Calavo Growers, Inc.

2021 ANNUAL REPORT

Calavo


QUALITY AND
FRESHNESS YOU CAN
COUNT ON

Since 1924

The First Name in Avocados

LETTER TO OUR SHAREHOLDERS:

To Our Shareholders:

Fiscal 2021 was a year of tremendous change for Calavo Growers, including the company's leadership. I am writing you today as the new Chairman of the Board of Calavo Growers, and I am very pleased to introduce our new President and Chief Executive Officer Brian Kocher. Brian and I began our new roles February 1, 2022. While Brian is new to Calavo, I have a long history with the company, having served on the board since 2008, and I recently served as interim CEO. We also have a new Chief Financial Officer and Calavo's first ever Chief Human Resources Officer with Mariela Matute and Graciela Montgomery, respectively, joining the rest of our great team in October.

Calavo is a 98-year-old company with a proud heritage and a long track record of success. The past two years, however, have been difficult due in part to the ongoing COVID-19 pandemic. Labor shortages and supply chain bottlenecks carried over from 2020. These difficulties eased throughout the year, but they did not disappear. In addition, increased freight costs, sub-optimal fruit mix, and higher fruit pricing weighed on our performance in fiscal 2021.

Committed to the Dividend

Despite the tough circumstances, the Board of Directors remained committed to Calavo's annual dividend and paid out $1.15 per share in November, which was at the same level as 2020. As a company that has paid a dividend since becoming public in 2002, we believe it was important to continue this tradition and benefit to shareholders, and it reflects our belief that Calavo is fundamentally strong and poised to return to historical levels of profitability in the near term.

To accelerate our return to historic levels of profitability, we are methodically and urgently addressing key priorities. We began by hiring Teneo, an advisory firm, to help us assess our opportunities and accelerate transitioning our business to succeed in this new operating environment. In that effort we began Project Uno, a comprehensive profit improvement project with initial focus on pricing initiatives, SKU rationalization, plant optimization and unified procurement, freight and back-office activities across all business units.

Project Uno

Under the umbrella of Project Uno we have:

- Realized price increases across our RFG and Foods customer base;
- Continued unification of our supply chain across our three divisions to drive synergies from operating as one company;
- Started SKUs rationalization program with the Elimination of 5% less profitable SKUs;
- Consolidated RFG's food processing operations in Florida into our Georgia facility to improve capacity utilization.

There is more to do, but we are off to a strong start, and we are confident these efforts will get us back on track and lead to long-term, sustainable profitable growth.

In July we published our third annual sustainability report. In it, we reviewed materiality results using the "five factor test" from the Sustainability Accounting Standards Board; reported on our first assessment of our carbon footprint by calculating direct and indirect greenhouse gas emissions, which now serves as our baseline; and highlighted our Uruapan, Mexico facility for receiving the Clean Industry Distinction for the

10th consecutive year. In 2021, we committed more than $4 million for waste reduction, water conservation, recycling, and energy control projects over the next four years. With an average payback time of two years, this investment once again demonstrates that doing the right thing for the environment is the right thing to do for business.

In Conclusion

Our new team is in place, we are on the right path, and we are ready to do the hard work ahead to bring Calavo back to the level of performance established over nine decades. We appreciate the work of our 4,000 employees who keep the company going. We appreciate our customers who are the reason we exist. We appreciate the members of our Board of Directors for their support and their guidance. We appreciate our shareholders for your continued belief in the success of Calavo Growers. Thank you.

Sincerely,

Steven Hollister
Chairman of the Board

Since 1924

The First Name in Avocados

LETTER TO OUR SHAREHOLDERS:

To Our Shareholders:

It is my privilege to address you as the new President & Chief Executive Officer of Calavo Growers, and I could not be more enthusiastic about our future as a company. First, I would like to thank Steve Hollister for his leadership as interim CEO. We are fortunate that he will continue as Calavo's Chairman of the Board where he will help guide our strategy and vision. His knowledge and experience are invaluable, and I look forward to working with him to drive Calavo to greater heights.

Legacy of Leadership & Innovation

Calavo has a legacy of leadership and innovation. I have been in the produce industry for 17 years, and I can say with confidence that Calavo is well-positioned and well-respected within the industry. Our products are healthy, sustainable, convenient, and a great value – exactly what our customers and consumers desire.

Fresh avocado consumption continues to grow rapidly as more and more consumers understand the nutritional benefits of this superfood. The prepared products from our Foods and RFG segments hit the sweet spot for people who want convenient, healthy foods – and that makes our products relevant to our customers. We will constantly strive to know where our customers are headed so that we can lead by providing great products and great service at a fair price. If we do that, we will be positioned to grow for decades to come.

In fact, the combination of great products; strong and accelerating consumer trends for health, wellness and convenience; and an operating infrastructure that sustainably benefits not only our current consumers but those consumers for years to come is exactly the reason I decided to join Calavo.

Clarity, Teamwork, Adapting, Understanding

My role as CEO, as I see it, is to bring clarity to our organization through a common purpose, with goals and objectives that help us to operate better, make better decisions, and focus on the things that matter to us and to our customers. We will relentlessly execute this focus and the financial discipline necessary to drive operational and financial improvements. Clarity of purpose, teamwork, adapting to customers and understanding consumers is a winning formula in any industry, and I believe that is how we put Calavo back on a path of sustainable profitable growth and how we generate shareholder value. Our employees are dedicated and passionate about our vision forward, and I am so excited to team with my colleagues and drive success.

Calavo Growers has a wonderful history and a bright future. I am honored and humbled to lead this great company and 4,000 strong team of colleagues for many years ahead.

Sincerely,

/s/: Brian Kocher

Brian W. Kocher
President & Chief Executive Officer

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2021

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California	**33-0945304**
(State of Other Jurisdiction of incorporation or Organization)	(I.R.S. Employer Identification No.)
1141-A Cummings Road, Santa Paula, CA	**93060**
(Address of principal executive offices)	(Zip code)

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

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**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the Registrant has submitted electronically; every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2021 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $1.3 billion. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2021 was 17,677,965.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders, which we intend to hold on April 27, 2022 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2021.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' in Item 7, contains 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, including FreshRealm; volatility in the value of our common stock; the impact of macroeconomic trends and events; and the resolution of pending investigations, legal claims and tax disputes, including an assessment imposed by the Servicio de Administracion Tributaria in Mexico (the ''SAT'') and our defenses against collection activities commenced by the SAT.

PART I

Item 1. Business

General development of the business

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and 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) process and package guacamole and salsa and (iii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit and vegetables, and prepared foods . We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Calavo Foods and Renaissance Food Group (RFG). See Note 10 in our consolidated financial statements for further information about our business segments. Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

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.

Beginning in the third quarter of fiscal 2021, in response to the inflationary costs described above, we began to notify 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.

On October 18, 2021, the Company announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, 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 second quarter of fiscal year 2020, we completed our acquisition of SFFI Company, Inc. doing business as Simply Fresh Fruit (SFFI). We paid $18.4 million in cash for 100% of SFFI (net of cash acquired). Founded in 1999 and based in Vernon, Calif., privately held SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets. Its focus in those industries is anticipated to be highly complementary to the retail-grocery expertise of Calavo's RFG business segment and will be included in the RFG segment going forward.

Available information

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

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

Fresh products

Calavo was founded in 1924 to market California avocados. We sell avocados sourced from a variety of locations (including but not limited to California, Mexico, Peru, and Colombia) to a diverse group of retail grocers, foodservice operators, club stores, mass merchandisers, food distributors and wholesalers, under the Calavo family of brand labels, as well as private labels. Many of our customers desire consistent year round supply across multiple sourcing locations, the ability to receive just-in-time deliveries at their desired level of ripeness and a variety of packaging and display options. In our judgment, these factors benefit large handlers like us, which have the ability to cultivate a variety of diverse sourcing relationships and the value-added distribution infrastructure to meet the needs of these large nationwide accounts. We believe we have developed strong, long-term relationships with our customers that provide a solid base for our business.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County. Generally, California grown Hass avocados are available year-round, with peak production periods occurring from April through August. In Mexico, we procure fruit from the growing regions of Michoacán and Jalisco. The Mexican avocado harvest is year-round (though generally most significant from September to June in Michoacán and from June to January for Jalisco). Other significant growing areas from which we have sourced avocados include Peru and Colombia. The storage life of fresh avocados (once picked from the tree) is limited, typically ranging from one to four weeks depending upon the maturity of the fruit, the growing methods used, and the handling conditions in the distribution chain, including the utilization of controlled atmosphere during transport.

Avocados delivered to our packinghouses are graded, sized, packed and cooled. The actual size and timing of the delivery of the annual avocado crop, has a substantial impact on both our costs and the sales price we receive for the fruit. To that end, our field personnel maintain direct contact with growers and farm managers and coordinate harvest plans. The feedback from our field-managers is used by our sales department to prepare sales plans used by our direct sales force. The process by which avocados are purchased from growers differs slightly across our different sourcing regions. In California, avocado growers are provided daily field quotes, on a per pound basis, for most fruit. These quotes are based on the variety, size, and grade of California avocados and are calculated based on our expectations of how much we believe we will sell the fruit for, less our anticipated costs and our desired margin. Ultimately, we pay/settle with our California growers once a month. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove. The Mexican avocado crop will typically have three to four blooms in a single year. Once a purchase price is tentatively agreed to, the fruit is then harvested and delivered to our packinghouses located in Mexico. We also purchase fruit directly from third-party Mexican packers as a supplemental source and that fruit is packed to our standards for shipment to either our customers' or our operating facilities. Peruvian and Colombian avocados are primarily handled on a consignment basis, in which the price we pay for the fruit is usually calculated as a percentage of the net selling price less certain charges for distribution and value-added services.

Apart from the cost of fruit and freight costs, which are generally passed on to our customer, significant portions of our avocado handling costs are fixed. As a result, significant fluctuations in the volume of avocados delivered have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. As a result of our investment in packinghouse equipment, distribution centers with value-added ripening and packing capabilities, and personnel, we believe that our cost structure is geared to optimally handle larger avocado crops. We believe that our continued success in marketing avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship avocados to our packinghouses and distribution centers. We are subject to USDA, Mexican Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food/Plant Protection (SAGARPA) and other regulatory inspections to ensure the safety and the quality of the fruit being delivered.

We have also developed a series of value-added programs that are designed to differentiate our products and services from those offered by our competitors. Some of these key programs are as follows:

- Value-Added Ripening: Retailers are continually demanding their avocados meet strict quality and ripeness specifications and we believe that our nationwide ripening infrastructure using the latest technology and experienced avocado handling workforce best position us to service those customers. We believe that ripened avocados help our customers address the consumers' immediate needs and accelerate the sale of avocados through their stores.
- Value-Added Packaging: We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores.

The avocado market is highly competitive with over one hundred U.S. avocado marketers and/or importers, such as Calavo, seeking to source avocados from more than 25,000 independent, USDA certified growers worldwide. Based on the information we have from various industry sources, we believe that Calavo is consistently among the largest avocado marketers in the United States (US) from a volume, sales and profitability perspective. We attribute our solid position as one of the top avocado distributors to the competitiveness of the per pound returns we pay and the communication and service we maintain with our growers. In addition, we believe our diversified, product assortment, consistent product quality and value-added programs provide us with a competitive advantage in servicing retail and foodservice customers.

Our Fresh products business segment also markets and distributes select other perishable food products, such as tomatoes and papayas (Other Fresh Products). Tomatoes are primarily handled on a consigned basis, while papayas are handled on a pooling basis, generally at a fixed fee per papaya delivered. Sales of our Other Fresh Products generally experience fluctuations related to seasonality. We believe our efforts in distributing our other various types of fruit complement our offerings of avocados.

Calavo Foods

The Calavo Foods segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of fresh, whole avocados available to the marketplace. In the 1960s and early 1970s, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and foodservice industries. One of the key benefits of frozen products is their relatively longer shelf-life. With the introduction of low cost processed products delivered from Mexican based processors and the growing customer demand for more prepared avocado products, we shifted the fruit procurement and pulp processing functions of our Calavo Foods segment to Mexico.

We utilize ultra-high pressure technology equipment, which is designed to protect and safeguard foods, without the need of preservatives, on all of our prepared avocado and guacamole products. This procedure substantially destroys the cells of any bacteria that could lead to spoilage, food safety, or oxidation issues, without affecting the taste profile of the finished product. Once the procedure is complete, our packaged guacamole can be frozen to ensure a longer shelf-life or shipped fresh to various retail, club, and foodservice customers throughout the markets we service in the U.S and abroad. While the majority of our Calavo Foods products are produced in our Uruapan, Mexico production facility, we also often utilize high-quality co-packers (using similar ultra-high pressure technology) from time-to-time, to produce several of our retail and foodservice products. Co-packers are required to source from USDA certified growers, and comply with all local and U.S. rules and regulations.

For fiscal 2021, we believe our capacity will be sufficient for our expected growth due to a combination of production-enhancing initiatives at our facility and the further development of our network of co-packers.

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

RFG

Acquired in June of 2011, Renaissance Food Group is a leader in the fast-growing refrigerated fresh packaged foods category. RFG creates, markets, and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail and other channels, including national and regional supermarkets, club stores, mass merchandisers, convenience stores, and specialty/natural retailers. As a leader in refrigerated fresh packaged foods, RFG utilizes a network of company-operated and independently-operated USDA and organic certified fresh food facilities strategically located across the U.S. These facilities allow RFG to offer national retailers high quality, refrigerated fresh foods that can generally be delivered within hours from time of production. Consumer demand is high for quality refrigerated fresh packaged foods and RFG's speed to market, product innovation and broad product portfolio position the Company well to serve retailers addressing this consumer trend. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products, as well as ready-to-heat entrees and other hot bar and various deli items, meals kits and related components and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand, private label programs.

Sales and Other Financial Information by Business Segment and Product Category

Sales and other financial information by business segment are provided in Note 10 to our consolidated financial statements that are included in this Annual Report.

Customers

We sell to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesale customers. Our top ten customers accounted for approximately 58%, 56% and 59% of our consolidated net sales in fiscal years 2021, 2020 and 2019. Sales to our largest customer, Kroger (including its affiliates), represented approximately 16%, 18%, and 21% of net sales in each of fiscal years 2021, 2020, and 2019. Additionally, Wal-Mart (including its affiliates) represented approximately 11%, 12%, and 13% of net sales in fiscal years 2021, 2020, and 2019. No other single customer accounted for more than 10% of our net sales in any of the last three fiscal years.

Patents and Trademarks

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

Working Capital Requirements

We generally bridge the timing between vendor payments and customer receipts by using operating cash flows and commercial bank borrowings. In addition, from time to time we provide crop loans and other advances to some of our growers, which are also funded through operating cash flows and borrowings.

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

Backlog

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

Research and Development

Our research and development for new and improved products, which is generally driven by customer requests, changes in product specifications, customer and market research and/or innovative ideas generated by our own team of experts with food processing and culinary backgrounds. We solicit customer and supplier input, review process and product trends and conduct sensory and shelf life testing, all to expand the category and drive new sales for our customers. Research and development costs are charged to expense when incurred. Total research and development costs for fiscal year 2021 and 2020 was approximately $0.3 million and $0.7 million. For fiscal year 2019 total research and development were less than $0.1 million.

Compliance with Government Regulations

As a manufacturer and marketer of consumable products, our operations are subject to extensive regulation by various federal government agencies, including the Food and Drug Administration (FDA), the USDA and the Federal Trade Commission (FTC), as well as state and local agencies, with respect to production processes, product attributes, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for safety, purity and labeling. In addition, advertising of our products is subject to regulation by the FTC, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act (OSHA). Our packinghouse facilities and products are subject to periodic inspection by federal, state and local authorities, including the California State Department of Food and Agriculture (CFDA), which oversees weights & measures compliance at our California facilities. All of our US facilities are also in compliance the FDA's Food Safety Modernization Act (FSMA). In addition, our operations in Mexico are subject to Mexican regulations through the SAGARPA.

As a large importer of perishable products in the US, Calavo was an early adopter of the U.S. Customs & Border Protection's C-TPAT certification programs for monitoring and expediting all imports to the US.

Certain agricultural commodities sold by Calavo are subject to additional specific government acts or regulations, including the Hass Avocado Promotion, Research and Information Act of 2000 for our avocados and the federal suspension agreement guidelines which govern tomato imports to the US.

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

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

Employees

As of October 31, 2021, we had 3,676 employees, of which 1,667 were located in the United States and 2,009 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. Approximately 1,800 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of "salaried" and "hourly" employees as of October 31, 2021.

Location	Salaried	Hourly	Total
United States	333	1,330	1,663
Mexico	216	1,793	2,009
TOTAL	549	3,123	3,672

Item 1A. Risk Factors

You should carefully consider the following risks and other information in this Form 10-K. Any of the following risks could materially and adversely affect our results of operations or financial conditions. The following risk factors should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the Consolidated Financial Statements and related notes in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K.

Business and Operational Risks

The COVID-19 pandemic and resulting worldwide economic conditions are adversely affecting, and will likely continue to adversely affect, our business operations, financial condition, results of operations, and cash flows and we are unable to predict the extent to which the global COVID-19 pandemic may continue to adversely impact our business operations, financial performance and results of operations.

Manufacturing and Supply Chain Disruption—

Outbreaks of contagious diseases, including the ongoing COVID-19 outbreak and pandemic, and other adverse public health developments in countries and states where we operate, have had and are expected to continue to have an adverse effect on our business, financial condition and operational challenges in the manufacturing of our products and the operation of the related supply chains supporting our ability to deliver our products to the consumer. These effects include a potential negative impact on the availability of our key personnel; disruptions of our facilities or facilities of our members, business partners, customers, suppliers, third-party service providers or other vendors; and interruption of domestic and global supply chains, distribution channels, liquidity and capital or financial markets. We are actively monitoring COVID-19 impacts on our supply chain and distribution channels and restrictions on or disruptions of transportation or increased border controls or closures, or other impacts on domestic and global supply chains or distribution channels, could increase our costs for raw materials and commodity costs, increase demand for raw materials and commodities from competing purchasers, limit our ability to meet customer demand or otherwise have a material adverse effect on our business, financial condition, results of operation or cash flows.

In addition, we have taken and will continue to take temporary precautionary measures intended to help minimize the risk of COVID-19 to our employees, including implementation of health and safety measures to protect our employees, supplementing our workforce to compensate for employees disabled or temporarily unable to perform their duties, and temporary disruptions at certain of our manufacturing facilities, which could negatively affect our business. Some of these precautionary measures, and similar precautionary measures that we may take in the future, may result in additional costs. These conditions could lead to more prolonged disruptions and adverse financial impact in the future.

The mandated shelter in place and social distancing measures which are we are required to follow create challenges for the successful operation of our facilities. These same measures also impact the ability of our vendors, suppliers, logistics providers, distributors, and customers, to ultimately support the delivery of our products to consumers.

Uncertain Future Consumer Demand –

While we have not experienced a significant loss of demand for our products during the COVID-19 pandemic, continued economic deterioration in the markets in which our products are sold, including unemployment, reductions in disposable income, declining consumer confidence, and perception of our products as non-essential, could result in future declines in the demand for our products. Further, COVID-19 has resulted in a widespread health crisis that has affected and is expected to continue to adversely affect the economies and financial markets of many countries and most areas of the United States, which may affect our ability to obtain additional financing for our businesses and demand for our products and services.

Costs to confront the COVID-19 Pandemic –

We have incurred and may be required to continue to incur for an indeterminable period, increased costs related to overtime and sick pay, government mandated employee leave related to pandemic conditions, incremental pay for working under challenging conditions, temporary employees, temporary facility closures, sanitizing the work environment, and overall increased safety measures. Our operating results may be adversely affected if we fail to adequately manage these costs or if we experience significant unexpected costs in the future.

The ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control. If we are unable to successfully manage our business through the challenges and uncertainty created by the COVID-19 pandemic, our business and operating results could be materially adversely affected.

The recovery from the COVID-19 pandemic and the current economic climate is increasing labor costs, commodity costs and logistical costs which has adversely affected our business operations and results of operations and may continue to do so in the future. Our efforts to raise prices may not be successful at offsetting these cost increases and may have other adverse effects.

We have experienced 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.

Beginning in the third quarter of fiscal 2021, in response to these inflationary costs, we began to notify our customers of our plans to institute price increases for our RFG and Foods products. We cannot assure you that these price increases will be accepted by our customers without significant loss of sales or will reverse the margin compression experienced by RFG and Foods segments during the pandemic. If compressed gross profits continue or if we experience a loss of sales due to price increases in our RFG and Foods segments, we may not be able to undertake future initiatives to drive growth.

Due to the seasonality of the business, our revenue and operating results may vary from quarter to quarter.

Our earnings may be affected by seasonal factors, including:

- the availability, quality and price of raw materials (including, but not limited to fruit and vegetable inputs);
- the timing and effects of ripening and perishability;
- the ability to process perishable raw materials in a timely manner;
- the leveraging of certain fixed overhead costs during off-season months; and
- the slight impacts on consumer demand based on seasonal and holiday timing.

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

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

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

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. Food safety warnings, advisories, notices and recalls such as those administered by the FDA, CDC, other federal/state government agencies and/or suppliers of various agricultural products, could also reduce demand and/or prices for some of our products. To the extent that consumers evolve away from products that we produce for health, food safety or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

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

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

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

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

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

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

Failure to optimize our supply chain or disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

In coordination with our suppliers, our ability to make, move and sell products is critical to our success. Our inability to maintain sufficient internal production capacity or our inability to enter into co-packing agreements on terms that are beneficial to the Company could have an adverse effect on our business. Failure to adequately handle increasing production costs and complexity, turnover of manufacturing personnel, or production capability and efficiency issues could materially impact our ability to cost effectively produce our products and meet customer demand.

Additionally, damage or disruption to our collective manufacturing or distribution capabilities resulting from weather, any potential effects of climate change, natural disaster, disease, crop spoilage, fire or explosion, terrorism, organized crime, pandemics, strikes, repairs or enhancements at our facilities, or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, and may require additional resources to restore our supply chain.

Disruption of the supply or reliability of low cost transportation services and/or significant increases in the cost of these services could impact our operating income.

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

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

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

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

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including ''bugs'' and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions. Calavo carries insurance, including cyber insurance, commensurate with its size and the nature of its operations, although there is no certainty that such insurance will in all cases be sufficient to fully reimburse us for all losses incurred in connection with the occurrence of any of these system security risks, data protection breaches, cyber-attacks or other events.

Portions of our IT infrastructure may also experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes.

The loss of one or more of our largest customers, or a reduction in the level of purchases made by these customers, could negatively impact our sales and profits.

Sales to Kroger and Walmart, our largest customers, amounted to approximately 16% and 11% of our total net sales in 2021. We expect that a significant portion of our revenues will continue to be derived from a relatively small number of customers. We believe these customers make purchase decisions based on a combination of price, product quality, consumer demand, customer service performance, desired inventory levels and other factors that may be important to them at the time the purchase decisions are made. Changes in our customers' strategies or purchasing patterns, including a reduction in the number of brands they carry, may adversely affect our sales. Additionally, our customers may face financial or other difficulties which may impact their operations and cause them to reduce their level of purchases from us, which could adversely affect our results of operations. Customers also may respond to any price increase that we may implement by reducing their purchases from us, resulting in reduced sales of our products. If sales of our products to one or more of our largest customers are reduced, this reduction may have a material adverse effect on our business, financial condition, and results of operations. Any bankruptcy or other business disruption involving one of our significant customers also could adversely affect our results of operations.

Human Capital Risks

Management and key personnel changes may disrupt our operations, and we may have difficulty attracting and retaining qualified replacements.

We have experienced changes in management and other key personnel in critical functions across our organization, including our chief executive officer and our chief financial officer. Our Chief Executive Officer serves on an interim basis until we are able recruit a qualified replacement. Changes in management and other key personnel have the potential to disrupt our business, and any such disruption could adversely affect our operations, programs, growth, financial condition and results of operations. Further, new members of management may have different perspectives on programs and opportunities for our business, which may cause us to focus on new business opportunities or reduce or change emphasis on our existing business programs.

Our success is dependent upon our ability to attract and retain qualified management and key personnel in a highly competitive environment. Qualified individuals are in high demand, and we may incur significant costs to attract them, particularly at the executive level. We may face difficulty in attracting, retaining and compensating key talent for a number of reasons, including competitive market conditions and the need to align the vision of a new executive team with our Board's vision for our Company. We cannot assure you that we will be able to hire or retain the personnel necessary to achieve our strategic vision, that personnel we do recruit will be successful or that the loss of any such personnel will not have a material impact on our financial condition and results of operations.

A continued shortage of qualified labor could negatively affect our business and materially reduce earnings.

We have experienced shortages of qualified labor across our operations. Participants in our supply chain have also experienced shortages of qualified labor. The future success of our operations, including the achievement of our strategic objectives, depends on our ability, and the ability of third parties on which we rely to supply and to deliver our products, to identify, recruit, develop and retain qualified and talented individuals. As a result, any shortage of qualified labor could significantly adversely affect our business. Employee recruitment, development and retention efforts that we or such third parties undertake may not be successful, which could result in a shortage of qualified individuals in future periods. Any such shortage could decrease our ability to effectively produce and deliver product and to achieve our strategic objectives. Such a shortage would also likely lead to higher wages for employees (or higher costs to purchase the services of such third parties) and a corresponding reduction in our results of operations. In the current operating environment, we are experiencing a shortage of qualified labor in certain geographies, particularly with plant production workers, resulting in increased costs from certain temporary wage actions, such as hiring and referral and retention bonus program. A continuation of such shortages for a prolonged period of time could have a material adverse effect on our results of operations.

We have recently transitioned new personnel into executive leadership positions and our future success will depend in part on our ability to manage this transition successfully.

Replacing departing executives can involve organizational disruption and uncertainty. If we fail to manage this transition successfully, we could experience significant delays or difficulty in the achievement of our development and strategic objectives and our business, financial condition and results of operations could be materially and adversely harmed.

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

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

We rely on co-packers for a portion of our production needs.

We utilize high-quality co-packers to produce a portion of our retail and foodservice products. If we are unable to utilize quality co-packers effectively, we may not be able to meet our production needs for our expected growth. Similar, if an existing co-packer is no longer able or willing to produce products for us, there are no assurances that we will be able to immediately replace them with our own production capacity or that of another co-packer operating in the same region and at the same level of quality. We closely monitor and audit the quality of our co-packers; and furthermore, our co-packers are required to maintain insurance. But we are still subject to risks related to the production of fresh and processed foods.

Industry Risks

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

The fresh produce and prepared food markets in which we operate are highly competitive. Each of our businesses is subject to competitive pressures, including the following:

- The market for avocados is impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru, Colombia and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.

- Avocados are subject to competition from other avocado handlers. If we are unable to consistently pay growers a competitive price for their avocados, these growers may choose to have their avocados marketed by alternate handlers.
- Mexican sourced avocados and perishable food products are impacted by competitors operating in Mexico. Generally, handlers of Mexican grown avocados operate facilities that are substantially smaller than our facility in Uruapan, Mexico. If we are unable to pack and market a sufficient volume of Mexican grown avocados, smaller handlers will have a lower per unit cost and be able to offer Mexican avocados at a more competitive price to our customers.
- The fresh-cut produce market is highly fragmented and we compete with a variety of national, regional and local manufacturers and distributors of fresh-cut produce in the geographies that we serve. These competitors include both branded and non-branded producers, as well as certain retailers' own in-house fresh-cut operations. To compete successfully, we must be able to strategically source a wide array of fresh produce and prepared food items of uniformly high quality and sell and distribute it on a timely and regular basis. The overall availability and quality of produce items that we purchase for processing can have a meaningful impact on both RFG's sales and profitability. Additionally, the short-shelf life nature of these products makes this business highly localized and our success is often related to our ability to manufacture those products within close proximity to our customers' locations.

A recall of our products could have a material adverse effect on our business. In addition, we may be subject to significant liability claims should the consumption of any of our products cause injury, illness or death.

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

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

Our results of operations may be adversely affected by numerous factors over which we have little or no control and that are inherent in farming, including reductions in the market prices for our products, adverse weather (including but not limited to drought, high winds, earthquakes and/or wildfire) and growing conditions, pest and disease problems, and new government regulations regarding farming and the marketing of agricultural products.

Demand for our products is subject to changing consumer preferences.

Consumer preferences for particular food products are subject to fluctuations over time. Our ability to market and sell our products successfully depends in part on our ability to identify changing consumer preferences and respond to those changes by offering products that appeal broadly to consumers in light of current demands. Shifts in consumer preferences that can impact demand for our products at any given time can result from a number of factors, including dietary trends, attention to particular nutritional aspects of our products, concerns regarding the health effects of particular ingredients, attention given to ingredient sourcing practices and general public perception of food safety risks. Consumer demand for our products also may be impacted by any public commentary that consumers or certain regulatory bodies (including federal/state agencies involved in monitoring food safety) may make regarding our products or similar products. Consumer demand for our products also may be impacted by changes in the level of advertising or promotional support that are employed by (i) us, (ii) our retail/foodservice customers, or (iii) relevant industry groups or third parties that provide competing products. If consumer preferences trend negatively with respect to any one or more of our products, our sales volumes may decline as a result.

Regulatory Risks

Environmental and other regulation of our business, including potential climate change regulation, could adversely impact us by increasing our production cost or restricting our ability to import certain products into the United States.

Climate change serves as a risk multiplier increasing both the frequency and severity of natural disasters that may affect our business operations. Moreover, there has been a broad range of proposed and promulgated state, national and international regulation aimed at reducing the effects of climate change. Such regulations apply or could apply in countries where we have interests or could have interests in the future. In the United States, there is a significant possibility that some form of regulation will be enacted at the federal level to address the effects of climate change. Such regulation could take several forms that could result in additional costs in the form of taxes, the restriction of output, investments of capital to maintain compliance with laws and regulations, or required acquisition or trading of emission allowances. Climate change regulation continues to evolve, and it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation.

Unanticipated changes in U.S. or international tax provisions, the adoption of new tax legislation or exposure to additional tax liabilities could affect our financial performance.

We are subject to taxes in the U.S. and Mexico. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

We are also subject to the examination of our tax returns and other tax matters by the U.S. Internal Revenue Service (the IRS), the Servicio de Administracion Tributaria in Mexico (the SAT) and other tax authorities. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance that we will accurately predict the outcomes of any audits, and the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows.. If our effective tax rates were to increase, or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

Our dispute with Mexican tax authorities related to the 2013 Tax Assessment may have a material adverse effect on our results of operations and financial position. This dispute has resulted in liens placed on the fixed assets and bank accounts of Calavo de Mexico.

In July 2018, a local office of the Servicio de Administracion Tributaria in Mexico (the ‘‘SAT’’) issued a final tax assessment (the ‘‘2013 Assessment’’) totaling approximately $2.6 billion Mexican pesos (which includes annual adjustments for inflation, and equals approx. $127.9 million USD at October 31, 2021) related to a fiscal 2013 tax audit. This amount has been adjusted for inflation as of October 31, 2021 to the amount of $3 billion Mexican pesos (approx. $147.6 million USD). Additionally, the tax authorities have determined that we owe our employees profit-sharing liability, totaling approximately $118 million Mexican pesos (approx. $5.8 million USD at October 31, 2021). In August 2018, we filed an administrative appeal (the ‘‘Administrative Appeal’’) on the 2013 Assessment, appealing our case to the SAT’s Legal Administration in Michoacan.

On June 25, 2021, we became aware that the Administrative Appeal had been resolved against Calavo de Mexico (‘‘CDM’’) on March 12, 2021, and that CDM had allegedly failed to timely respond to and challenge the SAT’s notification of such resolution, therefore rendering the 2013 Assessment as definitive. 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.

While we have taken measures to vigorously defend our position that the 2013 Assessment is without merit, including filing a writ with the SAT requesting a substitution of a financial bond for the above-mentioned liens, filing an Administrative Reconsideration (the ‘‘Reconsideration’’) before the Central Legal Department of the SAT located in Mexico City, filing a formal complaint, or queja, (the ‘‘Complaint’’) before the PRODECON (Mexican Tax Ombudsman) to request their assistance with having the SAT act upon the Reconsideration and filing an Annulment Suit (the ‘‘Suit’’) with the Federal Tax Court, which among other things, contends that the notifications made by the SAT to CDM and its designated advisors of the resolution of the Administrative Appeal in March 2021 was not legally communicated and asserts same matters central to the Reconsideration as wrongly concluded in the resolution of the Administrative Appeal, we cannot assure you that any of these measures will be successful or that we will be able to settle the 2013 Assessment on terms acceptable to us or at all. Such outcomes could have a material adverse effect on our results of operations and financial condition and could result in an event of default under our credit facility and the acceleration of indebtedness under such facility. Further, we cannot assure you that the provision for this matter in our financial statements will be adequate to fund any settlement we may ultimately enter into or any amount of taxes.

Our dispute with the Mexican tax authorities related to Mexican IVA taxes receivable may have a material adverse effect on our results of operations and financial position.

As of October 31, 2021, and October 31, 2020, CDM IVA receivables totaled $37.5 million (762.1 million Mexican pesos) and $30.2 million (640.7 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2021, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are 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. For further details on this matter, see Note 15 in the consolidated financial statements.

In light of the foregoing, the Company is currently considering its options for resolution of the IVA receivables.

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. However, there is no assurance that we will collect the full amount reflected in our financial statements.

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

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

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

International Risks

We work with international third-party suppliers and partners, and our financial results could suffer due to unfavorable international events or regulations.

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

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

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

Currency exchange fluctuations may impact the results of our operations.

Currency exchange rate fluctuations, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products. These foreign currency fluctuations also affect the ultimate realization of foreign currency denominated assets and liabilities in US dollar terms. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

Financial Risks

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

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

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

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

Our ownership in unconsolidated subsidiaries, our loans/notes or advances to unconsolidated subsidiaries and other future debt or equity investments that we may make in unconsolidated subsidiaries, present a number of risks and challenges that could have a material adverse effect on our business, financial position and results of operations.

Income/(loss) from unconsolidated entities includes our allocation of earnings or losses from our investments in FreshRealm and Don Memo. We do not control the operations of these investments, and our allocation of potential income or loss can increase or decrease our overall profitability significantly.

On May 20, 2020, the SEC issued a final rule regarding the financial statement requirements for acquisitions and dispositions of a business, which included, among other things, amending (1) certain criteria in the significance tests for equity method investees, such as introducing a revenue component when calculating the income test, (ii) related pro forma financial information requirements including its form and content, and (iii) related disclosure requirements, including the number of acquiree financial statement periods required to be presented in SEC filings.

Any loans/notes or advances that we make to unconsolidated entities (such as the existing advances to Don Memo) may at some point in the future be deemed uncollectible and as such may negatively impact, in a material way, our financial results in the period such determination is made. As noted earlier, we do not control the operations of FreshRealm or Don Memo, and their future operating performance and/or their future ability to raise capital from other third parties, could negatively impact our ability to collect on our loans/notes or advances.

General Risks

The value of our common stock may be adversely affected by market volatility and our common stock price has fluctuated and may continue to fluctuate, which may make future prices of our common stock difficult to predict.

Investors should not rely on recent or historical trends to predict future stock prices, financial condition, results of operations or cash flows. Our common stock price, like that of other companies, can be volatile and can be affected by, by many factors, including:

- Our operating and financial performance and prospects;
- Announcements and public SEC filings we make about our business, financial performance and prospects;
- Announcements our customers or competitors make regarding their business, financial performance and prospects;
- Short-interest in our common stock, which may be significant from time-to-time;
- The depth and liquidity of the market for our common stock;
- Investor perception of us and the industry and markets in which we operate;
- Our inclusion in, or removal from, any equity market indices;
- Changes in earnings estimates or buy/sell recommendations by analysts;
- Whether or not we meet earnings estimates of analysts who follow our Company;
- Competitors in common markets; and
- General financial, domestic, international, economic, industry and other market trends or conditions.

Our performance may be impacted by general economic conditions or an economic downturn.

An overall decline in economic activity could adversely impact our business and financial results. Economic uncertainty may reduce consumer spending as consumers make decisions on what to include in their food budgets. This could also result in a shift in consumer preference. Shifts in consumer spending could result in increased pressure from competitors or customers that may require us to increase promotional spending or reduce the prices of some of our products and/or limit our ability to increase or maintain prices, which could lower our revenue and profitability. Instability in financial markets may impact our ability, or increase the cost, to enter into new credit agreements in the future. Additionally, it may weaken the ability of our customers, suppliers, third-party distributors, banks, insurance companies and other business partners to perform their obligations in the normal course of business, which could expose us to losses or disrupt the supply of inputs we rely upon to conduct our business. If one or more of our key business partners fail to perform as expected or contracted for any reason, our business could be negatively impacted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

United States Locations:

Packinghouses:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily handles fresh avocados. The facility was purchased in 1955 and has been improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Temecula	California	Primarily ripens, sorts, packs and ships fresh avocados. We sort and pack certain other fresh products as well. We sold this facility in 2019 and leased back a portion of it.

Operating and Distributing Facilities:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily ripens, sorts, packs and ships fresh avocados. We sort and pack certain other fresh products as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, its expected annual volume of avocados and other fresh products delivered to us.
Leased	Swedesboro	New Jersey	Primarily ripens, sorts, packs, and ships avocados. Additionally, it also serves to store and ship certain other fresh products, as well as prepared foods and prepared guacamole products. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Garland	Texas	Primarily ripens, sorts, packs and ships fresh avocados. Additionally, it also serves to store and ship prepared guacamole products as well. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Green Cove Springs	Florida	Primarily ripens, sorts, packs and ships fresh avocados and stores and ships prepared guacamole. This facility also processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs. In November 2021, we have ceased operations in the RFG portion of this facility. See Note 18 in consolidated financial statements.
Leased	Hilo	Hawaii	Primarily sorts, packs, and ships papayas. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.
Owned	Hilo	Hawaii	Primarily provides irradiation services for produce grown in Hawaii. We believe that the annual capacity will be sufficient to handle its forecasted annual production needs.

Leased or Owned:	City	State	Description
Leased	St. Paul	Minnesota	Calavo Salsa Lisa (CSL) facility that produces salsa. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Houston	Texas	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Owned	Riverside	California	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Sacramento	California	RFG facility that primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Clackamas	Oregon	Opened in the fourth quarter of fiscal 2019, this RFG facility primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Conley	Georgia	Opened in the third quarter of fiscal 2019, this RFG facility primarily processes fresh-cut fruits and vegetables, and prepared foods. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.

Mexico Locations:

Packinghouses and Processing Facility:

Leased or Owned:	City	State	Description
Owned	Uruapan	Michoacan	Our Calavo Foods processing facility produces our guacamole products. While we believe the capacity is reasonable given our current sales, we are considering various plans to enhance our production capacity. See Note 7 in consolidated financial statements
Owned	Uruapan	Michoacan	Primarily handles fresh avocados. The facility was built in 1985 and has been significantly and continually improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs. See Note 7 in consolidated financial statements
Owned	Ciudad Guzman	Jalisco	Opened in the third quarter of 2017, this facility primarily handles fresh avocados. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.

Item 3. Legal Proceedings

See Note 7 of our consolidated financial statements for further information.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

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

Fiscal 2021	High	Low
First Quarter	$77.95	$62.02
Second Quarter	$85.40	$71.58
Third Quarter	$80.06	$55.65
Fourth Quarter	$57.76	$33.25

Fiscal 2020	High	Low
First Quarter	$94.37	$76.61
Second Quarter	$77.71	$51.07
Third Quarter	$64.70	$52.94
Fourth Quarter	$69.73	$57.04

As of November 30, 2021, there were 758 stockholders of record of our common stock.

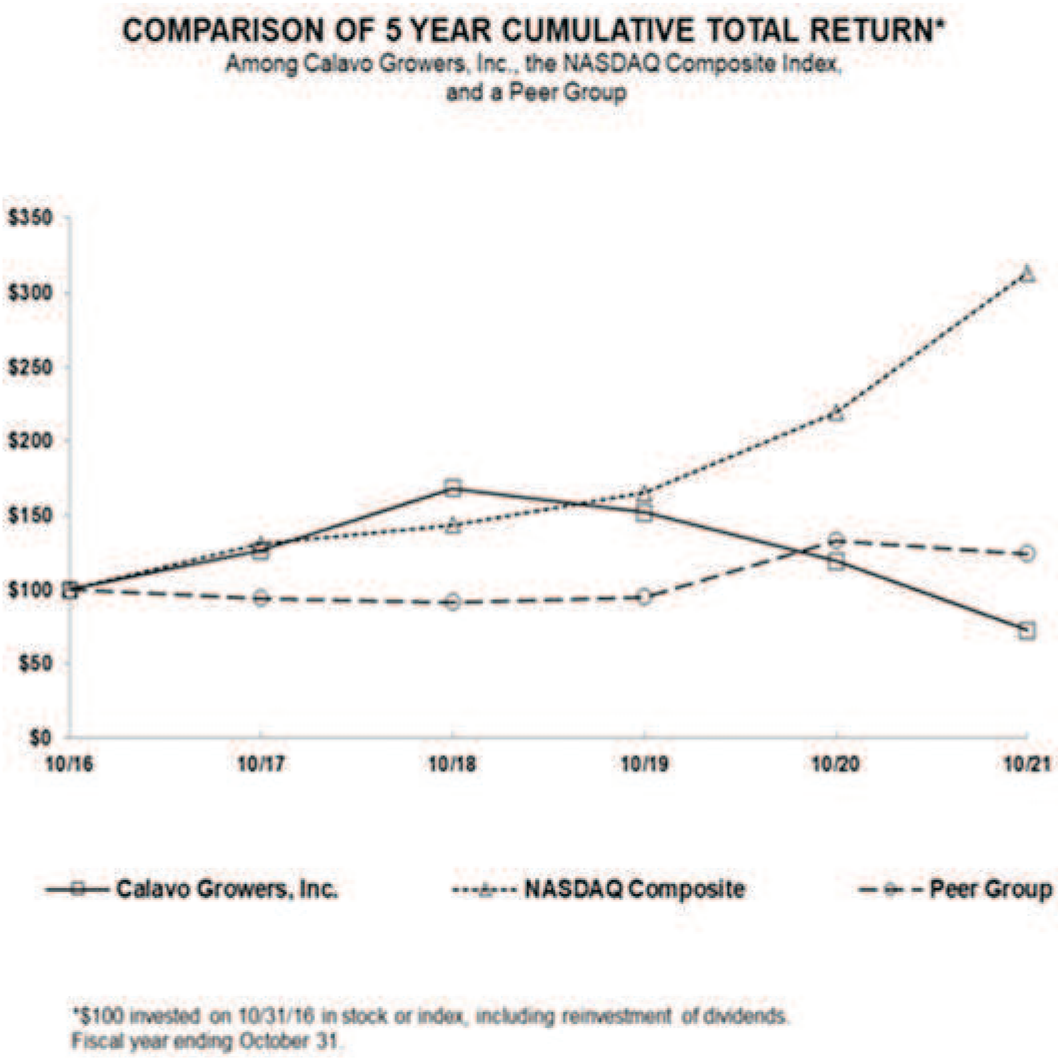
Dividend Policy

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

On October 29, 2021, we declared a dividend of $1.15 per share. On December 3, 2021, we paid the aggregate amount of $20.3 million to shareholders of record on November 12, 2021. On December 4, 2020, we paid a $1.15 per share dividend in the aggregate amount of $20.3 million to shareholders of record on November 13, 2020.

Shareholder Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and a Peer Group of major diversified companies in our same industry for approximately the 60-month period beginning October 31, 2016 and ending October 31, 2021. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, the Peer Group Index as of October 31, 2015. We have also assumed the reinvestment of all dividends. Our Peer Group Index includes the companies of: Andersons, Inc., B&G Foods, Inc., Boston Beer Company, Inc., Fresh Del Monte Produce, Inc., Hain Celestial Group, Inc., Hostess Brands, Inc., J&J Snack Foods, Corp., John B Sanfilippo & Son, Inc., and Landec, Corp.



	10/16	10/17	10/18	10/19	10/20	10/21
Calavo Growers, Inc.	100.00	126.33	168.42	152.14	119.30	72.60
NASDAQ Composite	100.00	131.13	143.90	165.15	219.40	313.72
Peer Group	100.00	94.50	91.67	95.11	133.14	124.24

Item 6. Selected Financial Data

RESERVED

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks Related to Our Business" included in Item 1A and elsewhere in this Annual Report.

Overview

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to 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 guacamole and salsa and (iii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit, fresh-cut vegetables, and prepared foods. We report our operations in three different business segments: Fresh products, Calavo Foods and RFG. See Note 10 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. During fiscal 2021, we operated four packinghouses and four operating and distributing facilities (aka value-added depots or VADs) that handle avocados that are sold across the United States and to select international markets. We believe that our continued success in marketing avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship avocados to our packinghouses and distribution centers. We believe our diversified avocado sources help provide a level of relative supply stability that may, over time, serve to increase the availability and demand for avocados among consumers in the United States and elsewhere in the world. Significant fluctuations in the volume of avocados delivered have an impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. As a result of our investment in packinghouse equipment, distribution centers with value-added ripening and packing capabilities, and personnel, we believe that our cost structure is geared to optimally handle larger avocado volume. We believe our efforts in distributing our other various perishable foods, such as tomatoes and papayas, complement our offerings of avocados. From time to time, we continue to explore the distribution of other crops that provide reasonable returns to our business.

Our Calavo Foods business processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products shipped to North America are "cold pasteurized" and include both frozen and fresh guacamole. Due to the high-quality, no preservative nature of our guacamole and the variety of packaging formats that we offer, we believe that we are well positioned to address the diverse taste and needs of today's foodservice and retail customers. Additionally, we also prepare various fresh salsa products. Our Calavo Foods segment maintains relationships with foodservice companies and food retailers. We continue to seek to expand our relationships with major foodservice companies and food retailers and develop alliances that will allow our products to reach a larger percentage of the marketplace.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers sold through the retail and other channels. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products, as well as ready-to-heat entrees and other hot bar and various deli items, meals kit components and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand and private label programs.

The operating results of all of our businesses have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, including but not limited to pests and disease, weather patterns, changes in demand by consumers, food safety advisories impacting the fresh perishable food categories in which we currently operate, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, the availability, quality and price of raw materials, new product introductions by our competitors, the utilization of production capacity at our various plant locations, change in the mix of products that our Fresh, Calavo Foods and RFG segments sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

Recent Developments

COVID-19 Pandemic Impact

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. We believe we are well-positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales.

The 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. However, actual vaccination results are ultimately dependent on, among other factors, vaccine availability and their acceptance by individuals which are difficult to predict. In the third quarter of fiscal 2021, the delta variant of the SARS-COV-2 virus became the dominant strain in the U.S. and elsewhere and led to various pandemic restrictions being reinstated. In November 2021, the omicron variant of the SARS-COV-2 virus has started to spread throughout the world, which has led to further pandemic restrictions. Accordingly, 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.

Beginning in the third quarter of fiscal 2021, in response to the inflationary costs described above, we began to notify 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.

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. We incurred asset impairment and other costs as part of these productivity and transformation initiatives with the objective of obtaining longer term operating efficiencies and cost savings. The asset impairment involved Florida leasehold improvements, equipment and inventory totaling $9.4 million. The other costs included consulting, executive recruitment and severance costs, moving and shut-down costs and other costs associated with carrying out the initiatives totaling $2.2 million. The Company will continue to carry out the existing productivity initiatives as well as additional initiatives under this strategy in fiscal 2022.

Litigation

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

Mexico tax audits

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

2011 Assessment

On June 16, 2021, Calavo reached a settlement agreement with the 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 accompanying financial statements as a discreet item in Income Tax Provision, and in Expenses related to Mexican Tax matters, respectively. An additional $0.3 million USD of related professional fees have also been recorded as expenses related to the Mexican tax matters. See Note 7 to our consolidated financial statements.

2013 Assessment

In January 2017, we received preliminary observations from 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 approx. $127.9 million USD at October 31, 2021) 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 October 31, 2021 to the amount of $3 billion Mexican pesos (approx. $147.6 million USD). Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately $118 million Mexican pesos (approx. $5.8 million USD at October 31, 2021).

We have consulted with both an internationally recognized tax advisor as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an Administrative Appeal on the 2013 Assessment, 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 15 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, and have since taken the following measures in vigorous defense of our position:

- Retained a global law firm with offices throughout Mexico to provide legal representation before the SAT, as well as retained the legal division of an internationally recognized tax advisor, to provide legal representation before the Federal Tax Court.
- On August 17, we filed a writ with the SAT requesting a substitution of a financial bond for the above-mentioned liens.
- On August 18, 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:
    - Failure to recognize CDM as a ''maquiladora''
    - Considering the Company to have a permanent establishment in Mexico,
    - Including fruit purchase deposits transferred by the Company to CDM as taxable,
    - Application of 16% IVA tax to fruit purchase deposits
    - Imposing double-taxation on the fruit purchase transactions
- On August 27, 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 20, we filed an Annulment Suit (the 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 were not legally communicated. In addition, the Suit asserts the same matters central to the Reconsideration, as described above, as wrongly concluded in the resolution of the Administrative Appeal.
- On September 22, 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. We are awaiting the SAT's response to setup a follow up meeting to further discuss the Reconsideration.

We believe that the Suit will be accepted by the Tax Court, which will render the 2013 Assessment as non-definitive, and which will allow CDM to petition the Tax Court for a halt to any collection procedures by the SAT and a substitution of a bond for any liens placed on CDM assets.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the 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 have recorded a provision of $11 million USD in the accompanying financial statements as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We incurred $0.6 million USD of related professional fees, which have been recorded in Expenses related to Mexican Tax matters.

FreshRealm Separation

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

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

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

In July 2021, FreshRealm paid Calavo the Loan Payoff Amount of $6.0 million, and we recorded the receipt as a recovery of the reserve for collectability of the FreshRealm note receivable on the statement of operations. Therefore, the Notes mentioned above, have been deemed paid in full. If FreshRealm undergoes a sale of its business either through a merger or a majority sale of its assets or equity interests before February 3, 2022, FreshRealm must pay Calavo twenty percent (20%) of the purchase price proceeds from such sale of FreshRealm. See Note 16 in the consolidated financial statements.

Closure of RFG Florida facility

On October 18, 2021, the Company announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, 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.

As of October 31, 2021, the Company has leasehold improvements with a net book value of $8.8 million, right of use assets with a net book value of $4.8 million, and a lease liabilities of $6.0 million recorded on the balance sheet, all 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. However, a full impairment of the leasehold improvements has been recorded. 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.

Following is a summary of the impairment and other charges recorded during the year ended October 31, 2021.

Leasehold improvements	8,731
Inventory (recorded in cost of goods sold)	586
Employee severance	352
Other assets	79
Total	$9,748

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, IVA tax receivables, inventories, useful lives of property, plant and equipment, promotional allowances, equity income/losses and impairment analysis from unconsolidated entities, loans to unconsolidated entities, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Additionally, we frequently engage third party valuation experts to assist us with estimates described below. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

Management has discussed the development and selection of critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting estimates in this Annual Report.

We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Promotional allowances. We provide for promotional allowances at the time of sale, based on volume purchased and our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. We estimate that a one percent (100 basis point) change in the derived percentage for the entire year would impact results of operations by approximately $0.1 million.

2013 Mexican Tax Audit Assessment. In January 2017, we received preliminary observations from 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 approx. $127.9 million USD at October 31, 2021) 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 October 31, 2021 to the amount of $3 billion Mexican pesos (approx. $147.6 million USD). Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately $118 million Mexican pesos (approx. $5.8 million USD at October 31, 2021).

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the 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 have recorded a provision of $11 million USD in the accompanying financial statements as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We incurred $0.6 million USD of related professional fees, which have been recorded in Expenses related to Mexican Tax matters. See Note 7 in our consolidated financial statements for futher information.

Mexican IVA taxes receivable. As of October 31, 2021, and October 31, 2020, CDM IVA receivables totaled $37.5 million (762.1 million Mexican pesos) and $30.2 million (640.7 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2021, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances 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 January through December of 2013, 2014, and 2015, 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 October 31, 2021, CDM has filed (or has plans to file) Administrative Appeals for the IVA related to the preceding months. A response to these Administrative Appeals is currently pending resolution.

In light of the foregoing, the Company is currently considering its options for resolution of the VAT receivables. In the unlikely event of an unfavorable resolution of the Administrative Appeals, we plan to file 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. This estimated time could be impacted and delayed by the situation of the COVID-19 pandemic.

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. However, there is no assurance that we will collect the full amount reflected in our financial statements.

Goodwill and acquired intangible assets. Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We can use a qualitative test, known as ‘‘Step 0,’’ or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In fiscal 2021 and 2020, the Company's estimated fair value significantly exceeded its carrying value in Step 1 of the Company's impairment test. The fair value of the Company's reporting units is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis, a market approach is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded. The Company concluded based on its Step 1 test that no goodwill impairment existed in the fiscal years ended October 31, 2021 and 2020. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units which includes forecasted cash flow. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses.

Results of Operations

The following table sets forth certain items from our consolidated statements of operations, expressed as percentages of our total net sales, for the periods indicated:

	Year ended October 31,		
	2021	2020	2019
Net sales	100.0%	100.0%	100.0%
Gross profit	5.4%	8.5%	10.7%
Selling, general and administrative	5.4%	5.5%	4.9%
Expenses related to Mexican tax matters	0.1%	—%	—%
Impairment and charges related to RFG Florida facility closure	0.9%	—%	—%
Gain on sales of Temecula packinghouse	(0.0)%	(0.0)%	(0.2)%
Operating income	(0.9)%	3.0%	5.9%
Interest income (loss)	0.0%	0.2%	0.2%
Interest expense	(0.1)%	(0.1)%	(0.1)%
Other income, net	0.1%	0.1%	—%
Recovery (loss) on reserve for FreshRealm note receivable and impairment of investment	0.6%	(3.5)%	—%
Unrealized and realized net loss (gain) on Limoneira shares	0.4%	(0.8)%	(0.8)%
Net income (loss)	(1.1)%	(1.3)%	3.1%

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 and certain severance costs, (6) certain litigation and other related costs, and (7) one-time items. Adjusted EBITDA is a primary metric by which management evaluates the operating performance of the business, on which certain operating expenditures and internal budgets are based and by which, in addition to other factors, the Company's senior management is compensated. The adjustments to calculate EBITDA and adjusted EBITDA are items recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded.

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

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

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

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

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).

	Year ended October 31,		
	2021	2020	2019
Net income (loss) attributable to Calavo Growers, Inc.	$(11,818)	$(13,625)	$36,646
Non-GAAP adjustments:			
Non-cash losses recognized from unconsolidated entities[(a)]	1,719	6,110	14,082
Gain on sale-Temecula packinghouse, net sales commission[(b)]	—	—	(1,572)
Loss (Recovery) from FreshRealm and other related expenses[(c)]	(5,989)	37,577	—
Certain management transition expenses[(d)]	1,347	1,119	—
Acquisition costs[(e)]	262	510	—
Net (gain) loss on Limoneira shares[(f)]	(3,858)	8,537	9,722
RFG rent expense add back[(g)]	396	108	—
Restructure costs - consulting, management recruiting and severance[(h)]	1,833	—	—
Mexican tax matters[(i)]	14,270	—	—
Impairment and charges related to closure of RFG Florida facility[(j)]	9,748	—	—
Tax impact of adjustments[(k)]	(1,690)	(12,773)	(5,803)
Adjusted net income attributed to Calavo Growers, Inc.	$ 6,220	$ 27,563	$53,075
Calavo Growers, Inc.’s net income (loss) per share:			
Diluted EPS (GAAP)	$ (0.67)	$ (0.78)	$ 2.08
Adjusted Diluted EPS	$ 0.35	$ 1.57	$ 3.02
Number of shares used in per share computation:			
Diluted	17,621	17,564	17,593

(a) For the year ended October 31, 2020, and 2019, FreshRealm incurred losses totaling $24.1 million and $30.6 million, of which we recorded $7.2 million and $14.1 million of non-cash losses during fiscal 2020 and 2019. For the year ended October 31, 2021, 2020 and 2019, we incurred income from Agricola Don Memo totaling $1.7 million, $1.1 million, and $0.1 million.

(b) During the second quarter of fiscal 2019, we sold our Temecula, Calif., packinghouse for $7.1 million in cash ($6.7 million, net of transaction costs totaling $0.4 million) and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. As a result, we recognized a gain of approximately $1.9 million ($1.6 million net of sales commission) in our second quarter of fiscal 2019.

(c) In July 2021, as part of the FreshRealm Separation Agreement, FreshRealm paid Calavo the Loan Payoff Amount of $6.0 million, and we recorded the receipt on the statement of operations as a recovery of the reserve for collectability of the FreshRealm note receivable. In addition, we recovered $0.1 million in receivables that we previously reserved. During the third quarter of fiscal 2020, the results of operations of FreshRealm deteriorated significantly, with declining sales and continuing losses. We therefore recorded an impairment of 100% of our equity investment of $2.8 million, and we recorded a reserve for 100% of our note receivable of 34.2 million (which includes accrued interest of $4.1 million), and $0.3 million in trade accounts receivable as of October 31, 2020, which resulted in a loss of $37.3 million. For the year ended October 31, 2021 and 2020, we incurred $0.1 million and $0.3 million of professional fees related to FreshRealm and to the Loss on reserve for FreshRealm note receivable and impairment of investment.

(d) For fiscal 2021 and 2020, results include higher stock-based compensation expense related to senior management transitions, which does not impact the underlying cost structure of the Company.

(e) In the first quarter of fiscal 2021, we incurred professional service costs related to a considered but non-consummated acquisition. In fiscal 2020, we incurred expenses related to the acquisition of SFFI Company, Inc. doing business as Simply Fresh (SFFI). SFFI is a processor and supplier of a broad line of fresh-cut fruit, principally serving the foodservice and hospitality markets.

(f) In the first quarter of fiscal 2019, we adopted a new accounting standard update which requires us to record changes in fair value of equity investments, including our investment in Limoneira (LMNR) common stock, in net income during the period. For the year ended October 31, 2021, 2020 and 2019, we recorded income of $3.9 million, losses of $8.5 million and losses of $9.6 million in unrealized net gain (loss) on Limoneira shares related to these mark-to-market adjustments. Additionally, we sold 51,271 shares of Limoneira stock during fiscal 2019 and recorded a loss of $0.1 million.

(g) For the year ended October 31, 2021 and 2020, we incurred $0.4 million and $0.1 million related to rent paid for RFG corporate office space that we have vacated and plan to sublease.

(h) For the year ended October 31, 2021, we recorded $0.9 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 its operations. In fiscal 2021, we incurred $0.9 million related to management recruiting and severance costs in connection with the restructuring initiative.

(i) In June 2021, we paid $2.4 million in full settlement of the 2011 Assessment. Of this amount, $1.5 million has been recorded as a discrete item in Income Tax Provision and $0.9 million is related to value added tax expense and recorded as Expenses related to the Mexican tax matters. An additional $0.3 million of related professional fees have also been recorded as expenses related to the Mexican tax matters. See Note 7 to the consolidated financial statements for further information.

In July 2021, based on our evaluation of the most probable outcomes of the 2013 Assessment, we have recorded an accrual of $11 million in the accompanying financial statements as a discrete item in Income Tax Provision. An additional $0.6 million of related professional fees have also been recorded as Expenses related to the Mexican tax matters. See Note 7 to the consolidated financial statements for further information.

(j) 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 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.

(k) Tax impact of non-GAAP adjustments are based on the prevailing year-to-date tax rates in each period and adjusted to the one-time tax charges mentioned in note (c).

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).

	Year ended October 31,		
	2021	2020	2019
Net income (loss) attributable to Calavo Growers, Inc.	$(11,818)	$(13,625)	$36,646
Interest Income	(335)	(1,998)	(2,675)
Interest Expense	798	877	948
Provision (benefit) for Income Taxes	10,747	(4,292)	12,881
Depreciation & Amortization	17,571	16,093	13,633
Stock-Based Compensation[d]	3,950	4,487	3,593
EBITDA	$ 20,913	$ 1,542	$65,026
Adjustments:			
Non-cash losses recognized from unconsolidated entities[a]	1,719	6,110	14,082
Net (gain) loss on Limoneira shares[f]	(3,858)	8,537	9,722
Loss (Recovery) from FreshRealm and other related expenses[c]	(5,989)	37,577	—
Gain on sale-Temecula packinghouse, net of sales commission[b]	—	—	(1,572)
RFG rent expense add back[g]	396	108	—
Acquisition costs[e]	262	510	—
Restructure costs - consulting and management recruiting and severance[h]	1,833	—	—

	Year ended October 31,		
	2021	2020	2019
Expenses related to Mexican tax matters[i]	1,797	—	—
Impairment and charges related to closure of RFG Florida facility[j]	9,748	—	
Adjusted EBITDA	$26,821	$54,384	$87,258
Adjusted EBITDA per dilutive share	$ 1.52	$ 3.10	$ 4.96

See prior page for footnote references

Net Sales

We believe that the fundamental consumption trends for our products continue to be favorable. Firstly, U.S. avocado demand continues to grow, with per capita consumption in 2020/21 reaching 9.1 pounds per person, and approximately double the estimate from a decade ago. We believe that the healthy eating trend that has been developing in the U.S. contributes to such growth, as avocados are cholesterol and sodium free, dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which helps lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 19% of the U.S. population and the total number of Hispanics is estimated to double by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is significantly higher than that of the U.S.

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2021, 2020 and 2019, on behalf of avocado growers, we remitted approximately $1.0 million, $1.3 million and $1.1 million to the California Avocado Commission. During fiscal 2021, 2020 and 2019, we remitted approximately $8.3 million, $8.4 million and $7.2 million to the Hass Avocado Board related to avocados. Similarly, Avocados from Mexico (AFM) was formed in 2013 as the marketing arm of the Mexican Hass Avocados Importers Association (MHAIA) and the Association of Growers and Packers of Avocados From Mexico (APEAM). During fiscal 2021, 2020 and 2019, we remitted approximately $5.7 million, $5.2 million and $5.4 million to APEAM primarily related to these marketing activities for Mexican avocados.

We also believe that our other fresh products, primarily tomatoes, are positioned for future growth. The tomato is the fourth most popular fresh-market vegetable (though a fruit scientifically speaking, tomatoes are more commonly considered a vegetable) behind potatoes, lettuce, and onions in the U.S. Although stabilizing in the first decade of the 2000s, annual average fresh-market tomato consumption remains well above that of the previous decade. Over the past few decades, per capita consumption of tomatoes has been on the rise due primarily to the enduring popularity of salads, salad bars, and submarine sandwiches. Perhaps of greater importance has been the introduction of new and improved tomato varieties, the increased development of hot-house grown tomatoes (such as those grown by our ADM affiliate), heightened consumer interest in a wider range of tomatoes, a surge of new immigrants who eat vegetable-intensive diets, and expanding national emphasis on health and nutrition.

Papayas have become more popular as the consumption in the U.S. has more than doubled in the past decade. Papayas have high nutritional benefits. They are rich in anti-oxidants, the B vitamins, folate and pantothenic acid, potassium and magnesium, and fiber.

Additionally, through the acquisition of RFG, we substantially expanded and accelerated the Company's presence in the fast-growing refrigerated fresh packaged foods category through an array of retail product lines for produce, deli, and foodservice departments. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar and various deli items, meals kits and salad kits. Value-added fruits and vegetables have continued to grow faster than their broader produce categories as consumers increasingly place value on the convenient nature of those products and producers like RFG continue to develop new formulations of value-added products. RFG has also expanded the capacity to provide products for a larger portion of the Fresh Deli department, which remains one of the fastest growing aisles in retail grocery.

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

	Year ended October 31, 2021				Year ended October 31, 2020			
	Fresh products	RFG	Calavo Foods	Total	Fresh products	RFG	Calavo Foods	Total
Third-party sales:								
Avocados	$536,969	$ —	$ —	$ 536,969	$521,542	$ —	$ —	$ 521,542
Tomatoes	43,658	—	—	43,658	53,922	—	—	53,922
Papayas	10,884	—	—	10,884	10,529	—	—	10,529
Other fresh income	693	—	—	693	327	—	—	327
Fresh-cut fruit & vegetables and prepared foods	—	403,017	—	403,017	—	406,572	—	406,572
Prepared avocado products	—	—	79,919	79,919	—	—	79,382	79,382
Salsa	—	—	2,784	2,784	—	—	2,783	2,783
Total gross sales	592,204	403,017	82,703	1,077,924	586,320	406,572	82,165	1,075,057
Less sales allowances	(3,677)	(6,545)	(5,137)	(15,359)	(1,268)	(1,849)	(6,945)	(10,062)
Less inter-company eliminations	(2,497)	—	(4,238)	(6,735)	(1,651)	—	(3,973)	(5,624)
Net sales	$586,030	$396,472	$73,328	$1,055,830	$583,401	$404,723	$71,247	$1,059,371

	Year ended October 31, 2020				Year ended October 31, 2019			
	Fresh products	RFG	Calavo Foods	Total	Fresh products	RFG	Calavo Foods	Total
Third-party sales:								
Avocados	$521,542	$ —	$ —	$ 521,542	$569,779	$ —	$ —	$ 569,779
Tomatoes	53,922	—	—	53,922	40,879	—	—	40,879
Papayas	10,529	—	—	10,529	10,931	—	—	10,931
Other fresh income	327	—	—	327	1,353	—	—	1,353
Fresh-cut fruit & vegetables and prepared foods	—	406,572	—	406,572	—	488,373	—	488,373
Prepared avocado products	—	—	79,382	79,382	—	—	100,842	100,842
Salsa	—	—	2,783	2,783	—	—	3,252	3,252
Total gross sales	586,320	406,572	82,165	1,075,057	622,942	488,373	104,094	1,215,409
Less sales allowances	(1,268)	(1,849)	(6,945)	(10,062)	(1,759)	(2,310)	(9,360)	(13,429)
Less inter-company eliminations	(1,651)	—	(3,973)	(5,624)	(2,246)	—	(3,957)	(6,203)
Net sales	$583,401	$404,723	$71,247	$1,059,371	$618,937	$486,063	$ 90,777	$1,195,777

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2021, 2020 and 2019, inter-segment sales and cost of sales of $2.5 million, $1.7 million and $2.2 million between Fresh products and RFG were eliminated. For fiscal year 2021, 2020 and 2019, inter-segment sales and cost of sales of $4.2 million, $4.0 million and $4.0 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Gross sales:					
Fresh products	$ 588,527	1%	$ 585,052	(6)%	$ 621,183
RFG	396,472	(2)%	404,723	(17)%	486,063
Calavo Foods	77,566	3%	75,220	(21)%	94,734
Less intercompany eliminations	(6,735)	20%	(5,624)	(9)%	(6,203)
Total net sales	$1,055,830	(0)%	$1,059,371	(11)%	$1,195,777

	2021	2020	2019
As a percentage of sales:			
Fresh products	55.4%	54.9%	51.7%
RFG	37.3%	38.0%	40.4%
Calavo Foods	7.3%	7.1%	7.9%
	100%	100%	100%

Summary

Net sales for the year ended October 31, 2021, as compared to 2020, decreased an insignificant amount. The decrease in sales for the year ended October 31, 2021, when compared to the same corresponding prior year period, was due to a decline in the RFG segment, offset by increases from the Fresh products and Calavo Foods segments.

For the year ended October 31, 2021, the decrease in RFG sales was due primarily to decreased sales from fresh-cut fruit & vegetables. The increase in Fresh products sales was due primarily to an increase in sales of avocados. 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 fruit sourced in any particular quarter.

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse and our Uruapan processing plant to the parent company. Additionally, net sales to third parties by segment exclude sales between Avocados de Jalisco and the parent company. All intercompany sales are eliminated in our consolidated results of operations.

Fresh products

Fiscal 2021 vs. Fiscal 2020:

Net sales delivered by the Fresh products business increased by approximately $3.5 million, or 1%, for the year ended October 31, 2021, when compared to the same period for fiscal 2020. This increase in Fresh product sales during fiscal 2021, was primarily related to increased sales prices, partially offset by a decrease in sales of tomatoes.

Sales of avocados increased $13.0 million, or 3%, for the year ended October 31, 2021, when compared to the same prior year period. The average avocado sales price per carton increased 3% compared to the same prior year period.

Sales of tomatoes decreased $10.3 million, or 19%, for the year ended October 31, 2021, when compared to the same prior year period. This decrease in tomato sales was primarily due to a 21% decrease in the average sales price per carton compared to the same prior year period. This was partially offset by an increase of 2% in the volume of tomatoes.

Fiscal 2020 vs. Fiscal 2019:

Net sales delivered by the Fresh products business decreased by approximately $36.1 million, or 6%, for the year ended October 31, 2020, when compared to the same period for fiscal 2019. This decrease in Fresh product sales during fiscal 2020, was primarily related to decreased sales prices due to higher supply of avocados, partially offset by an increase in sales of tomatoes.

Sales of avocados decreased $47.3 million, or 8%, for the year ended October 31, 2020, when compared to the same prior year period. The average avocado sales price per carton decreased 14% compared to the same prior year period. Partially offsetting this decrease, the volume of avocados sold during the year ended October 31, 2020 increased 7% compared to the prior year period.

Sales of tomatoes increased $13.0 million, or 32%, for the year ended October 31, 2020, when compared to the same prior year period. This increase in tomato sales was primarily due to a 30% increase in the average sales price per carton compared to the same prior year period.

RFG

Fiscal 2021 vs. Fiscal 2020:

Sales for RFG for the year ended October 31, 2021, when compared to the same period for fiscal 2020, decreased $8.3 million, or 2%. The decrease was primarily due to lower sales out of the Midwest, relating to the closure of RFG's co-packing partner in that region, which occurred in April 2020. This was partially offset by additional sales in regions where RFG has added manufacturing capacity. Additionally, changing consumer demand and buying patterns related to COVID-19 adversely impacted RFG's sales during the year ended October 31, 2021.

Fiscal 2020 vs. Fiscal 2019:

Sales for RFG for the year ended October 31, 2020, when compared to the same period for fiscal 2019, decreased $81.3 million, or 17%. The decrease was primarily due to lower sales out of the Midwest region of the United States, relating to the closure of RFG's co-packing partner in that region. This was partially offset by additional sales in regions where RFG has added manufacturing capacity, most notably the Georgia facility which opened in April 2019.

Calavo Foods

Fiscal 2021 vs. Fiscal 2020:

Sales for Calavo Foods for the year ended October 31, 2021, when compared to the same period for fiscal 2020, increased $2.3 million, or 3%. Sales of prepared avocado products increased by approximately $2.3 million, or 3%, primarily related to an increase in the sales price per pound, partially offset by a decrease in pounds sold. Sales of prepared avocado products were impacted primarily by a decline in demand from foodservice customers related to COVID-19 during the year.

Fiscal 2020 vs. Fiscal 2019:

Sales for Calavo Foods for the year ended October 31, 2020, when compared to the same period for fiscal 2019, decreased $19.5 million, or 21%. Sales of prepared avocado products decreased by approximately $19.0 million, or 21%, primarily related to a decrease in the total volume of pounds sold. Sales of prepared avocado products were impacted primarily by a decline in demand from foodservice customers related to COVID-19.

Gross Profit

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

	2021	Change	2020	Change	2019
			(Dollars in thousands)		
Gross profit (loss):					
Fresh products	$47,787	0%	$47,563	(45)%	$ 86,583
RFG	(3,502)	(116)%	21,392	4%	20,500
Calavo Foods	13,140	(37)%	20,943	(0)%	20,999
Total gross profit	$57,425	(36)%	$89,898	(30)%	$128,082
Gross profit percentages:					
Fresh products	8.1%		8.1%		14.0%
RFG	(0.9)%		5.3%		4.4%
Calavo Foods	16.9%		27.8%		22.2%
Consolidated	5.4%		8.5%		10.7%

Summary

Our cost of goods sold consists predominantly of ingredient costs (primarily fruit and other whole foods), 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 $32.5 million, or 36%, for the year ended October 31, 2021, when compared to the same period for fiscal 2020. The decrease was primarily attributable to gross profit decreases across the RFG and Calavo Foods segments.

Fresh products

Fiscal 2021 vs. Fiscal 2020:

During our year ended October 31, 2021, as compared to the same prior year period, our Fresh products segment gross profit percentage was consistent to prior year. For the year ended October 31, 2021 and 2020, the gross profit percentage for avocados were 8.0%. Gross profit benefited for fiscal 2021 by the strengthening of the U.S. dollar in relation to the Mexican peso during the year ended October 31, 2021, which resulted in a $0.9 million net gain related the remeasurement of peso-dominated net assets at our Mexican subsidiaries. During the same period last year, we had a remeasurement loss of $1.0 million.

Note that significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Fresh products segment.

For the year ended October 31, 2021 we generated gross profit of $3.7 million from tomato sales, down from $5.1 million in the corresponding prior year period. The decrease in tomato gross profit was due primarily to the year-over-year decrease in sales described in more detail earlier. The majority of our tomato sales are done on a consignment basis, in which the gross profit we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price; however, we also purchase some tomatoes on the spot market to meet specific customer requests and have certain fixed overhead costs associated with our tomato operations which impact the overall gross profit realized from tomato sales. The gross profit percentage for consignment sales are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers.

Fiscal 2020 vs. Fiscal 2019:

During our year ended October 31, 2020, as compared to the same prior year period, the decrease in our Fresh products segment gross profit percentage was the result of decreased profit for avocados. For the year ended October 31, 2020, the gross profit percentage for avocados decreased to 8.1% from 14.3% in fiscal year 2019. This decrease was related to the COVID-19 related impacts noted above, the poor fruit quality issues during our first quarter and related to our strong performance during historically favorable market conditions in last year's second and third quarter.

In addition, remeasurement losses related to the Mexican peso for our Mexican subsidiaries during the period totaled $1.0 million compared to a loss of $0.4 million during the year ago period.

For the year ended October 31, 2020 we generated gross profit of $5.1 million from tomato sales, up from $4.3 million in the corresponding prior year period. The increase in tomato gross profit was due primarily to the year-over-year increase in sales described in more detail earlier.

RFG

Fiscal 2021 vs. Fiscal 2020:

RFG's gross profit (loss) percentage for the year ended October 31, 2021 was (0.9)%, compared to 5.3% in the same prior year period. The declines in gross profit for the year ended October 31, 2021, were due to increased commodity costs, lack of availability of key commodities, lower supply and higher turnover of labor that caused increase overtime costs and decreased efficiencies. In addition, RFG's gross profit (loss) was negatively impacted by the decreased sales that resulted from the closure of our Midwest co-packing partner.

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.

Beginning in the third quarter of fiscal 2021, in response to the inflationary costs described above, we began to notify 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 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.

In October 2021, we announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, the Green Cove facility of RFG has ceased operations. We wrote down $8.7 million of leasehold improvements, $0.1 million of equipment, and $0.6 million of inventory. We also paid $0.4 million in employee severance.

Fiscal 2020 vs. Fiscal 2019:

RFG's gross profit percentage for the year ended October 31, 2020 was 5.3%, compared to 4.4% in the same prior year period. Gross profit and gross profit percentage generated by RFG's pre-existing manufacturing operations (facilities opened more than one year) both increased compared to the same prior year period driven by better raw material costs and utilization and improved labor efficiency. New production facilities improved on both a year-over-year and sequential period basis.

Calavo Foods

Fiscal 2021 vs. Fiscal 2020:

Calavo Foods gross profit percentage decreased to 16.9% of net sales, during the year ended October 31, 2021 compared to 27.8% during the same prior year period. The decrease in Calavo Foods gross profit percentage was due primarily to an increase in fruit input costs, in addition to higher manufacturing costs relating to an overall decrease in guacamole pounds produced. Note that any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Calavo Foods segment.

Fiscal 2020 vs. Fiscal 2019:

Calavo Foods gross profit percentage increased to 27.8% of net sales, during the year ended October 31, 2020 compared to 22.2% during the same prior year period. The increase in Calavo Foods gross profit percentage was due primarily to a decrease in fruit input costs, in addition to lower manufacturing costs relating to both the facility process improvements completed last year and the weaker Mexican Peso.

Selling, General and Administrative

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Selling, general and administrative	$56,679	(2)%	$57,952	(2)%	$59,113
Percentage of net sales	5.4%		5.5%		4.9%

Selling, general and administrative expenses of $56.7 million for the year ended October 31, 2021 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses decreased by $1.3 million, or 2.2%, for the year ended October 31, 2021, when compared to the same period for fiscal 2020. This decrease was primarily due to a decrease in salaries and benefit expense due to the eliminations of staff positions ($1.9 million), a decrease in broker commission ($0.9 million) and a decrease in stock based compensation due to prior year stock grants for certain management transition expenses ($0.5 million). Partially offsetting these decreases is an increase in professional service fees ($1.4 million), an increase in travel and entertainment ($0.5 million) and an increase in IT expenses ($0.4 million).

Selling, general and administrative expenses of $58.0 million for the year ended October 31, 2020 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses decreased by $1.2 million, or 2.0%, for the year ended October 31, 2020, when compared to the same period for fiscal 2019. This was primarily related to a decrease in the accrual for performance-based senior management bonuses ($3.5 million), a decrease in broker commission ($0.8 million) and a decrease in marketing expenses ($0.5 million). Partially offsetting these decreases is an increase in professional service fees ($1.4 million), an increase in certain management transition expenses incurred ($0.9 million), an increase in insurance ($0.6 million) and an increase in IT expenses ($0.4 million).

For the year ended October 31, 2021, we recorded $0.9 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 its operations. We also recorded $0.9 million of management recruiting and severance costs related to this restructuring initiative. As part of the above consulting agreement, we have agreed to pay a "Success Fee" based on the improvement of financial results starting January 1, 2022. No accrual is considered necessary related to this Success Fee as of October 31, 2021.

Loss from Unconsolidated Entities

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Loss from unconsolidated entities	$(1,719)	(72)%	$(6,110)	(57)%	$(14,082)

Loss from unconsolidated entities includes our allocation of earnings or losses from our investments in FreshRealm and Don Memo. For the year ended October 31, 2021, 2020 and 2019, we recognized losses of $1.7 million and income of $1.1 million and income of $0.1 million of income related to Don Memo. For the year ended October 31, 2020 and 2019, we recognized $7.2 million and $14.1 million of losses related to FreshRealm. See Note 16 for additional information regarding FreshRealm.

Interest Income

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Interest income	$335	(83)%	$1,998	(25)%	$2,675
Percentage of net sales	0.0%		0.0%		0.0%

The decrease in interest income in fiscal 2021 as compared to 2020 is primarily due to the discontinuation of accruing interest for FreshRealm, which was effective August 1, 2020. The decrease in interest income in fiscal 2020 as compared to 2019 is primarily due to the reserve on the loans to FreshRealm in the third quarter of fiscal 2020.

Interest Expense

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Interest expense	$798	(9)%	$877	14%	$948
Percentage of net sales	0.1%		0.1%		0.1%

Interest expense is primarily generated from our line of credit borrowings with Farm Credit West, PCA (FCW) and Bank of America, N.A. (Bank of America). For fiscal 2021, as compared to fiscal 2020, the decrease in interest expense was primarily related to lower London Interbank Offered Rate (LIBOR) interest rates, offset by a higher average debt balance. For fiscal 2020, as compared to fiscal 2019, the decrease in interest expense was primarily related to lower LIBOR interest rates, offset by a higher average debt balance. With the fifth amendment to our credit facility, the LIBOR reference interest rate will be replaced by the BSBY Bloomberg rate.

Other Income, Net

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Other income, net	$1,016	84%	$553	(11)%	$499
Percentage of net sales	0.1%		—%		—%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal 2021, 2020 and 2019, we received $0.5 million, million as dividend income from Limoneira.

Income Taxes Benefit (Provision)

	2021	Change	2020	Change	2019
	(Dollars in thousands)				
Income tax benefit (provision)	$(10,747)	(350)%	$4,292	(133)%	$(12,882)
Effective tax rate	913.3%		23.7%		26.0%

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

In June 2021, we paid $2.4 million related to the settlement of the 2011 Assessment (See Note 7 for further information). Of this amount, $1.5 million was included as a discrate item in income tax provision and $0.9 million which was related to value added taxes was included in expenses related to Mexican tax matters in the accompanying consolidated statement of operations.

In July 2021, based on our evaluation of the most probable outcomes of the 2013 Assessment, we have recorded an accrual for uncertain tax positions of $11 million in the accompanying financials, which has been recorded as a discrete item in tax provision expense. An additional $0.6 million of related professional fees have also been recorded as expenses related to the Mexican tax matters. See Note 7 for further information.

Our effective tax rate without the above discrete items was approximately 146.6% for the year ended October 31, 2021. Our effective tax rate for year ended October 31, 2020 and 2019 was approximately 23.7% and 26.0%. The distortive effective tax rate for fiscal 2021 differs from that of prior fiscal periods primarily due to the impacts of one-time tax events including the 2011 and 2013 Mexico Assessments, tax rate arbitrage on carryack claims under the CARES Act, and near break-even pre-tax operations relative to prior fiscal periods. See Note 9 for further information.

CARES Act

On March 27, 2020, the President of the United States signed and enacted into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act is a relief package intended to assist many aspects of the country's economy of which certain components of the Act impacted the Company's 2020 income tax provision. We are recording approximately $1.3 million of tax benefit as a result of the provision allowing taxpayers to carry back net operating losses to offset taxable income to previously filed tax returns.

Net loss attributable to noncontrolling interest

	2020	Change	2019	Change	2018
	(Dollars in thousands)				
Net loss attributable to noncontrolling interest	$104	(52)%	$216	260%	$ 60
Percentage of net sales	0.0%		0.0%		0.0%

For fiscal years 2021, 2020 and 2019, the net losses attributable to noncontrolling interest is due to losses from Avocados de Jalisco.

Liquidity and Capital Resources

Operating activities for fiscal 2021, 2020 and 2019 provided cash flows of $13.6 million, $28.9 million and $72.1 million. Fiscal year 2021 operating cash flows reflect our net loss of $11.9 million, net increase of noncash charges (depreciation and amortization, stock-based compensation expense, provision for losses on accounts receivable, losses from unconsolidated entities, net losses on Limoneira shares, interest income on Notes to FreshRealm, deferred taxes, loss on disposal of property, plant and equipment, loss on the reserve for FreshRealm, impairment related to RFG Florida facility closure and gain on the sale of the Temecula packinghouse) of $20.2 million and a net increase from changes in the non-cash components of our working capital accounts of approximately $5.3 million.

Increases in operating cash flows caused by working capital changes include a net increase in accounts payable, accrued expenses and other liabilities of $15.1 million, an increase in payable to growers of $11.7 million, a decrease in prepaid expenses and other current assets of $3.6 million, and a decrease in inventory of $0.4 million, partially offset by, an increase in accounts receivable of $15.0 million, an increase in other assets of $7.8 million, an increase in advances to suppliers of $1.6 million and a decrease in income taxes receivable of $0.9 million.

The increase in accounts payable, accrued expenses and other liabilities is primarily related to an $11 million accrual related to the 2013 Mexican Tax Assessment (See Note 7) and to an increase in payables related to RFG. The increase in payable to growers is mostly due to increased sales prices for Mexican avocados in the month of October 2021 compared to October 2020. The decrease in our inventory, as of October 31, 2021 when compared to October 31, 2020, is primarily due to lower inventory of guacamole. The increase in our accounts receivable, as of October 31, 2021, when compared to October 31, 2020, is primarily due an increase in sales in October 2021 compared to October 2020. The increase in income taxes receivable is due to the timing of estimated payments made during the year ended October 31, 2021. The increase in other assets is primarily related to the increase in IVA receivable in fiscal 2021. The increase in advances to suppliers is mainly due to advances to our tomato growers for fiscal 2021 compared to prior year.

Cash used in investing activities was $9.6 million, $31.9 million and $31.9 million for fiscal years 2021, 2020, and 2019. Fiscal year 2021 cash flows used in investing activities includes the purchases of property, plant and equipment of $11.7 million, a $3.5 million bridge loan to Agricola Belher and infrastructure advances to Don Memo for $1.3 million, partially offset by, $6.0 million received from FreshRealm related to the separation agreement and $0.9 million received from Agricola Belher for the repayment of infrastructure advances.

Cash used in financing activities was $5.2 million, $0.9 million and $33.8 million for fiscal years 2021, 2020 and 2019. Cash used during fiscal year 2021 primarily relates to the payment of a $20.3 million dividend, payments on long-term obligations of $1.2 million and the payment of minimum withholding taxes on net share settlement of equity awards of $0.9 million, partially offset by, net proceeds on our credit facilities totaling $17.2 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. In addition, we have our investment in Limoneira stock as an additional source of liquidity (see details below on amendment to credit facility). Restricted cash, cash and cash equivalents as of October 31, 2021 and 2020 totaled $2.9 million and $4.1 million. Our working capital at October 31, 2021 was $38.0 million, compared to $29.6 million at October 31, 2020. Our investment in Limoneira stock amounted to $27.1 million and $23.2 million at October 31, 2021 and 2020.

We believe that cash flows from operations, the available Credit Facility, and other sources will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months. We will continue to pursue grower recruitment opportunities and expand relationships with retail and/or foodservice customers to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Farm Credit West as joint lead arranger. Under the terms of this agreement, we may draw on funds for both working capital and long-term productive asset purchases. Total credit available under this agreement is $100 million and it expires in January 2026. See Note 6 in the consolidated financial statements. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding $50 million. For our line of credit the weighted-average interest rate was 2.2% and 1.9% at October 31, 2021 and 2020. Under this credit facility, we had $37.7 million and $36.9 million outstanding as of October 31, 2021 and 2020.

As of October 31, 2021, the Company was out of compliance with the Fixed Charge Coverage Ratio (''FCCR'') for the quarter ended as of that date, and expected to be out of compliance with this requirement for the first half of fiscal 2022. In response to this event of default, the Company and Bank of America have entered into the Fourth Amendment, Limited Waiver and Limited Consent to Credit Agreement (the ''Amendment'') on December 1, 2021. The principal terms of the Amendment are as follows:

The interest rate was increased by 0.50%.

- The FCCR will not be tested for the quarters ended October 31, 2021, January 31, 2022 and April 30, 2022. Testing will resume for the quarter ended July 31, 2022.
- The quarterly FCCR will be replaced by a cumulative monthly minimum Consolidated EBITDA requirement, 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 will pledge the 1,677,000 shares it holds of Limoneira stock as collateral (which collateral is in addition to the general business assets of the Company that already secure the credit facility). The pledge will be lifted upon such time as the Company has certified compliance with a 1.15 to 1.0 minimum FCCR for two consecutive fiscal quarters.
- Calavo de Mexico will be added as a guarantor of the line of credit

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. In addition, pursuant to the Amendment, Bank of America and the Lenders consented to the Borrower's intercompany transfer of up to $25 million to Calavo de Mexico (''CDM''), for the purpose of providing CDM the alternative to offer cash security as collateral in favor of the Mexican Federal Tax Administration Service (the ''Mexican SAT'') for its tax obligations imposed by the Mexican SAT with respect to an assessment for the year ending December 31, 2013 (''2013 Tax Assessment'', See Note 7). This cash security would be intended as a substitute for the liens the Mexican SAT placed on the fixed assets of CDM as described in Note 7. The Amendment further provides that any payments in settlement of the 2013 Tax Assessment of up to $25 million may be excluded as cash tax payments in the calculation of the quarterly FCCR. Such advance may be made only once the January 2022 financial statements of the Company are delivered to Bank of America and the Company is otherwise in compliance with the terms of the credit agreement.

Bank of America has waived the default as of October 31, 2021, and therefore we are in compliance with all financial covenants. We expect to remain in compliance at minimum through December 2022.

The Company and Bank of America have also entered into a fifth Amendment to our credit facilty, through which the LIBOR reference interest rate will be replaced by the BSBY Bloomberg rate.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2021:

	Payments due by period				
Contractual Obligations (in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term obligations and finance leases (including interest)	$ 8,120	$ 1,838	$ 2,783	$ 1,032	$ 2,467
Defined benefit plan	65	26	39	—	—
Revolving credit facilities	37,700	—	—	37,700	—
Operating lease commitments	74,350	8,514	16,053	13,464	36,319
Total	$120,235	$10,378	$18,875	$52,196	$38,786

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

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

Recently Adopted Accounting Pronouncements

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

On November 1, 2020, the Company adopted an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* This update provides guidance regarding the capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract. This ASU was adopted prospectively and cloud computing implementation costs incurred on November 1, 2020 or later are included in other noncurrent assets in the consolidated balance sheet and are presented within operating cash flows. As of October 31, 2021, capitalized implementation costs included in other noncurrent assets were less than $0.1 million and there was no accumulated amortization or amortization expense recorded during the year ended October 31, 2021.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2021.

(All amounts in thousands)	**Expected maturity date October 31,**							
	2022	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**	**Fair Value**
Assets								
Restricted cash, cash and cash equivalents[1]	$ 2,855	$—	$—	$—	$ —	$—	$ 2,855	$ 2,855
Accounts receivable[1]	78,866	—	—	—	—	—	78,866	78,866
Advances to suppliers[1]	6,693	—	—	—	—	—	6,693	6,693
Liabilities								
Payable to growers[1]	$23,035	$—	$—	$—	$ —	$—	$23,035	$23,035
Accounts payable[1]	9,794	—	—	—	—	—	9,794	9,794
Borrowings pursuant to credit facilities[1]	—	—	—	—	37,700	—	37,700	37,700

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

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 foreign 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 current translation gains for fiscal year 2021, net of losses, was $0.9 million. Total foreign currency translation losses for fiscal years 2020, and 2019, net of gains, were $1.0 million and $0.3 million.

Item 8. Financial Statements and Supplementary Data

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

	October 31, 2021	October 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,885	$ 4,055
Restricted cash	970	—
Accounts receivable, net of allowances of $4,816 (2021) and $3,498 (2020)	78,866	63,668
Inventories	40,757	41,787
Prepaid expenses and other current assets	11,946	10,733
Advances to suppliers	6,693	5,061
Income taxes receivable	11,524	10,591
Total current assets	152,641	135,895
Property, plant, and equipment, net	118,280	130,270
Operating lease right-of-use assets	59,842	60,262
Investment in Limoneira Company	27,055	23,197
Investments in unconsolidated entities	4,346	6,065
Deferred income taxes	5,316	2,486
Goodwill	28,653	28,568
Intangibles, net	8,769	10,323
Other assets	40,500	32,558
	$445,402	$429,624
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 23,033	$ 11,346
Trade accounts payable	9,794	9,384
Accrued expenses	42,063	36,922
Borrowings pursuant to credit facilities, current	—	20,550
Dividend payable	20,330	20,343
Other current liabilities	11,000	—
Current portion of operating leases	6,817	6,443
Current portion of long-term obligations and finance leases	1,587	1,343
Total current liabilities	114,624	106,331
Long-term liabilities:		
Borrowings pursuant to credit facilities, long-term	37,700	—
Long-term operating leases, less current portion	57,561	58,273
Long-term obligations and finance leases, less current portion	5,553	5,716
Other long-term liabilities	3,081	3,302
Total long-term liabilities	103,895	67,291
Commitments and contingencies		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,686 (2021) and 17,661 (2020) shares issued and outstanding)	18	18
Additional paid-in capital	168,133	165,000
Noncontrolling interest	1,368	1,472
Retained earnings	57,364	89,512
Total shareholders' equity	226,883	256,002
	$445,402	$429,624

See accompanying notes to consolidated financial statements.

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

	Year Ended October 31,		
	2021	2020	2019
Net sales	$1,055,830	$1,059,371	$1,195,777
Cost of sales	998,405	969,473	1,067,695
Gross profit	57,425	89,898	128,082
Selling, general and administrative	56,679	57,952	59,113
Expenses related to Mexican tax matters	1,797	—	—
Impairment and charges related to RFG Florida facility closure	9,162	—	—
Gain on sale of Temecula packinghouse	(216)	(216)	(2,077)
Operating income (loss)	(9,997)	32,162	71,046
Interest income	335	1,998	2,675
Interest expense	(798)	(877)	(948)
Other income, net	1,016	553	499
Recovery (loss) on reserve for FreshRealm note receivable and impairment of investment	6,130	(37,322)	—
Unrealized net gain (loss) on Limoneira shares	3,858	(8,537)	(9,722)
Income (loss) before income taxes and loss from unconsolidated entities	544	(12,023)	63,550
Income tax (provision) benefit	(10,747)	4,292	(12,882)
Net loss from unconsolidated entities	(1,719)	(6,110)	(14,082)
Net income (loss)	(11,922)	(13,841)	36,586
Add: Net loss attributable to noncontrolling interest	104	216	60
Net income (loss) attributable to Calavo Growers, Inc.	$ (11,818)	$ (13,625)	$ 36,646
Calavo Growers, Inc.'s net income (loss) per share:			
Basic	$ (0.67)	$ (0.78)	$ 2.09
Diluted	$ (0.67)	$ (0.78)	$ 2.08
Number of shares used in per share computation:			
Basic	17,621	17,564	17,519
Diluted	17,621	17,564	17,593

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
	Shares	Amount					
Balance, October 31, 2018	17,567	18	157,928	12,141	93,124	1,748	264,959
Exercise of stock options and income tax benefit	4	—	85	—	—	—	85
Stock compensation expense	—	—	3,593	—	—	—	3,593
Restricted stock issued	24	—	—	—	—	—	—
Unrealized gains on Limoneira investment reclassed to retained earnings	—	—	—	(12,141)	12,141	—	—
Dividend declared to shareholders ($1.10 per share)	—	—	—	—	(19,354)	—	(19,354)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(60)	(60)
Net income attributable to Calavo Growers, Inc	—	—	—	—	36,646	—	36,646
Balance, October 31, 2019	17,595	18	161,606	—	122,557	1,688	285,869
Exercise of stock options and income tax benefit	2	—	86	—	—	—	86
Stock compensation expense	—	—	4,487	—	—	—	4,487
Restricted stock issued	64	—	—	—	—	—	—
Payments of minimum withholding taxes on net share settlement of equity awards	—	—	(1,179)	—	—	—	(1,179)
Dividend declared to shareholders ($1.15 per share)	—	—	—	—	(20,343)	—	(20,343)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(216)	(216)
Cumulative effect adjustment on ASC 842 related to leases	—	—	—	—	923	—	923
Net income (loss) attributable to Calavo Growers, Inc.	—	—	—	—	(13,625)	—	(13,625)
Balance, October 31, 2020	17,661	18	165,000	—	89,512	1,472	256,002
Exercise of stock options and income tax benefit	2	—	47	—	—	—	47
Stock compensation expense	—	—	3,950	—	—	—	3,950
Restricted stock issued	23	—	—	—	—	—	—
Dividend declared to shareholders ($1.15 per share)	—	—	—	—	(20,330)	—	(20,330)
Payments of minimum withholding taxes on net share settlement of equity awards	—	—	(864)	—	—	—	(864)
Avocados de Jalisco noncontrolling interest	—	—	—	—	—	(104)	(104)
Net loss attributable to Calavo Growers, Inc.	—	—	—	—	(11,818)	—	(11,818)
Balance, October 31, 2021	17,686	$18	$168,133	$ —	$ 57,364	$1,368	$226,883

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.
CONSOLIDATED STATEMENTS OF CASHFLOWS (in thousands)

	Year Ended October 31,		
	2021	2020	2019
Cash Flows from Operating Activities:			
Net income (loss)	$ (11,922)	$ (13,841)	$ 36,586
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,571	16,093	13,633
Non-cash operating lease expense	83	176	—
Provision for losses on accounts receivable	—	22	35
Net loss from unconsolidated entities	1,719	6,110	14,082
Unrealized net loss (gain) on Limoneira shares	(3,858)	8,537	9,722
Impairment and charges related to closure of RFG Florida facility	9,748	—	—
Loss (recovery) on reserve for FreshRealm note receivable and impairment of investment	(6,130)	37,322	—
Interest income on notes to FreshRealm	—	(1,732)	(2,435)
Stock-based compensation expense	3,950	4,487	3,593
Gain on sale of Temecula packinghouse	(216)	(216)	(2,077)
Loss (gain) on disposal of property, plant, and equipment	(170)	32	304
Deferred income taxes	(2,526)	(1,930)	930
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable, net	(15,024)	1,859	2,685
Inventories, net	412	(4,206)	(1,845)
Prepaid expenses and other current assets	3,567	(782)	(2,508)
Advances to suppliers	(1,632)	3,077	(983)
Income taxes receivable/payable	(933)	(8,115)	656
Other assets	(7,831)	(1,871)	(4,991)
Payable to growers	11,687	(2,117)	(538)
Deferred rent	—	—	1,004
Trade accounts payable, accrued expenses and other liabilities	15,077	(14,027)	4,246
Net cash provided by operating activities	13,572	28,878	72,099
Cash Flows from Investing Activities:			
Purchases of property, plant, and equipment	(11,438)	(11,343)	(16,721)
Acquisition of SFFI, net of cash acquired of $623	—	(18,396)	—
Investment in unconsolidated entities	—	(1,477)	—
Loan to Agricola Belher	(3,500)	—	—
Proceeds received for repayment of San Rafael note	—	—	417
Proceeds received from FreshRealm Separation Agreement recovery	6,000	—	1,154
Investment in FreshRealm	—	—	7,100
Proceeds received on repayment of infrastructure loan	900	—	—
Infrastructure advance to tomato growers	(1,326)	(715)	—
Notes receivables advanced to FreshRealm	—	—	(23,800)
Net cash used in investing activities	(9,364)	(31,931)	(31,850)
Cash Flows from Financing Activities:			
Payment of dividend to shareholders	(20,343)	(19,354)	(17,568)
Proceeds from revolving credit facility	334,850	236,500	212,500
Payments on revolving credit facility	(317,700)	(215,950)	(227,500)
Payments of minimum withholding taxes on net share settlement of equity awards	(864)	(1,179)	(1,008)
Payments on long-term obligations and finance leases	(1,398)	(968)	(305)
Proceeds from stock option exercises	47	86	85
Net cash used in financing activities	(5,408)	(865)	(33,796)
Net decrease in cash, cash equivalents and restricted cash	(1,200)	(3,918)	6,453
Cash, cash equivalents and restricted cash, beginning of period	4,055	7,973	1,520
Cash, cash equivalents and restricted cash, end of period	$ 2,855	$ 4,055	$ 7,973

See accompanying notes to consolidated financial statements.

	Year Ended October 31,		
	2021	2020	2019
Supplemental Information:			
Cash paid during the year for:			
Interest	$ 687	$ 878	$ 1,108
Inncome taxes	$ 3,047	$ 5,470	$10,224
Noncash Investing and Financing Activities:			
Right of use assets obtained in exchange for new financing lease obligations	$ 1,430	$ 529	$ —
Notes receivable from FreshRealm converted to investment in FreshRealm	$ —	$ 2,761	$ —
Declared dividends payable	$20,330	$20,343	$19,354
Acquisitions of property, plant, and equipment with capital lease	$ —	$ —	$ 2,827
Capital lease related to Temecula packinghouse	$ —	$ —	$ 3,306
Property, plant, and equipment included in trade accounts payable and accrued expenses	$ 312	$ 568	$ 2,059
Collection for Agricola Belher Infrastructure Advance	$ —	$ 800	$ 800
Unrealized investment gain	$ —	$ —	$ 2,247

See accompanying notes to consolidated financial statements.

1. Description of the business

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and 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.

2. Basis of Presentation and Significant Accounting Policies

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V. (Calavo de Mexico), Calavo Growers de Mexico, S. de R.L. de C.V. (Calavo Growers de Mexico), Maui Fresh International, Inc. (Maui), Hawaiian Sweet, Inc. (HS), Hawaiian Pride, LLC (HP), Calavo Salsa Lisa, LLC (CSL), Avocados de Jalisco, S.A.P.I. de C.V. (Avocados de Jalisco), in which we have an 83 percent ownership interest, and RFG. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

We have $1.0 million in restricted cash in our subsidiary Calavo de Mexico. This cash is restricted due to the 2013 tax assessment that is described in footnote 7.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were $5.3 million and $5.7 million at October 31, 2021 and 2020. Included in non-trade receivables are $1.7 million and $1.5 million related to the current portion of non-CDM Mexican IVA (i.e. value-added) taxes at October 31, 2021 and 2020 (See Note 15). Infrastructure advances are discussed below. Prepaid expenses totaling $3.7 million and $4.2 million at October 31, 2021 and 2020, are primarily for insurance, rent and other items.

Inventories

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

Property, Plant, and Equipment

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

Goodwill and Acquired Intangible Assets

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment.

We can use a qualitative test, known as "Step 0," or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses.

In fiscal 2021 and 2020, the Company's estimated fair value exceeded its carrying value in Step 1 of the Company's impairment test. The fair value of the Company's reporting unit is determined using a combination of valuation techniques, including a discounted cash flow methodology. To corroborate the discounted cash flow analysis, a market approach is utilized using observable market data such as comparable companies in similar lines of business that are publicly traded. The Company concluded based on its Step 1 test that no goodwill impairment existed in the fiscal years ended October 31, 2021 and 2020.

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. For fiscal years 2021 and 2020, we performed our annual assessment of long-lived assets and determined that no impairment existed as of October 31, 2021 and 2020, except as it related to the Florida RFG plant as disclosed in Note 18.

Investments

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., (Belo) a Mexican Company owned by Agricola Belher, and Agricola Don Memo, S.A. de C.V. (Don Memo). Don Memo, a Mexican corporation formed in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo. Pursuant to a management service agreement, Belo, through its officers and employees, shall have day-to-day power and authority to manage the operations. This investment contribution represent Calavo Sub's 50% ownership in Don Memo, which is included in investment in unconsolidated entities on our balance sheet. We use the equity method to account for this investment. As of October 31, 2021 and 2020, we have an investment of $4.3 million and $6.1 million in Don Memo.

As of November 1, 2019, we had an equity investment of $5.8 million in FreshRealm, LLC (FreshRealm). During the quarter ended July 31, 2020, we concluded that there was no longer any value associated with our FreshRealm investment and therefore recognized a $2.8 million impairment charge to fully impair the investment. FreshRealm will likely require additional capital in order to continue as a going concern. We do not plan to invest or loan any additional capital to FreshRealm. We have performed a valuation analysis of the financial condition and projected operations of FreshRealm under various methods, including liquidation, exit multiple, and perpetual growth approaches, appropriately weighted for the circumstances. We record the amount of our investment in FreshRealm in ''Investment in unconsolidated entities'' on our Consolidated Balance Sheets and recognize losses in FreshRealm in ''Income/ (loss) from unconsolidated entities'' in our Consolidated Statement of Operations. See Note 16 for additional information.

Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own less than 10% of Limoneira's outstanding common stock. These securities are considered available for sale securities based on management's intent with respect to such securities and are carried at fair value as determined from quoted market prices.

On November 1, 2018 we adopted ASU 2016-01, *Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities*, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. With the adoption of this new standard, we reclassed unrealized gains of $12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of $0.1 million in our consolidated statements of operations. Limoneira's stock price at October 31, 2021, 2020, and 2019 equaled $16.13 per share, $13.83 per share, and $18.92 per share. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to $16.13 per share and $13.83 per share at October 31, 2021 and 2020, as a result, we recorded a gain of $3.9 million and a loss of $8.5 million for the year ended October 31, 2021 and 2020 in our consolidated statements of operations. These shares were pledged on December 1, 2021, in connection with an amendment to our line of credit agreement. See Note 6 for further information.

Advances to Suppliers

We advance funds to third-party growers primarily in Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2021 and 2020.

Pursuant to our distribution agreement, which was amended in fiscal 2011, with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our Company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. These advances will be collected through settlements by the end of each year. For fiscal 2021 and 2020, we agreed to advance $4.5 million and $4.5 million for preseason advances. As of October 31, 2021 and 2020, we have total advances of $4.5 million and $4.5 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Similar to Belher, we make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from such tomato sales to Don Memo, net of our commission and aforementioned advances. As of October 31, 2021 and 2020, we have total advances of $4.2 million and $2.4 million to Don Memo, which is recorded in advances to suppliers, offset by tomato liabilities from the sales of tomatoes per the tomato marketing agreement.

We have entered into a distribution agreement with a new tomato grower Exportadora Silvalber (Silvalber). We made $1.0 million in advances for operating purposes, similar to Belher and Don Memo, as of October 31,2021. Advances to suppliers are offset by tomato liabilities from the sales of tomatoes per the tomato marketing agreement.

Infrastructure Advances

Pursuant to our infrastructure agreements, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher and Don Memo, as well as packing line equipment.

In October 2020, we entered into an infrastructure loan agreement with Don Memo for $2.4 million secured by Don Memo's property and equipment. This infrastructure loan will accrues interest at 7.25%. In October 2020, we advanced $0.7 million related to this loan agreement. We advanced an additional $0.7 million, and $0.6 million in the first, and second quarters of fiscal 2021, for a total outstanding balance at October 31, 2021 of $2.0 million ($0.4 million is included in prepaids and other currents assets and $1.6 million in other assets). As of October 31, 2020, we advanced a total of $0.7 million ($0.4 million is included in prepaids and other current assets and $0.3 million in other assets).

In August 2018, we entered into an amended infrastructure loan agreement with Belher and advanced $3.0 million. This amount shall be paid back in annual installments of $0.6 million through June 2023, and accrues interest at Libor plus 10%. Loans prior to this amended agreement accrued interest at Libor plus 3.0%. In August 2020, we have agreed to amend the terms of this agreement to lower the interest rate to 7.25% and changed the repayment terms to two years ($0.9 million per year). Included in prepaids and other current assets is the final installment of $0.9 million.

As of October 31, 2021, we have loaned a total of $0.9 million (included in prepaid expenses and other current assets). As of October 31, 2020, we have loaned a total of $1.8 million ($0.9 million included in prepaid expenses and other current assets and $0.9 million included in other long-term assets). Belher may prepay, without penalty, all or any portion of the loans at any time. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

In July 2021, we made a bridge loan of $3.5 million to Belher which is due in December 2021, and which is secured by certain farmland in Mexico. The loan accrues interest at 10 percent. This bridge loan has been recorded in prepaid expenses and other current assets as of October 31, 2021.

Accrued Expenses

Included in accrued expenses are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately $32.6 million and $26.4 million for the year ended October 31, 2021 and 2020.

Revenue Recognition

Effective at the beginning of our fiscal 2019, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and all the related amendments (Accounting Standards Codification (ASC) 606) using the modified retrospective method of adoption. ASC 606 consists of a comprehensive revenue recognition standard, which requires the recognition of revenue when control of promised goods are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of net consideration expected to be received in exchange for transferring products. Revenue from product sales is governed primarily by customer pricing and related purchase orders (‘‘contracts’’) which specify shipping terms and certain aspects of the transaction price including rebates, discounts and other sales incentives. Contracts are at standalone pricing. The performance obligation in these contracts is determined by each of the individual purchase orders and the respective stated quantities, with revenue being recognized at a point in time when obligations under the terms of the agreement are satisfied. This generally occurs with the transfer of control of our products to the customer and the product is delivered. The Company’s customers have an implicit and explicit right to return non-conforming products. A provision for payment discounts and product return allowances, which is estimated, is recorded as a reduction of sales in the same period that the revenue is recognized.

Sales Incentives and Other Promotional Programs

The Company routinely offers sales incentives and discounts through various regional and national programs to our customers and consumers. These programs include product discounts or allowances, product rebates, product returns, one-time or ongoing trade-promotion programs with customers and consumer coupon programs that require the Company to estimate and accrue the expected costs of such programs. The costs associated with these activities are accounted for as reductions to the transaction price of the Company’s products and are, therefore, recorded as reductions to gross sales at the time of sale. The Company bases its estimates of incentive costs on historical trend experience with similar programs, actual incentive terms per customer contractual obligations and expected levels of performance of trade promotions, utilizing customer and sales organization inputs. The Company maintains liabilities at the end of each period for the estimated incentive costs incurred but unpaid for these programs. Differences between estimated and actual incentive costs are generally not material and are recognized in earnings in the period such differences are determined. Reserves for product returns, accrued rebates and promotional accruals are included in the consolidated balance sheets as part of accrued expenses.

Principal vs. Agent Considerations

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the U.S. and growers of certain perishable products in the U.S. We evaluate whether its performance obligation is a promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. This evaluation determined that the Company is in control of establishing the transaction price, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on the Company’s evaluation of the control model, it determined that all of the Company’s major businesses act as the principal rather than the agent within their revenue arrangements and such revenues are reported on a gross basis.

Customers

We sell to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesale customers. Our top ten customers accounted for approximately 58%, 56% and 59% of our consolidated net sales in fiscal years 2021, 2020 and 2019. Sales to our largest customer, Kroger (including its affiliates), represented approximately 16%, 18%, and 21% of net sales in each of fiscal years 2021, 2020, and 2019. Additionally, Wal-Mart (including its affiliates) represented approximately 11%, 12% and 13% of net sales in fiscal years 2021, 2020 and 2019. No other single customer accounted for more than 10% of our net sales in any of the last three fiscal years.

Shipping and Handling

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

Promotional Allowances

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

Allowance for Accounts Receivable

We provide an allowance of $4.8 million and $3.5 million for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable as of October 31, 2021 and 2020.

Loss on Reserve for FreshRealm Note Receivable and Impairment of Investment

At the beginning of fiscal year 2020, we had a note receivable from FreshRealm totaling $34.5 million which has been fully reserved during fiscal 2020.

In July 2021, FreshRealm paid Calavo the Loan Payoff Amount per the Separation Agreements with FreshRealm (See Note 16) of $6.0 million, and we recorded the receipt as a recovery of the reserve for collectability of the FreshRealm note receivable on the statement of operations. Therefore, the Notes mentioned above, have been deemed paid in full.

Consignment Arrangements

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the U.S. and growers of certain perishable products in the U.S. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2021, 2020 and 2019 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2021	2020	2019
Sales	$52,287	$64,922	$64,510
Cost of Sales	45,945	57,554	57,061
Gross Profit	$ 6,342	$ 7,368	$ 7,449

Advertising Expense

Advertising costs are expensed when incurred and are generally included as a component of selling, general and administrative expense. Such costs were approximately $0.4 million, $0.4 million and $0.3 million for fiscal years 2021, 2020, and 2019.

Research and Development

Research and development costs are expensed as incurred and are generally included as a component of selling, general and administrative expense. Total research and development costs for fiscal year 2021 and 2020 was approximately $0.3 million and $0.7 million. Total research and development costs for fiscal years 2019 were less than $0.1 million.

Restructuring Costs

For the year ended October 31, 2021, we recorded $0.9 million of consulting expenses (included in selling, general and administrative 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 its operations. We also recorded $0.6 million of management recruiting and severance costs related to this restructuring initiative. As part of the above consulting agreement, we have agreed to pay a “Success Fee” based on the improvement of financial results starting January 1, 2022. No accrual is considered necessary related to this Success Fee as of October 31, 2021.

Other Income

Included in other income is dividend income totaling $0.6 million for fiscal years 2021, 2020 and 2019. See Note 8 for related party disclosure related to other income.

Income Taxes

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

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

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

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

Basic and Diluted Net Income (loss) per Share

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

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

	Year ended October 31,		
	2021	**2020**	**2019**
Numerator:			
Net income (loss) attributable to Calavo Growers, Inc.	$(11,818)	$(13,625)	$36,646
Denominator:			
Weighted average shares – Basic	17,621	17,564	17,519
Effect of dilutive securities – Restricted stock/options	—	—	74
Weighted average shares – Diluted	17,621	17,564	17,593
Net income (loss) per share attributable to Calavo Growers, Inc:			
Basic	$ (0.67)	$ (0.78)	$ 2.09
Diluted	$ (0.67)	$ (0.78)	$ 2.08

Stock-Based Compensation

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in our statements of operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

For the years ended October 31, 2021, 2020 and 2019, we recognized compensation expense of $4.0 million, $4.5 million, and $3.6 million related to stock-based compensation (See Note 12). The value of the stock-based compensation was determined from quoted market prices at the date of the grant.

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized in income. Total foreign currency translation gains for fiscal 2021, net of losses, was $0.9 million. Total foreign currency translation losses for fiscal 2020 and 2019, net of gains, were $1.0 million, and $0.3 million.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. Due to current market rates, we believe that our fixed-rate long-term obligations and finance leases have nearly the same fair value and carrying value of approximately $7.1 million and $7.1 million as of October 31, 2021 and 2020.

Derivative Financial Instruments

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

Recently Adopted Accounting Pronouncements

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

On November 1, 2020, the Company adopted an ASU*, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* This update provides guidance regarding the capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract. This ASU was adopted prospectively and cloud computing implementation costs incurred on November 1, 2020 or later are included in other noncurrent assets in the consolidated balance sheet and are presented within operating cash flows. As of October 31, 2021, capitalized implementation costs included in other noncurrent assets were less than $0.1 million and there was no accumulated amortization or amortization expense recorded during the year ended October 31, 2021.

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

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

Comprehensive Income

Comprehensive income is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders.

On November 1, 2018 we adopted a new accounting standard, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. With the adoption of this new standard, we reclassed unrealized gains of $12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. There was no comprehensive income for fiscal years 2021, 2020 and 2019.

Noncontrolling Interest

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

Avocados de Jalisco noncontrolling interest	Year ended October 31, 2021	Year ended October 31, 2020
Noncontrolling interest, beginning	$1,472	$1,688
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(104)	(216)
Noncontrolling interest, ending	$1,368	$1,472

3. Inventories

Inventories consist of the following (in thousands):

	October 31, 2021	October 31, 2020
Fresh fruit	$17,648	$14,677
Packing supplies and ingredients	13,088	12,540
Finished prepared foods	10,021	14,570
	$40,757	$41,787

We assess the recoverability of inventories through an ongoing review of inventory levels in relation to sales and forecasts and product marketing plans. When the inventory on hand, at the time of the review, exceeds the foreseeable demand, the value of inventory that is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

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

On October 18, 2021, the Company announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, 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. We wrote down inventory related to this closure of $0.6 million as of October 31, 2021. See Note 18 for further information.

4. Property, Plant, and Equipment

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

	October 31, 2021	October 31, 2020
Land	$ 11,008	$ 11,008
Buildings and improvements	46,133	44,984
Leasehold improvements	25,114	33,047
Equipment	115,942	108,505
Information systems - hardware and software	11,598	11,385
Construction in progress	5,802	5,244
	215,597	214,173
Less accumulated depreciation and amortization	(97,317)	(83,903)
	$118,280	$130,270

Depreciation expense was $14.5 million, $13.9 million and $13.0 million for fiscal years 2021, 2020, and 2019. Included in property, plant, and equipment is finance leases. Amortization of finance leases was $1.8 million and $1.0 million for fiscal years 2021 and 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*, and has subsequently issued several supplemental and/or clarifying ASU's (collectively, "Topic 842"), which requires a dual approach for lease accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases result in the lessee recognizing a right of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize lease expense on a straight-line basis. See Note 17.

On October 18, 2021, the Company announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, 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. See Note 18 for further information.

5. Other Assets and Intangibles

Other assets consist of the following (in thousands):

	October 31, 2021	October 31, 2020
Mexican IVA (i.e. value-added) taxes receivable (see note 15)	$37,493	$30,126
Infrastructure advances to Agricola Belher and Agricola Don Memo	1,641	1,215
Other	1,366	1,217
	$40,500	$32,558

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

		October 31, 2021			October 31, 2020		
	Weighted-Average Useful Life	Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	7 years	$17,340	$ (9,989)	$7,351	$17,340	$ (8,613)	$ 8,727
Trade names	11 years	4,060	(2,980)	1,080	4,060	(2,852)	1,208
Trade secrets/recipes	9 years	630	(567)	63	630	(517)	113
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		$22,305	$(13,536)	$8,769	$22,305	$(11,982)	$10,323

We recorded amortization expense of approximately $1.6 million, $1.1 million, and $0.7 million for fiscal years 2021, 2020, and 2019. We anticipate recording amortization expense of approximately $1.6 million for fiscal year 2022, $1.5 million for each fiscal years 2023 through 2024 and $4.1 million thereafter.

6. Revolving Credit Facilities

We have a revolving credit facility with Bank of America, N.A. (Bank of America) as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arranger and sole bookrunner, and Farm Credit West (FCW), as joint lead arranger.

On January 29, 2021, we entered into the Third Amendment to Credit Agreement (the ''Third Amendment'') with Farm Credit West, PCA and Bank of America, N.A. relating to our Credit Agreement dated as of June 14, 2016, First Amendment to Credit Agreement dated as of August 29, 2016, and Second Amendment to Credit Agreement dated as of February 28, 2019 (collectively, the ''Credit Facility''). This Third Amendment, among other things, provides for a five-year extension of the maturity date to January 29, 2026, a $20 million increase in the revolving commitment to $100 million (from $80 million) (for a total facility size of $150 million if the $50 million accordion is exercised, up from a total size of $130 million), and a 25 basis point increase in the interest rate. The new interest rate schedules are effective mid-June 2021. The weighted-average interest rate under the Credit Facility was 2.2% and 1.9% at October 31, 2021 and 2020, respectively. Under the Credit Facility, we had $37.7 million and $20.6 million outstanding as of October 31, 2021 and 2020, and had standby letters-of-credit of $2.5 million as of October 31, 2021. In accordance with the extended due date, the outstanding balance of the Credit Facility has been classified as long-term in the accompanying balance sheet as of October 31, 2021.

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

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

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

As of October 31, 2021, the Company was out of compliance with the Fixed Charge Coverage Ratio (''FCCR'') for the quarter ended as of that date, and expected to be out of compliance with this requirement for the first half of fiscal 2022. In response to this event of default, the Company and Bank of America have entered into the Fourth Amendment, Limited Waiver and Limited Consent to Credit Agreement (the ''Amendment'') on December 1, 2021. The principal terms of the Amendment are as follows:

- The interest rate was increased by 0.50%.
- The FCCR will not be tested for the quarters ended October 31, 2021, January 31, 2022 and April 30, 2022. Testing will resume for the quarter ended July 31, 2022.
- The quarterly FCCR will be replaced by a cumulative monthly minimum Consolidated EBITDA requirement, 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 will pledge the 1,677,000 shares it holds of Limoneira stock as collateral (which collateral is in addition to the general business assets of the Company that already secure the credit facility). The pledge will be lifted upon such time as the Company has certified compliance with a 1.15 to 1.0 minimum FCCR for two consecutive fiscal quarters.
- Calavo de Mexico will be added as a guarantor of the line of credit.

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. In addition, pursuant to the Amendment, Bank of America and the Lenders consented to the Borrower's intercompany transfer of up to $25 million to Calavo de Mexico (CDM), for the purpose of providing CDM the alternative to offer cash security as collateral in favor of the Mexican Federal Tax Administration Service (the ''Mexican SAT'') for its tax obligations imposed by the Mexican SAT with respect to an assessment for the year ending December 31, 2013 (''2013 Tax Assessment'', See Note 7). This cash security would be intended as a substitute for the liens the Mexican SAT placed on the fixed assets of CDM as described in Note 7. The Amendment further provides that any payments in settlement of the 2013 Tax Assessment of up to $25 million may be excluded as cash tax payments in the calculation of the quarterly FCCR. Such advance may be made only once the January 2022 financial statements of the Company are delivered to Bank of America and the Company is otherwise in compliance with the terms of the credit agreement.

Bank of America has waived the default as of October 31, 2021, and therefore we are in compliance with all financial covenants. We expect to remain in compliance at minimum through December 2022.

The Company and Bank of America have also entered into a fifth Amendment to our credit facilty, through which the LIBOR reference interest rate will be replaced by the BSBY Bloomberg rate

7. Commitments and Contingencies

Commitments and guarantees

We lease facilities and certain equipment under non-cancelable leases expiring at various dates through 2031. We are committed to make minimum cash payments under these agreements as of October 31, 2021. See Note 17 for the adoption of the new lease accounting standard.

In April 2019, we sold our Temecula, California packinghouse for $7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. In connection with the capital lease we capitalized $3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of $3.2 million ($0.1 million in current portion and $3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates $0.9 million and $0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized $2.8 million as a capital lease in property, plant and equipment and recorded $2.8 million as a lease obligation.

On October 18, 2021, the Company determined as part of Project Uno, a previously announced profit improvement program, that the Company will discontinue its Renaissance Food Group's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility by mid to late November 2021. The Company's Fresh (avocado) operations at the facility will continue and are not affected. The closure, which occurred on November 15' 2021, resulted in a reduction of 140 employees. The Company, through its Renaissance Food Group, will continue to serve its customers from its other food processing locations and is committed to providing a smooth transition for customers and employees. See Note 18 for further information.

We indemnify our directors and have the power to indemnify each of our officers, employees and other agents, to the maximum extent permitted by applicable law. No amounts have been accrued in the accompanying financial statements related to these indemnifications.

Litigation

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

Mexico tax audits

We conduct business 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. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax (IVA). During the period from our fourth fiscal quarter of 2016 through our first fiscal quarter of 2019, we attempted to resolve our case through an alternative dispute resolution mechanism called ''conclusive agreement'' submitted before PRODECON (Mexican Tax Ombudsman) with the MFM through working meetings attended by representatives of the MFM, CDM and PRODECON (Local Tax Ombudsman). However, we were unable to materially resolve our case with the MFM through the PRODECON process.

As a result, in April 2019, the MFM issued a final tax assessment to CDM (the ''2011 Assessment'') totaling approximately $2.2 billion Mexican pesos (approx. $108.2 million USD at October 31, 2021) related to Income Tax, Flat Rate Business Tax and value added tax, corresponding to the fiscal year 2011 tax audit. We filed an Administrative Appeal challenging the MFM's 2011 Assessment on June 12, 2019. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities, forcing the legal office within the MFM to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the Administrative Appeal process ends without a favorable or just resolution.

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

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 accompanying financial statements as a discrete item in Income Tax Provision, and in Expenses related to Mexican tax matters, respectively. An additional $0.3 million USD of related professional fees have also been recorded as expenses related to the Mexican tax matters.

2013 Assessment

In January 2017, we received preliminary observations from 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 $127.9 million USD at October 31, 2021) 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 October 31, 2021 to the amount of $3 billion Mexican pesos (approx. $147.6 million USD). Additionally, the tax authorities have determined that we owe our employee's profit-sharing liability, totaling approximately $118 million Mexican pesos (approx. $5.8 million USD at October 31, 2021).

We have consulted with both an internationally recognized tax advisor as well as a global law firm with offices throughout Mexico, and we continue to believe that this tax assessment is without merit. In August 2018, we filed an Administrative Appeal on the 2013 Assessment, 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 15 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, and have since taken the following measures in vigorous defense of our position:

- Retained a global law firm with offices throughout Mexico to provide legal representation before the SAT, as well as retained the legal division of an internationally recognized tax advisor, to provide legal representation before the Federal Tax Court.
- On August 17, we filed a writ with the SAT requesting a substitution of a financial bond for the above-mentioned liens.
- On August 18, 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:
    - Failure to recognize CDM as a "maquiladora"
    - Considering the Company to have a permanent establishment in Mexico,
    - Including fruit purchase deposits transferred by the Company to CDM as taxable,
    - Application of 16% IVA tax to fruit purchase deposits
    - Imposing double-taxation on the fruit purchase transactions
- On August 27, 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 20, we filed an Annulment Suit (the 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 were not legally communicated. In addition, the Suit asserts the same matters central to the Reconsideration, as described above, as wrongly concluded in the resolution of the Administrative Appeal.
- On September 22, 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. We are awaiting the SAT's response to setup a follow up meeting to further discuss the Reconsideration.

While the submission of the Suit is still under review by the Tax Court, we believe that the Suit will ultimately be accepted by the Tax Court, which will render the 2013 Assessment as non-definitive, and which will allow CDM to petition the Tax Court for a halt to any collection procedures by the SAT and a substitution of a bond for any liens placed on CDM assets.

While we continue to believe that the 2013 Assessment is completely without merit, and that we will prevail on the 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 have recorded a provision of $11 million USD in the accompanying financial statements as a discrete item in Income Tax Provision. The provision includes estimated penalties, interest and inflationary adjustments. We incurred $0.6 million USD of related professional fees, which have been recorded in Expenses related to Mexican Tax matters.

8. 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. During the years ended October 31, 2021, 2020, and 2019, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $17.8 million, $18.0 million and $11.9 million. We did not have any amounts due to Board members as of October 31, 2021 and 2020.

During fiscal years 2021, 2020, and 2019, we received $0.5 million, $0.5 million and $0.5 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. Rent to Limoneira amounted to approximately $0.3 million for fiscal years 2021, 2020, and 2019. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. We have less than 10% ownership interest in Limoneira.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., (Belo) a Mexican Company owned by Agricola Belher, and formed Agricola Don Memo, S.A. de C.V. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo in exchange for $2 million each. Pursuant to a management service agreement, Belo, through its officers and employees, has day-to-day power and authority to manage the operations. Therefore, Don Memo is accounted for on the equity method as an unconsolidated entity. Belo is entitled to a management fee, as defined, which is payable annually in July of each year. Additionally, Calavo Sub is entitled to commission, for the sale of produce in the Mexican National Market, U.S., Canada, and any other overseas market.

As of October 31, 2021, 2020 and 2019, we have an investment of $4.3 million, $6.1 million and $4.9 million, representing Calavo Sub's 50% ownership in Don Memo, which is 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, other direct expenses, and aforementioned advances. In October 2020, we entered into an infrastructure loan agreement with Don Memo for $2.4 million secured by Don Memo's property and equipment. This infrastructure loan will accrue interest at 7.25%. In October 2020, we advanced $0.7 million related to this loan agreement. We advanced an additional $0.7 million, and $0.6 million in the first, and second quarters of fiscal 2021, for a total outstanding balance at October 31, 2021 of $2.0 million ($0.4 million is included in prepaids and other currents assets and $1.6 million in other assets). As of October 31, 2020, we have advanced a total of $0.7 million ($0.4 million is included in prepaids and other current assets and $0.3 million in other assets).

As of October 31, 2021, 2020 and 2019, we had outstanding advances of $4.2 million, $2.4 million and $3.7 million to Don Memo. As of October 31, 2021, 2020 and 2019, we had a tomato liability of $3.0 million, $1.8 million and $0.9 million to Don Memo. During the year ended October 31, 2021, 2020 and 2019 we purchased $14.7 million, $15.8 million and $14.1 million of tomatoes from Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of $4.5 million, $4.5 million and $4.5 million as of October 31, 2021, 2020 and 2019. In August 2018, we entered into an amended infrastructure agreement with Belher and advanced $3.0 million. This amount was to be paid back annually at $0.6 million through June 2023, and accrue interest of LIBOR plus 10%. In August 2020, we have amended this agreement to lower the interest rate to 7.25% and change the repayment terms to two years ($0.9 million per year). We had infrastructure advances due from Belher of $0.9 million, $1.8 million and $2.6 million as of October 31, 2021, 2020 and 2019. Of these infrastructure advances $0.9 million was recorded as receivable in prepaid and other current assets as of October 31, 2021. During the year ended October 31, 2021, 2020 and 2019, we purchased $16.3 million, $26.9 million, and $19.5 million of tomatoes from Belher pursuant to our consignment agreement.

In July 2021, we made a bridge loan of $3.5 million to Belher which is due in December 2021, and which is secured by certain farmland in Mexico. The loan accrues interest at 10 percent. This bridge loan has been recorded in prepaid expenses and other current assets as of October 31, 2021.

In August 2015, we entered into Shareholder's Agreement with various partners which created Avocados de Jalisco, S.A.P.I. de C.V. Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. This entity is approximately 83% owned by Calavo and is consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico and such packinghouse began operations in June of 2017. As of October 31, 2021 and 2020, we have made an insignificant amount of preseason advances to various partners of Avocados de Jalisco. During the year ended October 31, 2021, 2020 and 2019, we purchased approximately $13.0 million, $8.3 million and $2.5 million of avocados from the partners of Avocados de Jalisco.

FreshRealm is a start-up company, engaged in activities relating to the marketing of food products directly to consumers or other entities. On February 3, 2021, Calavo and FreshRealm entered into a Limited Liability Company Member Separation and Release Agreement (the Separation Agreement). Prior to the Separation Agreement, we had an equity investment in FreshRealm representing approximately 37% ownership of FreshRealm. We recorded an impairment of 100% of this equity investment, or $2.8 million, in the third quarter of fiscal 2020. We had a note receivable and trade receivables of approximately $34.5 million at October 31, 2020 (which includes accrued interest) from FreshRealm. We recorded a reserve of $34.5 million on this balance in the third quarter of fiscal 2020.

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

In July 2021, FreshRealm paid Calavo the Loan Payoff Amount of $6.0 million, and we recorded the receipt as a recovery of the reserve for collectability of the FreshRealm note receivable on the statement of operations. Therefore, the Notes mentioned above have been deemed paid in full. See Note 16 for more information.

9. Income Taxes

On March 27, 2020, the President of the United States signed and enacted into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act is a relief package intended to assist many aspects of the Country's economy of which certain components of the Act impacted the Company's 2020 income tax provision. We recorded approximately $1.3 million of tax benefit as a result of the provision allowing taxpayers to carry back net operating losses to offset taxable income on previously filed tax returns.

The Company determined that certain foreign earnings to be indefinitely reinvested outside the United States. Our intent is to permanently reinvest these funds outside of the United States and our current plans do not demonstrate a need to repatriate the cash to fund our U.S. operations. However, if these funds were repatriated, we would be required to accrue and pay applicable United States taxes (if any) and withholding taxes payable to foreign tax authorities.

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

	2021	2020	2019
Current:			
Federal	$ (3,449)	$(5,684)	$ 9,146
State	323	(214)	2,516
Foreign	16,703	645	290
Total current	13,577	(5,253)	11,952
Deferred:			
Federal	790	576	516
State	(343)	(505)	209
Foreign	(3,934)	260	205
Total deferred	(3,487)	331	930
Change in valuation allowance	657	630	—
Total income tax provision (benefit)	$10,747	$(4,292)	$12,882

At October 31, 2021 and 2020, gross deferred tax assets totaled approximately $29.3 million and $31.5 million, while gross deferred tax liabilities totaled approximately $22.7 million and $28.4 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Significant components of our deferred taxes assets (liabilities) as of October 31, are as follows (in thousands):

	2021	2020
Property, plant, and equipment	(4,764)	(11,552)
Intangible assets	5,051	6,861
Unrealized gain, Limoneira investment	(1,138)	(116)
Investment in FreshRealm	—	1,096
Stock-based compensation	511	812
State taxes	(498)	(592)
Credits and incentives	1,808	1,345
Allowance for accounts receivable	1,259	1,165
Inventories	507	864
Accrued liabilities	2,067	2,119
Operating lease - Right of use assets	(15,839)	(15,732)
Operating lease liabilities	17,040	16,895
Net operating loss	1,093	369
Valuation allowance	(1,291)	(631)
Other	(490)	(417)
Long-term deferred income taxes	$ 5,316	$ 2,486

As of October 31, 2021 and 2020, the Company has gross state net operating loss carryforwards of approximately $19.0 million and $7.2 million with carryforward periods primarily ranging from 20 years to indefinite. As of October 31, 2021, the Company has an estimated gross federal net operating loss of $6.7 million that is expected to be carried back to one of the five preceding tax years. Any unused losses may be carried forward indefinitely and do not expire. The Company incurred a net operating loss of $11.8 million for the fiscal year 2020 which was carried back to its fiscal 2015 tax period and fully utilized.

The Company records a valuation allowance against deferred tax assets when determined that all or a portion of the deferred tax assets are not more likely than not to be realized based on all available evidence. As of October 31, 2021, the Company recorded an approximate $1.2 million valuation allowance against the deferred tax assets for state tax credit carryforwards that are more likely than not to expire unutilized between 2022 and 2028.

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income (loss) for the years ended October 31, is as follows:

	2021	2020	2019
Federal statutory tax rate	21.0%	21.0%	21.0%
State taxes, net of federal effects	11.6	4.4	3.7
Rate differential on NOL carryback	125.8	6.2	—
Foreign income tax rate differential	16.1	(2.3)	0.4
Mexican tax assessments	(1,059.9)	—	—
Stock based compensation	(16.7)	—	—
Provision to return	39.2	(2.5)	0.7
State rate change	9.2	(0.1)	(0.2)
Valuation allowance	(44.1)	(2.7)	—
Other	(15.5)	(0.3)	0.4
	(913.3)%	23.7%	26.0%

For fiscal years 2021, 2020 and 2019, income (loss) before income taxes (benefit) related to domestic operations was approximately $(5.0) million, $(18.9) million, and $47.9 million. For fiscal years 2021, 2020 and 2019, income before income taxes (benefit) related to foreign operations was approximately $3.8 million, $0.8 million and $1.6 million. The Company's distortive effective tax rate for fiscal year 2021 differs from that of prior fiscal periods primarily due to impacts of one-time tax events including the 2011 and 2013 Mexico Assessments, tax rate arbitrage on carryback claims under the CARES Act, and near break-even pre-tax operations relative to prior fiscal periods.

As of October 31, 2021, and 2020, we had a liability of $11.3 million and $0.1 million for unrecognized tax expenses related primarily to the probable outcomes of the 2013 Mexico Assessment. See Note 7 for further information.

A reconciliation of the beginning and ending amount of gross unrecognized taxes (exclusive of interest and penalties) was as follows (in thousands):

	Year Ended October 31,	
	2021	2020
Beginning balance	$ 72	$72
Gross increase - Tax positions in prior periods	131	—
Gross increase - Tax positions in current period	11,100	—
Ending balance	$11,303	$72

Although it is reasonably possible that certain unrecognized taxes may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities, the Company does not anticipate any significant changes to unrecognized taxes over the next 12 months. See Note 7 for additional details.

We are subject to U.S. federal income tax as well as income of multiple state tax and foreign tax jurisdictions. We are no longer subject to U.S. income tax examinations for the fiscal years prior to October 31, 2018, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2017.

10. Segment Information

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

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

	Fresh products	RFG	Calavo Foods	Interco. Elimins.	Total
	(All amounts are presented in thousands)				
Year ended October 31, 2021					
Net sales	$588,527	$396,472	$77,566	$(6,735)	$1,055,830
Cost of sales	540,740	399,974	64,426	(6,735)	998,405
Gross profit (loss)	$ 47,787	$ (3,502)	$13,140	$ —	$ 57,425
Year ended October 31, 2020					
Net sales	$585,052	$404,723	$75,220	$(5,624)	$1,059,371
Cost of sales	537,489	383,331	54,277	(5,624)	969,473
Gross profit	$ 47,563	$ 21,392	$20,943	$ —	$ 89,898
Year ended October 31, 2019					
Net sales	$621,183	$486,063	$94,734	$(6,203)	$1,195,777
Cost of sales	534,600	465,563	73,735	(6,203)	1,067,695
Gross profit	$ 86,583	$ 20,500	$20,999	$ —	$ 128,082

For fiscal year 2021, 2020 and 2019, inter-segment sales and cost of sales of $2.5 million, $1.7 million and $1.8 million between Fresh products and RFG were eliminated. For fiscal year 2021, 2020 and 2019, inter-segment sales and cost of sales of $4.2 million, $4.0 million and $4.0 million between Calavo Foods and RFG were eliminated.

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

	Year Ended October 31, 2021				Year Ended October 31, 2020			
	Fresh products	RFG	Calavo Foods	Total	Fresh products	RFG	Calavo Foods	Total
Avocados	$536,969	$ —	$ —	$ 536,969	$521,542	$ —	$ —	$ 521,542
Tomatoes	43,658	—	—	43,658	53,922	—	—	53,922
Papayas	10,884	—	—	10,884	10,529	—	—	10,529
Other fresh income	693	—	—	693	327	—	—	327
Fresh-cut fruit & veg. and prepared foods	—	403,017	—	403,017	—	406,572	—	406,572
Prepared avocado products	—	—	79,919	79,919	—	—	79,382	79,382
Salsa	—	—	2,784	2,784	—	—	2,783	2,783
Total gross sales	592,204	403,017	82,703	1,077,924	586,320	406,572	82,165	1,075,057
Less sales allowances	(3,677)	(6,545)	(5,137)	(15,359)	(1,268)	(1,849)	(6,945)	(10,062)
Less inter-company eliminations	(2,497)	—	(4,238)	(6,735)	(1,651)	—	(3,973)	(5,624)
Net sales	$586,030	$396,472	$73,328	$1,055,830	$583,401	$404,723	$71,247	$1,059,371

	Year Ended October 31, 2020				Year Ended October 31, 2019			
	Fresh products	RFG	Calavo Foods	Total	Fresh products	RFG	Calavo Foods	Total
Avocados	$521,542	$ —	$ —	$ 521,542	$569,779	$ —	$ —	$ 569,779
Tomatoes	53,922	—	—	53,922	40,879	—	—	40,879
Papayas	10,529	—	—	10,529	10,931	—	—	10,931
Other fresh income	327	—	—	327	1,353	—	—	1,353
Fresh-cut fruit & veg. and prepared foods	—	406,572	—	406,572	—	488,373	—	488,373
Prepared avocado products	—	—	79,382	79,382	—	—	100,842	100,842
Salsa	—	—	2,783	2,783	—	—	3,252	3,252
Total gross sales	586,320	406,572	82,165	1,075,057	622,942	488,373	104,094	1,215,409
Less sales allowances	(1,268)	(1,849)	(6,945)	(10,062)	(1,759)	(2,310)	(9,360)	(13,429)
Less inter-company eliminations	(1,651)	—	(3,973)	(5,624)	(2,246)	—	(3,957)	(6,203)
Net sales	$583,401	$404,723	$71,247	$1,059,371	$618,937	$486,063	$ 90,777	$1,195,777

Sales to customers outside the U.S. were approximately $34.8 million, $29.7 million and $42.5 million for fiscal years 2021, 2020, and 2019.

RFG segment sales included sales to one customer who represented more than 10% of total consolidated revenues for fiscal 2021, 2020 and 2019. Additionally, the Fresh products segment had sales to one customer that represented more than 10% of total consolidated revenues for fiscal 2021, 2020 and 2019.

Our goodwill balance of $28.7 million is attributed by segment to Fresh products for $4.0 million and RFG for $24.7 million as of October 31, 2021. Our goodwill balance of $28.6 million is attributed by segment to Fresh products for $3.9 million and RFG for $24.7 million as of October 31, 2020.

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

	United States	Mexico	Consolidated
2021	$81,059	$37,221	$118,280
2020	$95,110	$35,160	$130,270

11. Long-Term Obligations

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

	2021	2020
Finance leases	7,140	7,059
Less current portion	(1,587)	(1,343)
	$ 5,553	$ 5,716

In April 2019, we sold our Temecula, California packinghouse for $7.1 million in cash and, concurrently, leased back a portion of the facility representing approximately one-third of the total square footage. This generated a gain of $6.4 million. Since our leaseback of the building is classified as a capital lease and covers substantially all of the leased property, the gain recognized currently is the amount of the gain in excess of the recorded amount of the leased asset. As a result, we recognized a gain of approximately $1.9 million in the second quarter of fiscal 2019 and recorded a deferred gain of $4.5 million, which will be recognized over the life of the lease. In connection with the capital lease we capitalized $3.2 million as a capital lease in property, plant and equipment and recorded a lease liability of $3.2 million ($0.1 million in current portion and $3.1 million in long term debt).

During our third quarter of fiscal year 2019, we entered into a 10-year building and equipment lease for fresh food facility in Conley, GA. This facility is primarily intended to process fresh-cut fruit & vegetables and prepared foods products for our RFG business segment. Annual rent for the building and equipment approximates

$0.9 million and $0.6 million, respectively, over the life of the lease. The lease for the equipment is considered to be a capital lease, therefore, we calculated the present value of the minimum lease payments related to the equipment and capitalized $2.8 million as a capital lease in property, plant and equipment and recorded $2.8 million as a lease obligation.

See Note 17 for the adoption of the new lease accounting disclosure.

12. Stock-Based Compensation

The 2011 Management Incentive Plan

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the 2011 Plan). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Up to 1,500,000 shares of common stock may be issued by Calavo under the 2011 Plan.

On November 2, 2020, 11 of our non-employee directors were each granted 1,500 restricted shares, as part of their annual compensation (total of 16,500 shares). In January of fiscal 2020 all 12 of our non-employee directors were granted 1,500 restricted shares each (total of 18,000 shares). In January of fiscal 2019, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock was $67.97, $87.21 and $71.56 for each respective year. After one year from the grant date, as long as the directors are still serving on the Board of Directors, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were $1.1 million and $1.6 million for the year ended October 31, 2021 and 2020.

On November 2, 2020, our executive officers were granted a total of 9,334 restricted shares. On December 18, 2019, our executive officers were granted a total of 31,158 restricted shares. On December 14, 2018, our executive officers were granted a total of 14,522 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such dates was $67.97, $87.63 and $85.67, respectively. The shares granted in fiscal year 2021, vest over two years, on an annual basis, beginning November 2, 2021. The shares granted in fiscal years 2020 and 2019, vest in one-third increments, on an annual basis, beginning December 18, 2020 and December 14, 2019. All shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were $1.0 million and $1.4 million for the year ended October 31, 2021 and 2020.

In April 2021, the Board of Directors approved the vesting of all of the remaining restricted shares outstanding to our former Chief Executive Officer and Board member. With this vesting, we recognized stock-based compensation of $0.7 million for the year ended October 31, 2021. We recorded amortization of $0.3 million for the year ended October 31, 2021, of previous stock grants before his retirement.

In June 2021, our former chief financial officer, resigned from Calavo and 5,598 restricted shares were forfeited. We recorded amortization of $0.1 million for the year ended October 31, 2021, of previous stock grants before his resignation.

In September 2021, the Board of Directors approved the vesting of all of the remaining restricted shares outstanding to our former Chief Executive Officer. With this vesting, we recognized stock-based compensation of $0.7 million for the year ended October 31, 2021.

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

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2020	16	$44.21	
Exercised	(2)	$23.48	
Outstanding at October 31, 2021	14	$47.17	$98
Exercisable at October 31, 2021	12	$45.59	$65

The weighted average remaining life of such outstanding options is 2.5 years. The weighted average remaining life of such exercisable options is 2.5 years. The fair value of vested shares as of October 31, 2021 and 2020, was $0.1 million and $0.8 million.

The 2020 Equity Incentive Plan

In April 2021, our shareholders approved the Calavo Growers, Inc. 2020 Equity Incentive Plan (the 2020 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 2020 Plan. This is a five-year plan, with up to 1,500,000 shares issuable through December 2031.

On October 11, 2021, as part of her employment agreement, Mariela Matute, our newly appointed Chief Financial Officer, was granted 8,199 restricted shares. The closing price of our stock on such date was $36.59. These shares vest in one-third increments, on an annual basis. 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 year ended October 31, 2021.

In September 2021, our Board of Directors approved the issuance of options to acquire a total of 5,000 shares of our common stock to Steven Hollister, our newly appointed Interim Chief Executive Officer. Such grant vests in equal increments over a two-year period and has an exercise price of $39.20 per share. Vested options have an exercise period of five years from the vesting date. The market price of our common stock at the grant date was $39.20. The estimated fair market value of such option grant was approximately $0.2 million. The total compensation cost not yet recognized as of October 31, 2021 was approximately $0.2 million, which will be recognized over the remaining service period of 24 months.

The value of each option award is estimated using a lattice-based option valuation model. We primarily consider the following assumptions when using these models: (1) expected volatility, (2) expected dividends, (3) expected life and (4) risk-free interest rate. Such models also consider the intrinsic value in the estimation of fair value of the option award.

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

	Number of Shares	Weighted-Average Grant Price	Aggregate Intrinsic Value
Outstanding at October 31, 2020	76	$80.45	
Vested	(63)	$77.08	
Forfeited	(6)	$64.47	
Granted	36	$61.00	
Outstanding at October 31, 2021	43	$64.89	$1,745

The total recognized stock-based compensation expense for restricted stock was $4.0 million and $4.5 million for the years ended October 31, 2021 and 2020.

13. Dividends

On October 29, 2021, the Company declared a $1.15 per share cash dividend to shareholders of record on November 12, 2021. On December 3, 2021, the Company paid this cash dividend which totaled $20.3 million. On December 4, 2020, the Company paid a $1.15 per share dividend in the aggregate amount of $20.3 million to shareholders of record on November 13, 2020.

14. Fair Value Measurements

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

The following table sets forth our financial assets and liabilities as of October 31, 2021 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Assets at Fair Value at October 31, 2021:				
Investment in Limoneira Company[1]	$27,055	—	—	$27,055
Total assets at fair value	$27,055	—	—	$27,055
Assets at Fair Value at October 31, 2020:				
Investment in Limoneira Company[1]	$23,197	—	—	$23,197
Total assets at fair value	$23,197	—	—	$23,197

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own less than 10% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2021 and October 31, 2020 equaled $16.13 per share and $13.83 per share (level 1). For the year ended October 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of $0.1 million in our consolidated statements of income. Our remaining shares of Limoneira stock, totaling 1,677,299, were revalued to $16.13 per share and $13.83 per share at October 31, 2021 and 2020 and, as a result, we recorded a gain of $3.9 million and a loss of $8.5 million for the year ended October 31, 2021 and 2020 in our consolidated statements of operations.

15. Mexican IVA taxes receivable

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

As of October 31, 2021, and October 31, 2020, CDM IVA receivables totaled $37.5 million (762.1 million Mexican pesos) and $30.2 million (640.7 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2021, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances 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 January through December of 2013, 2014, and 2015, 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 July 31, 2021, CDM has filed (or has plans to file) Administrative Appeals for the IVA related to the preceding months. A response to these Administrative Appeals is currently pending resolution.

In light of the foregoing, the Company is currently considering its options for resolution of the IVA 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. This estimated time could be impacted and delayed by the situation of the COVID-19 pandemic.

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.

16. FreshRealm Separation

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

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

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

In July 2021, FreshRealm paid Calavo the Loan Payoff Amount of $6.0 million, and we recorded the receipt as a recovery of the reserve for collectability of the FreshRealm note receivable on the statement of operations. Therefore, the Notes mentioned above, have been deemed paid in full. If FreshRealm undergoes a sale of its business either through a merger or a majority sale of its assets or equity interests before February 3, 2022, FreshRealm must pay Calavo twenty percent (20%) of the purchase price proceeds from such sale of FreshRealm.

If FreshRealm (i) undergoes a ''Success Event'' in the future, including: a merger, a majority sale of FreshRealm's assets or equity ownership interests, a private placement (greater than $35 million), or an initial public offering where FreshRealm as a company is valued at $100 million or more, FreshRealm must pay to the Company additional compensation in accordance with the following:

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

No amounts have been recorded on the balance sheet as of October 31, 2021, with respect to a sale or success event.

17. Leases

The impact of applying ASC 842 effective as of November 1, 2019, to the Company's consolidated statements of operations and cash flows was not significant. The major impacts to the balance sheet at the effective date were 1) the addition of $65.7 million in operating lease assets and $69.6 million of operating lease liabilities, 2) the removal of approximately $3.7 million and $1.2 million of deferred rent and other long-term obligations, respectively, and 3) a cumulative-effect adjustment for the adoption of ASC 842 of $0.9 million was recorded to retained earnings, which relates to the gain previously recognized in accordance with ASC 840 on its sale and operating leaseback of the Temecula facility.

ASC 842 made changes to sale-leaseback accounting to result in the recognition of the gain on the transaction at the time of the sale instead of recognizing over the leaseback period, when the transaction is deemed to be a sale instead of a financing arrangement. ASC 842 further changes the assessment of sale accounting from a transfer of risk and rewards assessment to a transfer of control assessment.

We utilized the modified retrospective adoption method. Therefore, the consolidated financial statements for 2020 are presented under the new standard, while the comparative periods presented are not adjusted and continue to be reported in accordance with the Company's historical accounting policy.

The standard provides a number of optional practical expedients and policy elections in transition. We have elected to apply the package of practical expedients under which we will not reassess under the standard our prior conclusions about lease classification and initial direct costs. We have elected the short-term lease recognition exemption for all leases that qualify (under one year term), meaning we will recognize expense on a straight-line basis and will not include the recognition of a right-of-use asset or lease liability. We will account for lease and non-lease components as a single-lease component for all leases.

We lease property and equipment under finance and operating leases. For leases with terms greater than 12 months, we record the related asset and obligation at the present value of lease payments over the term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments when appropriate.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. We estimated our incremental borrowing rate based upon a synthetic credit rating and yield curve analysis. As a result, the incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments.

We lease certain property, plant and equipment, including office facilities, under operating leases. The lease term consists of the noncancellable period of the lease and the periods covered by options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any residual value guarantees.

Lease Position

The following table presents the lease-related assets and liabilities recorded on the balance sheet as of October 31, 2021 and 2020 (in thousands):

		October 31, 2021	October 31, 2020
Assets			
Non-current assets:			
Operating lease assets	Operating lease right-of-use assets	$59,842	$60,262
Finance lease assets	Property, plant and equipment, net	6,907	6,830
		$66,749	$67,092

		October 31, 2021	October 31, 2020
Liabilities			
Current liabilities:			
Operating	Current portion of operating leases	$ 6,817	$ 6,443
Finance	Current portion of long-term obligations and finance leases	1,587	1,343
Long-term obligations			
Operating	Long-term operating leases, less current portion	57,561	58,273
Finance	Long-term obligations and finance leases, less current portion	5,553	5,716
		$71,518	$71,775

	Fiscal 2021	Fiscal 2020
Weighted-average remaining lease term:		
Operating leases	10.1 years	10.0 years
Finance leases	7.1 years	7.9 years
Weighted-average discount rate:		
Operating leases	2.80%	2.83%
Finance leases	3.20%	3.28%

Lease Costs

The following table presents certain information related to the lease costs for finance and operating leases for the year ended October 31, 2021 and 2020 (in thousands):

	Year ended October 31, 2021	Year ended October 31, 2020
Amortization of financing lease assets	$ 1,799	$ 1,043
Operating lease cost	9,152	8,271
Short-term lease cost	2,981	996
Sublease income	(704)	—
Variable lease cost	275	2,865
Interest on financing lease liabilities	235	235
Total lease cost	$13,738	$13,410

Other Information

The following table presents supplemental cash flow information related to the leases for the year ended October 31, 2021 and 2020 (in thousands):

Cash paid for amounts included in the measurement of lease liabilities	Year ended October 31, 2021	Year ended October 31, 2020
Operating cash flows for operating leases	$7,200	$7,689
Financing cash flows for finance leases	1,672	1,115
Operating cash flows for finance leases	235	235

The total right-of-use assets obtained in exchange for new operating leases for the year ended October 31, 2021 and 2020 was $1.0 million and $1.1 million.

Undiscounted Cash Flows

The following table reconciles the undiscounted cash flows for each of the first five years and total remaining years to the finance lease liabilities and operating lease liabilities recorded on the balance sheet as of October 31, 2021 (in thousands):

	Operating Leases	Finance Leases
2022	$ 8,514	$1,838
2023	8,271	1,684
2024	7,782	1,099
2025	6,878	623
2026	6,586	409
Thereafter	36,319	2,467
Total lease payments	74,350	8,120
Less: imputed interest	9,972	980
Total lease liability	$64,378	$7,140

18. Closure of RFG Florida facility

On October 18, 2021, the Company announced the closure of RFG's food processing operations at its Green Cove Springs (near Jacksonville), Florida facility, as part of its Project Uno profit improvement program. As of November 15, 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. 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 October 31, 2021, the Company had leasehold improvements with a net book value of $8.8 million, right of use assets with a net book value of $4.8 million, and lease liabilities of $6.0 million recorded on the balance sheet, all related to the closed facility. The facility lease has a maturity date of October 31, 2031. The Company completed an undiscounted cash flow analysis of its its long-lived assets and estimated the undiscounted cash flow was less than the carrying value. 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. However, a full impairment of the leasehold improvements has been recorded, which represents the excess of the carrying value over the estimated fair value. 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.

Following is a summary of the impairment and other charges recorded during the year ended October 31, 2021.

Leasehold improvements	8,731
Inventory (recorded in cost of goods sold)	586
Employee severance	352
Other assets	79
Total	$9,748

19. COVID-19 Pandemic Impact

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

The COVID-19 pandemic has created challenging and unprecedented conditions for our business, and we are committed to taking action in support of a Company-wide response to the crisis. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. We believe we are well-positioned for the future as we continue to navigate the crisis and prepare for an eventual return to a more normal operating environment. We have successfully implemented contingency plans in the U.S. and in Mexico to monitor the evolving needs of our businesses in those countries, as well as those related to our Peru partner in consignment avocado sales.

The 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. However, actual vaccination results are ultimately dependent on, among other factors, vaccine availability and their acceptance by individuals which are difficult to predict. In the third quarter of fiscal 2021, the delta variant of the SARS-COV-2 virus became the dominant strain in the U.S. and elsewhere and led to various pandemic restrictions being reinstated. In November 2021, the omicron variant of the SARS-COV-2 virus has started to spread throughout the world, which has led to further pandemic restrictions. Accordingly, 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Calavo Growers, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2021 and 2020, the related consolidated statements of operations, shareholders' equity, and cash flows, for each of the three years in the period ended October 31, 2021, and the related notes and the schedule listed in the Index at Item 15 (a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 31, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 21, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Mexican IVA taxes receivable — Refer to Note 15 to the financial statements

Critical Audit Matter Description

As of October 31, 2021, the Company's subsidiary, Calavo de Mexico ("CDM"), has a value-added taxes (IVA) receivable of $37.5 million due from the Mexican government. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2021, there have been delays in the processing of the IVA claims by the Mexican tax authorities. The Mexican authorities informed the Company that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. Mexican authorities also questioned refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations.

Given the significant judgments made by management to determine the Company's ability to recover the IVA taxes receivable, performing audit procedures to evaluate the Company's interpretation and compliance with international tax laws involved significant auditor judgment and use of tax specialists with specialized skills and knowledge, which we have determined to be a critical audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's judgments related to the collectability of the IVA taxes receivable included the following, among others:

- We tested the effectiveness of the controls over the recoverability of the Mexican IVA taxes receivable and the review of related disclosures.
- With the assistance of our tax specialists, we evaluated the recoverability of the IVA receivable by evaluating the technical merits and the Company's interpretation of international tax law, including substantiating that the Company's declared tax structure is in compliance with Mexican tax regulations.
- We obtained legal letters from the Company's tax advisors related to the collectability of the IVA receivable, and evaluated case rulings supporting the recoverability of IVA taxes paid to non-compliant vendors.

Uncertain Tax Positions Related to Mexico tax audits — Refer to Note 7 to the financial statements

Critical Audit Matter Description

The Company is under audit by the Mexican tax authorities relating to the Company's 2013 fiscal year. The Mexican tax authorities have assessed the Company with an underpayment of tax amounts alleging improper deductions for intercompany funding, deductions for services from certain vendors/suppliers and IVA in the Company's calculation of taxable income. The assessment, including the effect of inflation and penalties, amounted to $2.6 billion Mexican pesos (approximately $127.9 million at October 31, 2021). The Company has filed an administrative reconsideration and an annulment suit to dismiss the assessment made by the Mexican tax authorities. While the Company believes the assessment is completely without merit, and that the Company will prevail on the annulment suit in tax court, the Company believes it is in the best interest to settle the 2013 tax matter. Therefore, in accordance with a cumulative probability analysis, the Company recorded a provision of $11 million during the year ended October 31, 2021.

Given the significant judgments made by management in determining its analysis and accounting for the Company's uncertain tax position for the 2013 tax matter, performing audit procedures to evaluate the Company's interpretation and compliance with international tax laws involved significant auditor judgment and use of tax specialists with specialized skills and knowledge, which we have determined to be a critical audit matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination of whether it is more likely than not that the Company's tax positions challenged by the Mexican tax authorities will be realized included the following, among others:

- We tested the effectiveness of the controls over the evaluation of uncertain tax positions as it relates to the periods subject to the Mexico tax audit and the review of related disclosures.
- With the assistance of our tax specialists, we evaluated the Company's interpretation of international taw laws and whether the declared tax structure is in compliance with Mexican tax regulations.
- We obtained legal letters from the Company's tax advisors related to understanding the advisors current assessment of the tax audit and assessed the technical merits of tax positions taken by the Company.

We evaluated the reasonableness of the method, judgment, and assumptions used by the Company in determining the provision recognized to settle the uncertain tax position using a cumulative probability analysis.

/s/ Deloitte & Touche LLP

Los Angeles, California
December 21, 2021

We have served as the Company's auditor since 2015.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure 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 as of October 31, 2021.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2021. Our internal control over financial reporting as of October 31, 2021 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Calavo Growers, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Calavo Growers, Inc. and subsidiaries (the ''Company'') as of October 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended October 31, 2021, of the Company and our report dated December 21, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Los Angeles, California
December 21, 2021

Item 9B. Other Information

None.

PART III

Certain information required by Part III is omitted from this Annual Report because we will file a definitive Proxy Statement for the Annual Meeting of Shareholders pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement), not later than 120 days after the end of the fiscal year covered by this Annual Report, and the applicable information included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers, and Corporate Governance

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

Name	Age	Position
Steven Hollister	64	Interim Chief Executive Officer
Mariela Matute	45	Chief Financial Officer
Mark Lodge	54	Chief Operations Officer
Robert Wedin	72	Executive Vice President, Fresh Sales
Ronald Araiza	62	Executive Vice President, Foods and RFG Sales

Steven Hollister has served as our Interim Chief Executive Officer since September 2021. Prior to his recent appointment as Interim Chief Executive Officer, Mr. Hollister has been a Managing Member of Rocking Spade, LLC, a diversified investor and developer with interests in ranching and commercial properties, since 2001. Previously Mr. Hollister was Vice President of Sunrise Mortgage & Investment Company, General Manager of Niven Family Wine Estates, Chief Operating Officer of Fess Parker Winery & Vineyard and Santa Barbara County Wine Center, and Senior Vice President of Central Coast Farm Credit. Mr. Hollister has served on our board of directors for the last 13 years.

Mariela Matute has served as our Chief Financial Officer since October 2021. Prior to her recent appointment as Chief Financial Officer, Ms. Matute has served as Director of Finance and Operations for Amazon Business, the business-to-business (B2B) online procurement division of Amazon.com, Inc. (NYSE: AMZN) from February 2017, where she managed a team of professionals across controllership, financial planning, pricing analytics, sales and operations planning, tech roadmap and payments. Also at Amazon, she served as Director of Finance and Operations for its Amazon Fresh division. From October 2015 to February 2017, she was Vice President, Finance and Chief Financial Officer of The Americas Region for Driscoll's Inc., a global market leader of fresh berries, where she was responsible for treasury, finance, IT, real estate and procurement.

Mark Lodge has served as our Chief Operations Officer since August 2020. From October 2019 to August 2020, Mr. Lodge has served as Executive Vice President of RFG Business Operations. Prior to joining Calavo, Mr. Lodge held the role of Executive Vice President from May 2017 to October 2019 for Revolution Foods supplying all-natural school meals across the United States. Prior to Revolution Foods, Mr. Lodge was President of True Fresh HPP and True Food Innovations from January 2016 to February 2017 and was previously instrumental in the identification and implementation of the Fresh & Easy manufacturing business in the United States for Tesco, plc.

Robert Wedin has served as our Executive Vice President since August 2020, and prior was Vice President since 1993. Mr. Wedin joined us in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of Producesupply.org and serves as a member of that organization's executive committee.

Ronald Araiza has served as our Vice President since January 2017. Mr. Araiza served as Vice President at Del Rey Avocado from January 2015 to January 2016. He also served as Vice President at Mission Produce from January 1997 to May of 2015.

The following information is included in our Notice of Annual Meeting of Shareholders and Proxy Statement to be filed within 120 days after our fiscal year end of October 31, 2021 (the Proxy Statement) and is incorporated herein by reference:

- Information regarding our directors who are standing for reelection and any persons nominated to become our directors is set forth under ''Election of Directors.''
- Information regarding our Audit Committee and designated ''audit committee financial expert'' is set forth under ''Corporate Governance Principles and Board Matters—Board Structure and Committee Composition—Audit Committee.''
- Information on our code of business conduct and ethics for directors, officers and employees and our Corporate Governance Guidelines is set forth under ''Corporate Governance Principles and Board Matters.''
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under ''Section 16(a) Beneficial Ownership Reporting Compliance.''

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the sections entitled ''Executive Compensation'' and ''Directors' Compensation'' in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the sections entitled ''Security Ownership of Certain Beneficial Owners and Management'' and ''Equity Compensation Plan Information'' in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the section entitled ''Certain Relationships and Related Transactions'' in the Proxy Statement.

Item 14. Principal Accountant's Fees and Services

Information required by this Item is incorporated herein by reference to the section of the Proxy Statement entitled ''Principal Accountant Fees and Services.''

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) **Financial Statements**

The following consolidated financial statements as of October 31, 2021 and 2020 and for each of the three years in the period ended October 31, 2021 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements, and Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

(2) **Supplemental Schedules**

Schedule II -- Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

(3) **Exhibits**

See the "Exhibit Index" on pages 81 - 84 of this report.

(b) Exhibits

See subsection (a) (3) above.

(c) **Financial Statement Schedules**

See subsection (a) (1) and (2) above.

Item 16. Form 10-K Summary

None

SCHEDULE II

CALAVO GROWERS, INC.

VALUATION AND QUALIFYING ACCOUNTS (in thousands)

	Fiscal year ended October 31:	Balance at beginning of year	Additions(1)	Deductions(2)	Balance at end of year
Allowance for customer deductions	2019	1,850	12,211	12,107	1,954
	2020	1,954	8,490	8,552	1,892
	2021	1,892	12,079	10,644	3,327
Allowance for doubtful accounts	2019	1,377	35	—	1,412
	2020	1,412	194	—	1,606
	2021	1,606	—	117	1,489

(1) Charged to net sales (customer deductions) or costs and expenses (doubtful accounts).

(2) Customer deductions taken or write off of accounts receivables.

The above table does not include the reserve for notes receivable from FreshRealm of $34.2 million. See Note 16.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California.[1]
2.2	Agreement and Plan of Merger dated as of November 7, 2003 among Calavo Growers, Inc., Calavo Acquisition Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo.[2]
2.3	Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc.[3]
2.4	Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008[4]
2.5	Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa's Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010[13]
2.6	Amended and Restated Limited Liability Company Agreement for Calavo Salsa Lisa, LLC dated February 8, 2010 among Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa's Salsa Company, Elizabeth Nicholson and Eric Nicholson. (Portions of this agreement have been deleted and filed separately with the Securities and Exchange Commission Pursuant to a request for confidential treatment.)[13]
2.7	Agreement and Plan of Merger dated May 25, 2011 among Calavo Growers, Inc., CG Mergersub LLC, Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust[1] (Certain portions of the exhibit have been omitted based upon a request for confidential treatment filed by the Registrant with the Securities and Exchange Commission. The omitted portions of the exhibit have been separately filed by the Registrant with the Securities and Exchange Commission.)[15]
2.8	Sale of LLC Interest Agreement dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.[16]
2.9	Amendment No. 1 to Agreement and Plan of Merger, dated July 31, 2013, among Calavo Growers, Inc., Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust.[17]
2.10	Amended and Restated Limited Liability Company Agreement, dated August 16, 2013, by and among FreshRealm, LLC, a Delaware limited liability company, and the Members.[18]
2.11	Amendment No. 2 to Agreement and Plan of Merger, dated as of October 1, 2013, among Calavo Growers, Inc., Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth J. Catchot, Cut Fruit, LLC, James S. Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and the RFG Nominee Trust.[19]
3.1	Articles of Incorporation of Calavo Growers, Inc.[1]
3.2	Amended and Restated Bylaws of Calavo Growers, Inc.[5]
3.3	Amended and Restated Bylaws of Calavo Growers, Inc., effective as of September 25, 2014.[20]
4.1	Description of the Securities of Calavo Growers, Inc. Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.[33]
10.1	Form of Marketing Agreement for Calavo Growers, Inc.[6]
10.2	Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California.[1]
10.3	Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996.[1]

Exhibit Number	Description
10.4	Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc.[3]
10.5	Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc.[3]
10.6	Standstill agreement dated June 1, 2005 between Calavo Growers, Inc. And Limoneira Company[3]
10.7	Calavo Supplemental Executive Retirement Agreement dated March 11, 1983 between Egidio Carbone, Jr. and Calavo Growers of California.[1]
10.8	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California.[1]
10.9	Line of Credit and Security Agreement, dated July 15, 2013 by and between Calavo Growers, Inc. a California Corporation, and FreshRealm, LLC, a Delaware limited liability company.[18]
10.10	2011 Management Incentive Plan of Calavo Growers, Inc.[14]
10.11	Equity Secured Promissory Note dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.[16]
10.12	Goodwill Secured Promissory Note dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.[16]
10.13	Pledge and Security Agreement dated October 31, 2013 between Calavo Growers, Inc. and San Rafael Distributing, Inc.[16]
10.14	Personal Guaranty dated October 31, 2013 between Calavo Growers, Inc. and Francisco Clouthier.[17]
10.15	Amendment to Goodwill Promissory Note[29]
10.16	Employment Agreement dated July 21, 2015, between Calavo Growers, Inc. and B. John Lindeman.[21]
10.17	Amendment No. 7 to Business Loan Agreement, dated as of January 19, 2016 between Bank of America, N.A. and Calavo Growers, Inc.[22]
10.18	Letter Amendment to Revolving Credit Facility, dated January 19, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.[22]
10.19	Letter Amendment to Revolving Credit Facility, dated January 26, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.[23]
10.20	Amendment No. 8 to Business Loan Agreement, dated as of January 28, 2016 between Bank of America, N.A. and Calavo Growers, Inc.[23]
10.21	Continuing and Unconditional Guaranty, dated as of January 28, 2016 between Bank of America, N.A. and Calavo Growers, Inc.[23]
10.22	Amendment No. 9 to Business Loan Agreement, dated as of May 26, 2016 between Bank of America, N.A. and Calavo Growers, Inc.[24]
10.23	Letter Amendment to Revolving Credit Facility, dated May 20, 2016 between Farm Credit West, PCA and Calavo Growers, Inc.[24]
10.24	Credit Agreement, dated as of June 14, 2016, by and among Calavo Growers, Inc., and the subsidiary guarantor identified therein and the lenders and agents names therein.[25]
10.25	Revolving Credit Note, dated as of June 14, 2016, by and among Calavo Growers, Inc., and FCW.[26]
10.26	First Amendment to Credit Agreement dated August 29, 2016.[26]
10.27	Agreement to Sell and Purchase and Escrow Instructions with Fresh Foods, LLC, a Delaware limited liability company dated July 25, 2016.[27]
10.28	First Amendment Agreement to Sell and Purchase and Escrow Instructions, by and among Calavo Growers, Inc., and Fresh Foods, LLC.[28]
10.29	FreshRealm, LLC, Sixth Amended and Restated Limited Liability Company Agreement.[30]
10.30	First Amendment to FreshRealm, LLC, Sixth Amended and Restated Limited Liability Company Agreement.[30]
10.31	Amended and restated Promissory Note[31]
10.32	Fourth Amendment to Senior Promoissory Note and Note and Membership Unit Purchase Agreement[31]
10.33	FreshRealm Promissory Note[31]
10.34	Second Amendment to Credit Agreement[31]

Exhibit Number	Description
10.35	FreshRealm Seventh and Restated LLC Agreement[31]
10.36	FreshRealm Eight Amendment to Senior Promissory Note[32]
10.37	FreshRealm Ninth Amendment to Senior Promissory Note[32]
10.38	FreshRealm Tenth Amendment to Senior Promissory Note[32]
10.39	FreshRealm Eleventh Amendment to Senior Promissory Note[32]
10.40	2020 Equity Incentive Plan[34]
10.41	Fourth Amendment to Credit Agreement[35]
10.42	Fifth Amendment to Credit Agreement[35]
21.1	Subsidiaries of Calavo Growers, Inc.[1]
23.1	Consent of Deloitte & Touche LLP.[*]
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)[*]
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)[*]
32	Certification of 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 Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of October 31, 2021 and 2020; (2) Consolidated Statements of Operations for the years ended October 31, 2021, 2020 and 2019; (3) Consolidated Statements of Shareholders' Equity for the years ended October 31, 2021, 2020, and 2019; (4) Consolidated Statements of Cash Flows for the years ended October 31, 2021, 2020 and 2019; and (5) Notes to Financial Statements.[*]
104	Cover Page Interactive Data File (formatted as Inline XBRL).

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* Filed with this Annual Report on Form 10-K.

1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.

2 Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

3 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

4 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

5 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.

6 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

7 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.

8 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

9 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.

10 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

11 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

12 Previously filed on January 11, 2010 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

13 Previously filed on March 11, 2010 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

14 Previously filed on January 14, 2011 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

15 Previously filed on January 10, 2012 as an exhibit to the Registrant's Report on Form 8-K/A and incorporated herein by reference.

16 Previously filed on November 6, 2012 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

17 Previously filed on September 4, 2013 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

18 Previously filed on September 9, 2013 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

19 Previously filed on November 26, 2013 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

20 Previously filed on September 30, 2014 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

21 Previously filed on July 27, 2015 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

22 Previously filed on January 25, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

23 Previously filed on February 1, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

24 Previously filed on May 27, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

25 Previously filed on June 20, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

26 Previously filed on September 1, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

27 Previously filed on September 8, 2016 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

28 Previously filed on November 7, 2016 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

29 Previously filed on December 23, 2016 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

30 Previously filed on September 4, 2018 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

31 Previously filed on March 7, 2019 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

32 Previously filed on June 9, 2020 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

33 Previously filed on March 30, 2020 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.

34 Previously filed on June 10, 2021 as an exhibit to the Registrant's Report on Form S-8 and incorporated herein by reference.

35 Previously filed on December 6, 2021 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on December 21, 2021.

CALAVO GROWERS, INC

By: /s/ Steven Hollister

Steven Hollister
Interim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on December 21, 2021 by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title
/s/ Steven Hollister Steven Hollister	Interim Chief Executive Officer (Principal Executive Officer)
/s/ Mariela Matute Mariela Matute	Chief Financial Officer (Principal Financial Officer)
/s/ Joel Silva Joel Silva	Corporate Controller and Corporate Secretary (Principal Accounting Officer)
/s/ J. Link Leavens J. Link Leavens	Chariman of the Board of Directors
/s/ Marc L. Brown Marc L. Brown	Director
/s/ John M. Hunt John M. Hunt	Director
/s/ Adriana Mendizabal Adriana Mendizabal	Director
/s/ Michael A. DiGregorio Michael A. DiGregorio	Director
/s/ Donald M. Sanders Donald M. Sanders	Director
/s/ James Helin James Helin	Director
/s/ Farha Aslam Farha Aslam	Director

Signature	Title
/s/ Steven W. Hollister Steven W. Hollister	Director
/s/ Harold Edwards Harold Edwards	Director
/s/ Scott Van Der Kar Scott Van Der Kar	Director
/s/ Kathleen M. Holmgren Kathleen M. Holmgren	Director

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Corporate Information

OFFICERS

Brian Kocher
Chief Executive Officer
(Joined February 2022)

Mariela Matute
Chief Financial Officer

Mark Lodge
Chief Operations Officer

Graciela Montgomery
Chief Human Resources Officer

Rob Wedin
Executive Vice President, Fresh Sales

Ron Araiza
Executive Vice President, Calavo Fresh Foods

Dionisio Ortiz
VP Operations, Mexico

Joel Silva
Corporate Controller, Chief Accounting Officer

BOARD OF DIRECTORS

(As of Oct 31, 2021, with subsequent changes noted; committee memberships as of Feb 1, 2022)

J. Link Leavens (2) (4)
Chairman of the Board
(Until Jan 31, 2022)

Steven Hollister (1)
Chairman of the Board
(As of Feb 1, 2022)

Farha Aslam (4) (5)

Marc L. Brown (2) (3) (5)

Michael A. DiGregorio (1) (2) (3) (4)

James D. Helin (2) (3) (5)

Kathleen M. Holmgren (1) (2) (4)

John M. Hunt (3) (5)

Adriana Mendizabal
(Joined December 2021)

Donald M. Sanders (1)

Harold S. Edwards
(Resigned February 2022)

Scott Van Der Kar
(Retired January 2022)

(1) Executive Committee
(2) Audit Committee
(3) Nominating and Corporate Governance Committee
(4) Compensation Committee
(5) Sustainability and Corporate Responsibility Committee

HEADQUARTERS

Calavo Growers, Inc.
1141A Cummings Road
Santa Paula, CA 93060
Phone: 805.525.1245
www.calavo.com

GENERAL COUNSEL

Sheppard Mullin
Los Angeles, California

INDEPENDENT PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Los Angeles, California

INVESTOR RELATIONS

Financial Profiles, Inc.
Los Angeles, California

TRANSFER AGENT

Computershare
Louisville, Kentucky

COMMON STOCK

Shares of our common stock are listed on NASDAQ and trade under the symbol "CVGW"

Calavo Growers, Inc.
1141A Cummings Road
Santa Paula, CA 93060
805.525.1245
CALAVO.COM