11 million USD, in the third quarter of fiscal 2021, as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We believe that this provision remains appropriate as of January 31, 2022 based on our cumulative probability analysis. We incurred \$0.4 million of related professional fees for the three months ended January 31, 2022, which have been recorded in Expenses related to Mexican Tax matters.

#### *Closure of RFG Florida facility*

On November 15, 2021, the Green Cove facility of RFG has ceased operations. The Company's Fresh avocado operations at this facility will continue in operation and are not affected. RFG will continue to serve customers of this location from its other food processing locations, primarily in Georgia.

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

As of January 31, 2022 and October 31, 2021, the Company had right of use assets with a net book value of \$4.4 million and \$4.8 million respectively, and lease liabilities of \$5.5 million and \$6.0 million, respectively, recorded on the balance sheet related to the closed facility. The facility lease has a maturity date of October 31, 2031. The Company intends to seek a sub-lease tenant to assume the vacated space, and believes such a sub-lease can be obtained at a lease



rate, and for a lease period, sufficient to realize the right of use asset. Management will continue to evaluate the actual amounts and duration of expected future sub-lease revenues. Should the actual sub-lease revenues be less than those currently expected, the Company may need to record impairment of some or all of its investment in the right of use asset.

During the first quarter of fiscal 2022, we incurred \$0.7 million of incremental restructuring and related costs due to the transition to other facilities.

### **Critical Accounting Estimates**

In preparing our financial statements in accordance with GAAP, we are required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, and costs and expenses that are reported in the financial statements and accompanying disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results may differ from these estimates and assumptions. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

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

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

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

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

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

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

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



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

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

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

	<b>Three months ended January 31,</b>	
	<b>2022</b>	<b>2021</b>
Net income (loss) attributable to Calavo Growers, Inc.	\$ (4,043)	\$ 5,277
Non-GAAP adjustments:		
Non-cash losses recognized from unconsolidated entities (a)	535	155
Loss (Recovery) from FreshRealm and other related expenses (b)	—	(39)
Acquisition costs (c)	—	262
Net (gain) loss on Limoneira shares (d)	2,130	(3,589)
RFG rent expense add back (e)	108	108
Restructure costs - consulting, management recruiting and severance (f)	1,118	—
Mexican tax matters (g)	367	—
Impairment and charges related to closure of RFG Florida facility (h)	654	—
Tax impact of adjustments (i)	(1,238)	840
Adjusted net income attributed to Calavo Growers, Inc.	<u>\$ (369)</u>	<u>\$ 3,014</u>
Calavo Growers, Inc.’s net income (loss) per share:		
Diluted EPS (GAAP)	<u>\$ (0.23)</u>	<u>\$ 0.30</u>
Adjusted Diluted EPS	<u>\$ (0.02)</u>	<u>\$ 0.17</u>
Number of shares used in per share computation:		
Diluted	<u>17,653</u>	<u>17,669</u>

- (a) For the three months ended January 31, 2022 and 2021, we realized losses from Agricola Don Memo totaling \$0.5 million and \$0.2 million.
- (b) As part of the FreshRealm Separation Agreement, we received \$0.1 million of previously reserved receivables for the three months ended January 31, 2021. Partially offsetting this benefit, we had professional fees related to the FreshRealm Separation Agreement.
- (c) In the first quarter of 2021, we incurred professional service costs related to a considered but non-consummated acquisition.
- (d) For the three months ended January 31, 2022 and 2021, we recorded \$2.1 million in unrealized losses and \$3.6 million in unrealized gains related to these mark-to-market adjustments, respectively.
- (e) For the three months ended January 31, 2022 and 2021, we incurred \$0.1 million related to rent paid for RFG corporate office space that we have vacated and plan to sublease.
- (f) For the three months ended January 31, 2022, we recorded \$1.1 million of consulting expenses related to an enterprise-wide strategic business operations study conducted by a third-party management consulting organization for the purpose of restructuring to improve the profitability of the organization and efficiency of our operations.
- (g) For the three months ended January 31, 2022, we incurred \$0.4 million of related professional fees related to the Mexican tax matters. See Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

- (h) On October 18, 2021, we announced the closure of RFG’s food processing operations at our Green Cove Springs (near Jacksonville), Florida facility, as part of our Project Uno profit improvement program. As of November 15, the Green Cove facility of RFG has ceased operations. We incurred \$0.7 million of expenses in the first quarter of fiscal 2022, related to the closure of this facility.
- (i) Tax impact of non-GAAP adjustments are based on effective year-to-date tax rates.

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

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

	<b>Three months ended January 31,</b>	
	<b>2022</b>	<b>2021</b>
Net income (loss) attributable to Calavo Growers, Inc.	\$ (4,043)	\$ 5,277
Interest Income	(133)	(72)
Interest Expense	327	174
Provision (benefit) for Income Taxes	(1,160)	1,943
Depreciation & Amortization	4,312	4,294
Stock-Based Compensation (d)	556	907
<b>EBITDA</b>	<b>\$ (141)</b>	<b>\$ 12,523</b>
<b>Adjustments:</b>		
Non-cash losses recognized from unconsolidated entities (a)	535	155
Net (gain) loss on Limoneira shares (d)	2,130	(3,589)
Loss (Recovery) from FreshRealm and other related expenses (b)	—	(39)
RFG rent expense add back (e)	108	108
Acquisition costs (c)	—	262
Restructure costs - consulting and management recruiting and severance (f)	1,118	—
Expenses related to Mexican tax matters (g)	367	—
Impairment and charges related to closure of RFG Florida facility (h)	618	—
<b>Adjusted EBITDA</b>	<b>\$ 4,735</b>	<b>\$ 9,420</b>
<b>Adjusted EBITDA per dilutive share</b>	<b>\$ 0.27</b>	<b>\$ 0.53</b>

See prior page for footnote references

**Net Sales**

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

	<u>Three months ended January 31,</u>		
	<u>2022</u>	<u>Change</u>	<u>2021</u>
<b>Gross sales:</b>			
Fresh products	\$ 162,585	41 %	\$ 115,459
RFG	95,764	6 %	90,306
Calavo Foods	17,128	4 %	16,458
Less intercompany eliminations	(1,385)	(16)%	(1,645)
Total net sales	<u>\$ 274,092</u>	24 %	<u>\$ 220,578</u>
<b>As a percentage of sales:</b>			
Fresh products	59.0 %		52.0 %
RFG	34.8 %		40.6 %
Calavo Foods	6.2 %		7.4 %
	<u>100.0 %</u>		<u>100.0 %</u>

**Results of Operations**

*Summary*

Net sales for the three months ended January 31, 2022, compared to the corresponding period in fiscal 2021, increased by \$53.5 million, or approximately 24%. The increase was due to increases across all segments, but most significantly in Fresh products.

For the three months ended January 31, 2022, the increase in Fresh product sales was primarily due to an increase in sales of avocados. For the three months ended January 31, 2022, the increase in RFG sales was due primarily to increased sales from fresh-cut fruit & vegetables and prepared foods products. For the three months ended January 31, 2022, the increase in Calavo Foods was due primarily to an increase in the sales of prepared avocado 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*

Three Months Ended January 31, 2022 vs. Three Months Ended January 31, 2021

Net sales for the Fresh products business increased by approximately \$47.1 million, or 41%, for the first quarter of fiscal 2022 compared to the corresponding period in fiscal 2021. This increase in Fresh product sales during the first quarter of fiscal 2022 was primarily related to increased sales prices of avocados due to increased demand and lower overall supply of avocados in the marketplace. In addition, tomato sales increased due to an increase in overall sales volume, partially offset by a decrease in sales prices.

Sales of avocados increased \$46.3 million, or 45%, for the first quarter of 2022 compared to the prior year period. The average avocado sales price per carton increased 64% compared to the prior year period. This increase in the sales price per carton was mainly due to a decrease of supply of avocados in the marketplace. The volume of avocados sold in the first quarter of 2022 decreased 12% compared to the prior year period.

Sales of tomatoes increased \$0.8 million, or 9%, for the first quarter of 2022, when compared to the prior year period. This increase in tomato sales was primarily due to a 24% increase in the cartons sold of tomatoes, partially offset by a 12% decline in the sales price per carton.

*RFG*

Three Months Ended January 31, 2022 vs. Three Months Ended January 31, 2021

Net sales for RFG for the quarter ended January 31, 2022, compared to the corresponding period in fiscal 2021, increased \$5.5 million, or 6%. This increase was primarily reflecting a volume increase of 2%, favorable product mix and price increases.

*Calavo Foods*

Three Months Ended January 31, 2022 vs. Three Months Ended January 31, 2021

Net sales for Calavo Foods for the quarter ended January 31, 2022, compared to the corresponding period in fiscal 2021, increased \$0.7 million, or 4%. Sales of prepared avocado products increased by approximately \$1.0 million, or 6%, primarily related to an increase in the total volume of pounds sold.

**Gross Profit**

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

	<u>Three months ended January 31,</u>		
	<u>2022</u>	<u>Change</u>	<u>2021</u>
<b>Gross profit (loss):</b>			
Fresh products	\$ 11,666	(11)%	\$ 13,145
RFG	(652)	n/m %	(23)
Calavo Foods	2,214	(53)%	4,717
Total gross profit	<u>\$ 13,228</u>	(26)%	<u>\$ 17,839</u>
<b>Gross profit (loss) percentages:</b>			
Fresh products	7.2 %		11.4 %
RFG	(0.7)%		(0.0)%
Calavo Foods	12.9 %		28.7 %
Consolidated	4.8 %		8.1 %

*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 decreased by approximately \$4.6 million, or 26%, for the first quarter of fiscal 2022 compared to the corresponding period in fiscal 2021. The decrease was primarily attributable to gross profit declines across all segments.

*Fresh products*

The decrease in our Fresh products segment gross profit percentage for the quarter ended January 31, 2022, was the result of decreased gross profit for avocados. For the first quarter of fiscal 2022, the gross profit percentage for avocados

was 7.2% compared to 11.4% for the first quarter of 2021. Gross profit change is the result of lower volumes and increases in labor, and freight costs.

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 \$0.6 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 gain of \$1.1 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 (loss) percentage for the quarter ended January 31, 2022 was (0.7)%, compared to less than (0.0)% for the prior year period. The declines in gross profit for the quarter ended January 31, 2022, were due to increased commodity costs, lack of availability of key commodities, lower supply and higher turnover of labor. In addition, results were negatively impacted by costs associated with the consolidation of our Jacksonville, Florida facility into our Georgia facility.

We continue to experience operational challenges to our production facilities and logistics networks, shortage of labor and impacts from increases in prices of petroleum-based products, packaging materials and commodities, all of which are increasing costs companywide with the effects especially pronounced at RFG.

In response to the inflationary costs described above, we notified our customers of our plans to institute price increases for our RFG and Foods products. Management believes the price increases will largely be accepted by our customers without significant loss of sales, will reverse the margin compression experienced by RFG and Foods segments during the pandemic, and will enable us to continue to invest in initiatives that drive growth. However, we cannot assure you that such price increases will not cause a loss of sales, will improve margins in our RFG and Foods segments or that we will be able to undertake future initiatives to drive growth.

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

#### *Calavo Foods*

Calavo Foods' gross profit percentage for the first quarter of fiscal 2022 was 12.9%, compared to 28.7% for the prior year period. The decreases in Calavo Foods gross profit percentage were due primarily to higher fruit costs and manufacturing costs. Any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. dollar and the Mexican peso may have a material impact on future gross profit for our Calavo Foods segment.

#### ***Selling, General and Administrative***

	<b>Three months ended January 31,</b>		
	<b>2022</b>	<b>Change</b>	<b>2021</b>
	<b>(Dollars in thousands)</b>		
Selling, general and administrative	\$ 15,337	8 %	\$ 14,174
Percentage of net sales	5.6 %		6.4 %

Selling, general and administrative expenses of \$15.3 million for the three months ended January 31, 2022 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased by \$1.2 million, or 8%, for the three months ended January 31, 2022 compared to the prior year period. This increase was primarily due to an increase in consulting services related

to restructuring efforts (\$1.1 million), and an increase in salaries and benefits expense related to the investment in key personnel to advance Project Uno (\$0.6 million). Partially offsetting this increase was a decrease of stock-based compensation due to less amortization related to Management Incentive stock awards from prior years (\$0.4 million), and a decrease in the bonus accrual (\$0.4 million).

**Loss from unconsolidated entities**

	<b>Three months ended January 31,</b>		
	<b>2022</b>	<b>Change</b>	<b>2021</b>
<b>(Dollars in thousands)</b>			
Loss from unconsolidated entities	\$ (535)	245 %	\$ (155)

Losses from unconsolidated entities includes our participation in earnings or losses from our investments in Don Memo. For the three months ended January 31, 2022, we realized losses from Agricola Don Memo totaling \$0.5 million and \$0.2 million.

**Income Taxes (Provision) Benefit**

	<b>Three months ended January 31,</b>		
	<b>2022</b>	<b>Change</b>	<b>2021</b>
Income tax benefit (provision)	\$ 1,160	NM%	\$ (1,943)
Effective tax rate	21.8 %		27.1 %

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

**Liquidity and Capital Resources**

Cash provided by operating activities was \$2.4 million for the three months ended January 31, 2022, compared to cash provided by operating activities of \$13.2 million for the corresponding period in fiscal 2021. Cash used by operating activities for the three months ended January 31, 2022 reflect primarily our net loss of \$4.2 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, and gain on the sale of the Temecula packinghouse) of \$7.8 million and a net decrease in the components of our working capital of approximately \$1.3 million.

Decreases in operating cash flows caused by working capital changes include an increase in inventory of \$11.7 million, an increase in accounts receivable of \$10.6 million, an increase in advances to suppliers of \$3.3 million, an increase in prepaid expenses and other current assets of \$1.6 million and an increase in other assets of \$0.3 million, partially offset by an increase in payable to growers of \$14.8 million, a net increase in accounts payable, accrued expenses and other liabilities of \$7.9 million and a decrease in income taxes receivable of \$3.5 million.

The increase in our inventory, as of January 31, 2022 when compared to October 31, 2021, is primarily due to higher inventory of California and Mexican Avocados. The increase in our accounts receivable, as of January 31, 2022, when compared to October 31, 2021, is primarily due an increase in sales in January 2022 compared to October 2021. The increase in advances to suppliers is mainly due to advances to our tomato growers in the first three months of fiscal 2022. The increase in payable to growers is mostly due to increased volumes and sales prices for California and Mexican avocados in the month of January 2022 compared to October 2021. The increase in accounts payable, accrued expenses and other liabilities is primarily related to an increase in payables related to an increase in the price of California and Mexican avocados. The decrease in income taxes receivable is due to the receipt of an income tax refund in the first quarter of fiscal 2022.

Cash used in investing activities was \$2.1 million for the three months ended January 31, 2022, which primarily related to the purchases of property, plant and equipment.

Cash provided by financing activities was \$5.6 million for the three months ended January 31, 2022, which related principally to the net proceeds on our credit facilities totaling \$26.3 million, partially offset by, the payment of a \$20.3 million dividend and payments on long-term obligations of \$0.4 million.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Restricted cash, cash and cash equivalents as of January 31, 2022 and October 31, 2021 totaled \$8.8 million and \$2.9 million. Our working capital at January 31, 2022 was \$62.7 million, compared to \$38.0 million at October 31, 2021.

We believe that cash flows from operations, the available Credit Facility, and other sources will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months. We will continue to pursue grower recruitment opportunities and expand relationships with retail and/or foodservice customers to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Farm Credit West as joint lead arranger. Under the terms of this agreement, we may draw on funds for both working capital and long-term productive asset purchases. Total credit available under this agreement is \$80 million and it expires in January 2026. For our Credit Facility, the weighted-average interest rate was 1.9% and 2.2% at January 31, 2022 and October 31, 2021. Under the Credit Facility, we had \$64.0 million and \$37.7 million outstanding as January 31, 2022 and October 31, 2021.

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

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

The Company also pledged the 1,677,000 shares it holds of Limoneira stock as collateral (which was in addition to the general business assets of the Company that already secure the credit facility).

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

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

- The cumulative monthly minimum Consolidated EBITDA testing has been waived and the CLR covenant testing is waived through July 31, 2022.
- Minimum Consolidated EBITDA of \$3 million, \$3 million and \$5 million for the months of February, March and April 2022, respectively, will be required.

- Monthly cumulative FCCR of 1.20 will be required starting with the quarter ended April 30, 2022, converting to trailing 12 months calculation starting as of October 31, 2022 and quarterly thereafter. For April through September 2022, dividends paid in December 2021 are included on a pro-rata basis.

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

We expect to remain in compliance with the Credit Agreement, as so amended, through March 2023.

#### **Contractual Commitments**

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

#### **Impact of Recently Issued Accounting Pronouncements**

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



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

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

(All amounts in thousands)	Expected maturity date January 31,						Total	Fair Value
	2023	2024	2025	2026	2027	Thereafter		
<b>Assets</b>								
Restricted cash, cash and cash equivalents (1)	\$ 8,796	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,796	\$ 8,796
Accounts receivable (1)	89,467	—	—	—	—	—	89,467	89,467
Advances to suppliers (1)	9,951	—	—	—	—	—	9,951	9,951
<b>Liabilities</b>								
Payable to growers (1)	\$ 37,798	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 37,798	\$ 37,798
Accounts payable (1)	11,848	—	—	—	—	—	11,848	11,848
Borrowings pursuant to credit facilities (1)	—	—	—	64,000	—	—	64,000	64,000

(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 January 31, 2022, net of gains, was \$0.6 million. Total foreign currency remeasurement gains for the three months ended January 31, 2021, net of losses, was \$1.1 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 January 31, 2022 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. We have provided information about certain legal proceedings in which we are involved in Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

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

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

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

Because this Quarterly Report on Form 10-Q is being filed within four business days after the applicable triggering events, the information below is being disclosed under this Item 5 instead of under Item 1.01 (Entry into a Material Definitive Agreement) and Item 2.03 (Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of Registrant) of Form 8-K.

On March 14, 2022, the Company and Bank of America, N.A., as administrative agent (“Bank of America”), and Farm Credit West, PCA (together with Bank of America, the “Lenders”) entered into the Sixth Amendment, Limited Waiver, and Limited Consent to Credit Agreement (the “Sixth Amendment”). The Sixth Amendment, among other terms, waived non-compliance with certain financial covenants as of January 31, 2022 and amended the financial covenant requirements as follows:

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

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

**ITEM 6. EXHIBITS**

- 10.1 [Form of Notice of Restricted Stock Award \\*](#)
- 10.2 [Form of Notice of Stock Option Award \\*](#)
- 10.3 [Fourth Amendment, joinder, Limited Waiver and Limited Consent to Credit Agreement, dated December 1, 2021.](#)
- 10.4 [Fifth Amendment to Credit Agreement, dated December 1, 2021.](#)
- 10.5 [Employment Agreement, between the Company and Brian Kocher, dated December 20, 2021.](#)
- 10.6 [Severance and Release Agreement, between the Company and Brian Kocher, dated December 20, 2021.](#)
- 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 January 31, 2022, formatted in Inline XBRL (Extensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of January 31, 2022 and October 31, 2021; (2) Consolidated Condensed Statements of Operations for the three months ended January 31, 2022 and 2021; (3) Consolidated Condensed Statements of Cash Flows for the three months ended January 31, 2022 and 2021; (4) Consolidated Statements of Shareholders' Equity for the three months ended January 31, 2022 and 2021; and (5) Notes to Consolidated Condensed Financial Statements.
  
- 104 Cover Page Interactive Data File (formatted as Inline XBRL).

\* 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: March 14, 2022

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

Date: March 14, 2022

By /s/ Mariela Matute  
Mariela Matute  
Chief Financial Officer  
(Principal Financial Officer)

## RESTRICTED STOCK AWARD GRANT NOTICE

CALAVO GROWERS, INC.  
2020 EQUITY INCENTIVE PLAN

Calavo Growers, Inc. (the “**Company**”), pursuant to its 2020 Equity Incentive Plan (the “**Plan**”), hereby grants to the Participant named below a Restricted Stock Award (the “**Award**”) for the number of shares of the Company’s Common Stock (the “**Shares**”) set forth below. The Award is subject to all of the terms and conditions as set forth in this Restricted Stock Award Grant Notice (this “**Grant Notice**”), and in the Plan and the attached Restricted Stock Award Agreement (the “**Award Agreement**”), both of which are incorporated herein in their entirety. Capitalized terms used but not defined in this Grant Notice shall have the meanings set forth in the Award Agreement or the Plan, as applicable.

**Participant:**

**Date of Grant:**

**Vesting Commencement Date:**

**Number of Shares of Common Stock:**

**Vesting Schedule:** On \_\_\_\_\_, \_\_\_\_\_ of the Shares shall fully vest and become non-forfeitable if the Participant is serving as an Employee of the Company on that date; on \_\_\_\_\_, \_\_\_\_\_ of the Shares shall fully vest and become non-forfeitable if the Participant is serving as an Employee of the Company on that date; and on \_\_\_\_\_, the remaining \_\_\_\_\_ of the Shares shall fully vest and become non-forfeitable if the Participant is serving as an Employee of the Company on that date.

Subject to Section 2 of the Award Agreement, and except as otherwise provided in Section 5(b)(ii) of the Employment Agreement, if the Participant’s Employment terminates for any reason prior to any of the dates described in the first paragraph of this Vesting Schedule, vesting of the Shares shall cease on such termination date and all unvested Shares shall automatically be forfeited by the Participant and reconveyed to the Company without the necessity for any action by the Company or the Participant and without the necessity for any payment by the Company.

**Additional Terms/Acknowledgements:** The Participant acknowledges receipt of, and understands and agrees to, this Grant Notice, the Award Agreement and the Plan. The Participant further acknowledges that, as of the Date of Grant, this Grant Notice, the Award Agreement, the Plan and the Participant’s Employment Agreement set forth the entire understanding between the Participant and the Company regarding the Shares and supersede all prior oral and written agreements regarding the Shares. The Participant agrees to be bound by, and to comply with, all provisions of this Grant Notice, the Award Agreement and the Plan, and the Participant agrees to accept as final, binding and conclusive all determinations, interpretations and constructions made by the Plan’s Administrator regarding this Grant Notice, the Award Agreement and the Plan.

**Other Terms, If Applicable:** \_\_\_\_\_

**PARTICIPANT:**

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**CALAVO GROWERS, INC.**

By: \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
Signature

Date  :

Attachments: Restricted Stock Award Agreement

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**ATTACHMENT**  
**RESTRICTED STOCK AWARD AGREEMENT**  
**CALAVO GROWERS, INC.**  
**2020 EQUITY INCENTIVE PLAN**

Pursuant to the attached Restricted Stock Award Grant Notice (the “**Grant Notice**”) and this Restricted Stock Award Agreement (this “**Agreement**”), Calavo Growers, Inc. (the “**Company**”) has granted you a Restricted Stock Award (the “**Award**”) under its 2020 Equity Incentive Plan (the “**Plan**”) for the number of shares of Common Stock (the “**Shares**”) indicated in the Grant Notice.

The Shares are subject to the terms set forth in the Grant Notice, this Agreement, your Employment Agreement (as defined in the Grant Notice) and the Plan, which is incorporated herein by reference.

Capitalized terms not expressly defined in this Agreement, the Grant Notice or your Employment Agreement but defined in the Plan shall have the same definitions as are set forth in the Plan.

The terms of your Award, in addition to those set forth in the Grant Notice, are as follows.

**1. GRANT OF THE AWARD AND ISSUANCE OF THE SHARES.** Pursuant to your Award, the Company shall issue the Shares to you, effective as of the Date of Grant and subject to all of the terms and conditions of this Agreement, the Grant Notice and the Plan. The Company shall issue the Shares to you and shall (a) cause a stock certificate or certificates representing the Shares to be registered in your name or (b) cause the Shares to be held in book-entry form. If a stock certificate is issued, it shall be held in custody by the Company and shall bear the restrictive legends described in this Agreement. If the Shares are held in book-entry form, then such entry will reflect that the Shares are subject to the restrictions of this Agreement. The Award was granted in consideration of your services provided to the Company and for other good and valuable consideration, and vesting of the Shares is subject to the continuation of your Employment (as defined in your Employment Agreement) after the Date of Grant on the terms and conditions set forth in the Grant Notice and this Agreement.

**2. VESTING; CHANGE IN CONTROL.** Subject to the limitations contained in this Agreement and except as otherwise provided in the Grant Notice and in Section 5(b)(ii) of your Employment Agreement with respect to a termination of your Employment without Cause or for Good Reason, your Award and the Shares shall vest, if at all, in accordance with the vesting schedule set forth in the Grant Notice. Your Shares may fully vest upon the occurrence of a Change in Control in accordance with the provisions of Section 9(c) of the Plan. For purposes of this Agreement, “**Vested Shares**” means Shares that have vested pursuant to the preceding provisions, and “**Unvested Shares**” means Shares that have not vested pursuant to the preceding provisions.

**3. FORFEITURE OF UNVESTED SHARES UPON A TERMINATION OF EMPLOYMENT.** Except as otherwise provided in the Grant Notice and Section 5(b)(ii) of your Employment Agreement, vesting of the Shares shall cease upon your termination of Employment and,

effective as of the date of your termination of Employment, all Unvested Shares shall automatically be forfeited by you without any further action by you or the Company. Upon the occurrence of such forfeiture, the Company shall become the legal and beneficial owner of the Unvested Shares and all rights and interests therein; the Company shall have the right to retain and transfer to its own name the Unvested Shares that are forfeited by you; and you shall have no further right, title or interest in or to such forfeited Unvested Shares and shall receive no payment with respect to such forfeited Unvested Shares. As of the Date of Grant, all of the Shares are unvested and are subject to a risk of forfeiture and the transfer restrictions described in this Agreement.

**4. AUTHORITY OF THE COMPANY.** In connection with the forfeiture provisions described above in Section 3: (a) you authorize any officer specified by the Company's Chief Financial Officer to transfer any Unvested Shares that are forfeited pursuant to Section 3 from you to the Company; (b) you agree to take whatever action the Company deems necessary or appropriate to effectuate the Company's reacquisition of the forfeited Unvested Shares; and (c) you appoint any officer specified by the Company's Chief Financial Officer to hold the Unvested Shares in escrow as your attorney-in-fact in order to effect the transfer to the Company of all Unvested Shares that are forfeited pursuant to Section 3.

**5. RELEASE OF VESTED SHARES FROM THE FORFEITURE RESTRICTION.** As soon as administratively practicable following the vesting of any Shares pursuant to the Grant Notice and Section 2 above (or, if applicable, pursuant to a written employment agreement between you and the Company), the Company shall, as applicable, either deliver to you the certificate or certificates representing such Vested Shares without a restrictive legend referring to this Agreement or, if the Shares are held in book-entry form, then the Company shall remove the notations indicating that the shares are subject to the restrictions of this Agreement. The Company shall also promptly deliver to you any stock dividends and other non-cash distributions that were made or paid by the Company on such Vested Shares during the period prior to their vesting and which are in the Company's possession.

**6. RIGHTS AS A SHAREHOLDER.** You shall have all of the rights of a shareholder with respect to the Shares from and after their issuance, subject to the vesting, forfeiture and other provisions of this Agreement, including the right to vote the Shares and to receive cash and stock dividends and other non-cash distributions that are made or paid on the Shares by the Company; provided, however, that the Company or its transfer agent shall retain custody of all such stock dividends and non-cash distributions until such time as the Shares become vested and released from the forfeiture provisions set forth in this Agreement and the Grant Notice. Any and all stock dividends and other non-cash distributions that are made or paid by the Company on Unvested Shares that are forfeited by you pursuant to the provisions of this Agreement and the Grant Notice shall also be automatically forfeited by you pursuant to Sections 3 and 4 above. Furthermore, unless otherwise determined by the Administrator, any cash dividends that are paid to you on Unvested Shares shall be subject to forfeiture and reconveyance to the Company on the date, if any, that such Unvested Shares are forfeited to the Company due to a failure to satisfy any of the vesting conditions described in this Agreement or the Grant Notice.

**7. CAPITALIZATION ADJUSTMENTS.** The number of Shares issued to you pursuant to the Grant Notice is subject to adjustment from time to time for Capitalization Adjustments as provided in the Plan. Any Shares that become subject to your Award pursuant to this Section 7



shall be subject to the same vesting restrictions, forfeiture provisions, restrictions on transfer and other provisions as the original number of Shares covered by your Award.

**8. TRANSFER RESTRICTIONS ON UNVESTED SHARES.** Prior to the date that Unvested Shares have vested and have become Vested Shares, you may not transfer, pledge, sell or otherwise dispose of any of the Unvested Shares (or stock dividends or other non-cash distributions on the Unvested Shares), except as expressly provided in this Section 8. For example, you may not pledge Unvested Shares as security for a loan.

**(a) Death.** Your Award and your Vested Shares are transferable by the laws of descent and distribution. At your death, vesting of any Unvested Shares shall cease and your executor or administrator of your estate shall be entitled to receive, on behalf of your estate, any Vested Shares that were not transferred by the Company to you before your death.

**(b) Domestic Relations Orders.** Upon receiving written permission from the Company, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your right to receive any or all of the Shares pursuant to a domestic relations order that contains the information required by the Company to effectuate the transfer and provided further that no such transfer of Unvested Shares (or stock dividends or other non-cash distributions on Unvested Shares) shall be made effective unless and until the Unvested Shares have ceased to be subject to the risk of forfeiture described in this Agreement and the Grant Notice and have become Vested Shares. You are encouraged to discuss the proposed terms of any division of your Award with the Company prior to finalizing the domestic relations order to verify that you may make such transfer and, if so, to help ensure the required information is contained within the domestic relations order.

**9. RESTRICTIVE LEGENDS AND STOP-TRANSFER INSTRUCTIONS.**

**(a) Legends.** All certificates and/or book entries evidencing Unvested Shares and Vested Shares shall be endorsed with any appropriate securities law legends as determined by the Company. In addition, the Company has the right to place on all certificates and/or book entries evidencing Unvested Shares legends that refer to this Agreement, including, without limitation, a legend to the following effect, which the Company agrees to remove promptly with respect to any Unvested Shares that vest and become Vested Shares:

THE SHARES REPRESENTED BY THIS CERTIFICATE OR BOOK ENTRY ARE SUBJECT TO FORFEITURE IN FAVOR OF THE COMPANY AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

**(b) Stop-Transfer Instructions.** The Company has the right to issue appropriate “stop transfer” instructions to its transfer agent with respect to Unvested Shares.

**10. WITHHOLDING OBLIGATION.**

**(a)** On each vesting date, and at any other time as requested by the Company in accordance with applicable tax laws, you hereby authorize any required withholding with respect to the Shares (including, without limitation, by the Company’s deduction of such

required withholding from compensation and other amounts payable to you by the Company), and you otherwise agree to make adequate provision, including in cash, for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate that arise in connection with your Award. The Company shall not be obligated to release and transfer Vested Shares to you unless and until you have satisfied in full all federal, state, local and foreign tax withholding obligations.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and in compliance with any applicable legal conditions or restrictions, (1) the Company may withhold from Vested Shares otherwise deliverable to you a number of whole Vested Shares having a Fair Market Value, as determined by the Company, not in excess of the minimum amount of tax required to be withheld by law, or (2) the Company may permit you to enter into a “same day sale” commitment with a broker-dealer acceptable to the Company pursuant to which you irrevocably elect to sell a portion of such Vested Shares sufficient to pay all or a portion of such required withholding taxes and the broker-dealer irrevocably agrees to deliver to the Company the funds that will be applied to the payment of such withholding taxes. Any adverse consequences to you arising in connection with such Share withholding or sale procedure shall be your sole responsibility.

(c) The Company’s withholding obligations may be satisfied by any combination of the Company’s withholding or your form of payment made pursuant to this Section 10.

(d) You are ultimately liable and responsible for all taxes owed in connection with the Shares and the transactions contemplated by this Agreement, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Shares. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with the awarding, vesting or payment of the Shares or the subsequent sale of the Shares.

## 11. TAX CONSEQUENCES.

(a) **No Company Liability.** You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You shall not make any claim against the Company or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from the grant or vesting of your Award or from your other compensation. You represent to the Company that you have reviewed with your own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement. You are relying solely on such advisors and not on any statements or representations of the Company or any of its agents.

(b) **Section 83(b) Election.** If you make an election under Section 83(b) of the Code to be taxed with respect to the Shares as of the date of the issuance of the Shares rather than as of the date or dates upon which you would otherwise be taxable under Section 83(a) of the Code, you shall deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service. The decision as to whether or not to make a Section 83(b) election is your sole responsibility and should be discussed with your tax and financial advisor. The Company makes no recommendation regarding whether a Section 83(b) election should be made.

**12. MINIMUM SHARE OWNERSHIP POLICY AND OTHER COMPANY POLICIES.** You agree to comply with any policy that the Company may adopt or amend from time to time regarding minimum Common Stock ownership requirements applicable to the Company's Officers and/or Directors. You also agree to comply with all other applicable Company policies that the Company may adopt or amend from time to time, including, without limitation, the Company's Insider Trading Policy and any Company clawback, recovery or recoupment policy described in Section 8(i) of the Plan pertaining to compensation received by the Company's Employees.

**13. AWARD NOT A SERVICE CONTRACT.** Your Award is not an employment or service contract, and nothing in your Award shall obligate the Company or an Affiliate, their respective shareholders, Directors, Officers or Employees to continue any relationship that you might have as an Employee, Consultant or Director of the Company or an Affiliate.

**14. NOTICES.** Any notices provided for in your Award, this Agreement or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. Notwithstanding the foregoing, the Company may, in its sole discretion, decide to deliver any notices or documents related to your Award, this Agreement or the Plan by electronic means (including by email). You hereby consent to receive such notices and documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**15. APPLICABILITY OF THE PLAN.** Your Award and this Agreement are subject to all of the provisions of the Plan, the provisions of which are hereby made a part of your Award and are further subject to all interpretations and amendments of the Plan which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

**16. SEVERABILITY.** If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement or the Plan (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

**17. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS.** The value of your Award subject to this Agreement shall not be included as compensation, earnings, salaries or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its right to amend, modify or terminate any of the Company's or any Affiliate's employee benefit plans.

**18. AMENDMENT.** This Agreement may not be modified or amended except by an instrument in writing, signed by a duly authorized representative of the Company, provided that no such amendment materially adversely affecting your rights hereunder may be made without your written consent. However, the Company reserves the right to change, by written notice to

you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the Award as a result of any change in applicable laws or regulations or any future law, regulation, ruling or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of your Award which is then subject to restrictions as provided herein.

**19. COMPLIANCE WITH SECTION 409A OF THE CODE.** Your Award is not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code. However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Company determines that the Shares (or any portion thereof) may be subject to Section 409A of the Code, the Company shall have the right in its sole discretion (without any obligation to do so or to indemnify you or any other person for failure to do so) to adopt such amendments to the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Company determines are necessary or appropriate for the Shares either to be exempt from the application of Section 409A of the Code or to comply with the requirements of said Section 409A. Section 4(d) of your Employment Agreement contains additional provisions regarding compliance by you and the Company with Section 409A of the Code.

**20. MISCELLANEOUS.**

(a) The Company may assign any of its rights under the Grant Notice, this Agreement and the Plan to one or more assignees, and all covenants contained in the Grant Notice, this Agreement and the Plan shall inure to the benefit of, and be enforceable by, the Company’s successors and assigns. All obligations of the Company under the Grant Notice, this Agreement and the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company. Your rights and obligations under your Award may only be assigned with the prior written consent of the Company.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed this Agreement, the Grant Notice and the Plan in their entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award, and fully understand all provisions of your Award.

(d) This Agreement shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) The laws of the State of California shall govern all questions concerning the interpretation, validity, administration, performance and enforcement of the Grant Notice, this Agreement and the Plan, without regard to that state’s conflict of law rules.

**STOCK OPTION GRANT NOTICE****CALAVO GROWERS, INC.  
2020 EQUITY INCENTIVE PLAN**

Calavo Growers, Inc. (the “**Company**”), pursuant to its 2020 Equity Incentive Plan (the “**Plan**”), hereby grants to the Optionholder an option (the “**Option**”) to purchase the number of shares of the Company’s Common Stock set forth below. All capitalized terms not defined in this Stock Option Grant Notice shall have the meanings set forth in the Plan. The Option is subject to all of the terms and conditions set forth in this Stock Option Grant Notice and in the Plan and the attached Stock Option Agreement (the “**Option Agreement**”), both of which are incorporated herein in their entirety.

**Optionholder:**

**Date of Grant:**

**Vesting Commencement Date:**

**Exercise Price (Per Share):**

**Total Exercise Price:**

**Expiration Date of Option:** \_\_\_\_\_ (subject to earlier expiration as described in Section 6 of the Option Agreement)

**Type of Grant:**       Incentive Stock Option       Nonstatutory Stock Option

**Vesting Schedule:** 50% of the Option will vest and become exercisable on \_\_\_\_\_, and the remaining \_\_\_ of the Option will vest and become exercisable on \_\_\_\_\_, subject to the Optionholder’s Continuous Service, either as a Consultant, Employee, or Director of the Company, as of each such date. Subject to Section 1 of the Option Agreement, vesting will cease and any unvested portion of the Option will be forfeited if the Optionholder’s Continuous Service terminates for any reason.

**Payment:** By one or a combination of the following items (see the Option Agreement for additional details):

- By cash or check
- By bank draft or money order payable to the Company
- Pursuant to a Regulation T Program

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- By delivery of already-owned shares of Common Stock
- If and only to the extent the Option is a Nonstatutory Stock Option, and subject to the Company's consent at the time of exercise, by a "net exercise" arrangement

**Additional Terms and Acknowledgements:** The Optionholder acknowledges receipt and review of, and understands and agrees to, this Stock Option Grant Notice, the Option Agreement and the Plan. The Optionholder further acknowledges that, as of the Date of Grant, this Stock Option Grant Notice, the Option Agreement, the Plan and the Optionholder's written employment agreement (if any) with the Company set forth the entire understanding between the Optionholder and the Company regarding the Option and supersede all prior oral and written agreements regarding the Option. The Optionholder agrees to be bound by, and to comply with, all provisions of this Stock Option Grant Notice, the Option Agreement and the Plan, and the Optionholder agrees to accept as final, binding and conclusive all determinations, interpretations and constructions made by the Plan's Administrator regarding this Stock Option Grant Notice, the Option Agreement or the Plan.

**OTHER TERMS, IF APPLICABLE:** \_\_\_\_\_

**CALAVO GROWERS, INC.**

**OPTIONHOLDER**

\_\_\_\_\_  
By:  
Title:  
Date:

\_\_\_\_\_  
Signature

**ATTACHMENTS:** Stock Option Agreement

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# ATTACHMENT I

## STOCK OPTION AGREEMENT (INCENTIVE STOCK OPTION OR NONSTATUTORY STOCK OPTION)

### CALAVO GROWERS, INC. 2020 EQUITY INCENTIVE PLAN

Pursuant to your Stock Option Grant Notice (the “**Grant Notice**”) and this Stock Option Agreement (the “**Option Agreement**”), Calavo Growers, Inc. (the “**Company**”) has granted you an option (the “**Option**”) under its 2020 Equity Incentive Plan (the “**Plan**”) to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice.

The Option is subject to the terms set forth in this Option Agreement and the Plan, which is incorporated herein by reference.

Capitalized terms not expressly defined in this Option Agreement but defined in the Plan have the same definitions as in the Plan.

The details of your Option are as follows:

#### **1. VESTING OF THE OPTION; CHANGE IN CONTROL.**

**(a)** Subject to the limitations contained in this Option Agreement and unless otherwise specified in a written employment agreement between you and the Company, (1) your Option shall vest and become exercisable as provided in the Option Vesting Schedule that is contained in your Grant Notice, and (2) vesting of your Option shall cease and any unvested portion of your Option shall be forfeited if your Continuous Service terminates for any reason.

**(b)** Your Option may fully vest upon the occurrence of a Change in Control in accordance with the provisions of Section 9(c) of the Plan.

**2. NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares of Common Stock subject to your Option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments.

**3. METHOD OF PAYMENT.** Payment of the exercise price is due in full upon exercise of all or any part of your Option. You may elect to make payment of the exercise price in cash or by check or in any other manner permitted by your Grant Notice, which may include one or more of the following:

**(a)** Pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

(b) By delivery to the Company (either by actual delivery or attestation) of already-owned shares of Common Stock that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your Option, shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, you may not exercise your Option by tender to the Company of Common Stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) If your Option is a Nonstatutory Stock Option, subject to the consent of the Company at the time of exercise, by a "net exercise" arrangement pursuant to which the Company shall reduce the number of shares of Common Stock issued upon exercise of your Option 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 you 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, however, that shares of Common Stock shall no longer be outstanding under your Option and shall not be exercisable thereafter to the extent that (1) shares are used to pay the exercise price pursuant to the "net exercise," (2) shares are delivered to you as a result of such exercise, or (3) shares are withheld to satisfy tax withholding obligations.

4. **WHOLE SHARES.** You may exercise your Option only for whole shares of Common Stock.

5. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise your Option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your Option also must comply with other applicable laws and regulations governing your Option, and you may not exercise your Option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

6. **OPTION TERM.** You may not exercise your Option before the commencement or after the expiration of its term. The term of your Option commences on the date of grant described in your Grant Notice and expires, subject to the provisions of Section 5(h) of the Plan, upon the earliest of the following:

(a) Immediately upon the termination of your Continuous Service for Cause;

(b) Three months after the termination of your Continuous Service for any reason other than (i) Cause, or (ii) by reason of your Disability or death, provided that if during any part of such three-month period your Option is not exercisable solely because of the condition set forth in Section 5 above relating to "Securities Law Compliance," your Option shall not expire until the earlier of its expiration date or until it shall have been



exercisable for an aggregate period of three months after the termination of your Continuous Service;

(c) One year after the termination of your Continuous Service due to your Disability;

(d) One year after your death if you die either during your Continuous Service or within three months after your Continuous Service terminates for any reason other than Cause; or

(e) The expiration date indicated in your Grant Notice, which shall in no event be later than the tenth anniversary of the Option's date of grant.

If your Option is an Incentive Stock Option, note that to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the Option's date of grant and ending on the day three months before the date of your Option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or Disability. The Company has provided for extended exercisability of your Option under certain circumstances for your benefit but cannot guarantee that your Option shall necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your Option more than three months after the date your employment with the Company or an Affiliate terminates.

## 7. EXERCISE.

(a) You may exercise the vested portion of your Option during its term by delivering a Notice of Exercise (in the form of Exhibit A to this Option Agreement or in another form approved by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your Option you agree that, as a condition to any exercise of your Option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your Option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your Option is an Incentive Stock Option, by exercising your Option you agree that you shall notify the Company in writing within 15 days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your Option that occurs within two years after the date of your Option grant or within one year after such shares of Common Stock are transferred upon exercise of your Option.

**8. TRANSFERABILITY.** Except as otherwise provided in this Section 8, your Option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you.

**(a) Certain Trusts.** Upon receiving written permission from the Company, you may transfer your Option to a trust if you are considered to be the sole beneficial owner (determined under Section 671 of the Code and applicable state law) while your Option is held in the trust, provided that you and the trustee enter into transfer and other agreements required by the Company.

**(b) Domestic Relations Orders.** Upon receiving written permission from the Company, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your Option pursuant to a domestic relations order that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of your Option with the Company prior to finalizing the domestic relations order to help ensure the required information is contained within the domestic relations order. If your Option is an Incentive Stock Option, the Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(c) Beneficiary Designation.** Upon receiving written permission from the Company, you 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 your death, shall thereafter be entitled to exercise your Option and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, your executor or administrator of your estate shall be entitled to exercise your Option and receive, on behalf of your estate, the Common Stock or other consideration resulting from such exercise.

**9. OPTION NOT A SERVICE CONTRACT.** Your Option is not an employment or service contract, and nothing in your Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your Option shall obligate the Company or an Affiliate, their respective shareholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

**10. WITHHOLDING OBLIGATIONS.**

**(a)** At the time you exercise your Option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a “cashless exercise” pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your Option.

**(b)** Upon your request and subject to approval by the Company, and in compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of

your Option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the amount of withholding tax obligations calculated in accordance with the minimum statutory tax rates applicable to you (or such lower amount as may be determined by the Company in order to avoid negative accounting consequences or costs, including in order to avoid classification of your Option as a liability for financial accounting purposes). Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your Option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your Option when desired even though your Option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock unless such obligations are satisfied.

**11. TAX CONSEQUENCES.** You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You shall not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from your Option or your other compensation. In particular, you acknowledge that your Option is exempt from Section 409A of the Code only if the exercise price per share specified in the Grant Notice is at least equal to the “fair market value” per share of the Common Stock on the date of grant and there is no other impermissible deferral of compensation associated with your Option.

**12. NOTICES.** Any notices provided for in your Option, this Option Agreement or the Plan shall be given by you or the Company in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. Notwithstanding the foregoing, the Company may, in its sole discretion, decide to deliver any notices or documents related to your Option, this Option Agreement or the Plan by electronic means (including by email). You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**13. APPLICABILITY OF THE PLAN.** Your Option and this Option Agreement are subject to all of the provisions of the Plan, the provisions of which are hereby made a part of your Option and are further subject to all interpretations and amendments of the Plan which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Option Agreement and those of the Plan, the provisions of the Plan shall control.

**14. SEVERABILITY.** If all or any part of this Option Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Option Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Option Agreement or the Plan (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which shall give

effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

**15. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS.** The value of your Option subject to this Option Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

**16. AMENDMENT.** This Option Agreement may not be modified or amended except by an instrument in writing, signed by a duly authorized representative of the Company, provided that no such amendment materially adversely affecting your rights hereunder may be made without your written consent. However, the Company reserves the right to change, by written notice to you, the provisions of this Option Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of your Option which is then subject to restrictions as provided herein.

**17. MISCELLANEOUS.**

(a) The Company may assign any of its rights under your Grant Notice, this Option Agreement and the Plan to one or more assignees, and all covenants contained in your Grant Notice, this Option Agreement and the Plan shall inure to the benefit of, and be enforceable by, the Company's successors and assigns. All obligations of the Company under your Grant Notice, this Option Agreement and the Plan shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company. Subject to Section 8(c) with respect to the exercise of your Option following your death, your rights and obligations under your Option may only be assigned with the prior written consent of the Company.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Option.

(c) You acknowledge and agree that you have reviewed this Option Agreement, your Grant Notice and the Plan in their entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Option, and fully understand all provisions of your Option.

(d) This Option Agreement shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

**(e)** The laws of the State of California shall govern all questions concerning the interpretation, validity, administration, performance and enforcement of your Grant Notice, this Option Agreement and the Plan, without regard to that state's conflict of laws rules.

EXHIBIT A

NOTICE OF EXERCISE OF OPTION TO PURCHASE COMMON STOCK

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

SSN: \_\_\_\_\_

Date: \_\_\_\_\_

Calavo Growers, Inc.

Attention: Corporate Secretary

1141-A Cummings Road  
Santa Paula, California 93060

Re: Exercise of Stock Option

Ladies and Gentlemen:

I elect to purchase \_\_\_\_\_ shares of Common Stock of Calavo Growers, Inc. (the "**Company**") upon the exercise of my option (the "**Option**") pursuant to the Stock Option Grant Notice and Stock Option Agreement, dated \_\_\_\_\_ (jointly, the "**Option Agreement**"), between the Company and me with respect to the Calavo Growers, Inc. 2020 Equity Incentive Plan (the "**Plan**"). The purchase shall take place on the Option exercise date, which shall be (i) as soon as practicable following the date this notice and all other necessary forms and payments are received by the Company, unless I specify a later date (not to exceed 30 days following the date of this notice) or (ii) in the case of a Broker-assisted cashless exercise (as indicated below), the date that payment of the full Option exercise price is received by the Company.

On or before the Option exercise date, I shall pay the full exercise price in the form specified below (check one):

Cash: by delivering cash to the Company for \$\_\_\_\_\_.

Check: by delivering a check made payable to the Company for \$\_\_\_\_\_.

Other Company Shares: if approved by the Company, by delivering for surrender other shares of the Company's Common Stock having a fair market value at the time of receipt by the Company equal to not less than the total Option exercise price.

Net Exercise Arrangement: if approved by the Company and on the terms described in the Plan and the Option Agreement.

Cash From Broker: if approved by the Company, by delivering the purchase price from \_\_\_\_\_, a broker, dealer or other "creditor" as defined by Regulation T issued by the Board of Governors of the Federal Reserve System (the "**Broker**"). I authorize the Company to issue a stock certificate in accordance with instructions received by the Company from the Broker and to deliver such stock certificate (or evidence of a book-entry issuance of the shares) directly to the Broker (or to any other party specified in the instructions from the Broker) upon receiving the exercise price from the Broker.

On or before the Option exercise date, I shall pay any applicable tax withholding obligations, as provided in the Option Agreement and the Plan, for the full tax withholding amount.

Please deliver the stock certificate or evidence of a book-entry issuance of the shares described above to me (unless I have chosen to pay the purchase price through the Broker).

Very truly yours,

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AGREED TO AND ACCEPTED:  
CALAVO GROWERS, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Number of Option Shares

Exercised: \_\_\_\_\_

Number of Option Shares

Remaining: \_\_\_\_\_

Date: \_\_\_\_\_

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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, Brian Kocher, certify that:

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

Date: March 14, 2022

/s/ Brian Kocher  
\_\_\_\_\_  
Brian Kocher  
President and 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, Mariela Matute, 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: March 14, 2022

/s/ Mariela Matute  
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Mariela Matute  
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 January 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the Report), fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 14, 2022

/s/ Brian Kocher

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Brian Kocher  
President and Chief Executive Officer

/s/ Mariela Matute

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Mariela Matute  
Chief Financial Officer

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