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

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**FORM 10-Q**

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

For the quarterly period ended July 31, 2021

or

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

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

Commission file number: 000-33385

**CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

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

**33-0945304**

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

**93060**  
(Zip Code)

**(805) 525-1245**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------|-------------------|---|
| Common Stock        | CVGW              | Nasdaq Global Market                      |

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

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

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

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

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

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

Registrant's number of shares of common stock outstanding as of July 31, 2021 was 17,683,309

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## FORWARD-LOOKING STATEMENTS

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

Risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by the forward-looking statements include, but are not limited to, the following: the impact of the COVID-19 pandemic on our business, results of operations, and financial condition, including, but not limited to, disruptions in the manufacturing of our products and the operations of the related supply chains supporting our ability to deliver our products to consumers, impacts on our employees and uncertainty regarding our ability to implement health and safety measures for our employees, uncertainties regarding consumer demand for our products, impact on our food service customers, increased costs, the impact of governmental trade restrictions imposed as a result of COVID-19 and the possible adverse impact of COVID-19 on our goodwill and other intangible assets; our ability to raise prices, particularly in our RFG and Foods segments, to offset increased costs of goods sold, and the impact of such price increases on future net sales; seasonality of our business; sensitivity of our business to changes in market prices of avocados and other agricultural products and other raw materials including fuel, packaging and paper; potential disruptions to our supply chain; risks associated with potential future acquisitions, including integration; potential exposure to data breaches and other cyber-attacks on our systems or those of our suppliers or customers; dependence on large customers; dependence on key personnel and the ability of our management team to work together successfully; potential for labor disputes; reliance on co-packers for a portion of our production needs; competitive pressures, including from foreign growers; risks of recalls and food-related injuries to our customers; changing consumer preferences; the impact of environmental regulations, including those related to climate change; our ability to develop and transition new products and services and enhance existing products and services to meet customer needs; risks associated with doing business internationally (including possible restrictive U.S. and foreign governmental actions, such as restrictions on transfers of funds and COVID-19 and trade protection measures such as import/export/customs duties, tariffs and/or quotas and currency fluctuations); risks associated with receivables from, loans to and/or equity investments in unconsolidated entities, 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.

For a further discussion of these risks and uncertainties and other risks and uncertainties that we face, please see the risk factors described in our most recent Annual Report on Form 10-K for the fiscal year ended October 31, 2020 filed with the Securities and Exchange Commission and any subsequent updates that may be contained in our Quarterly Reports on Form 10-Q (including this Quarterly Report on Form 10-Q) and other filings with the Securities and Exchange Commission. Forward-looking statements contained in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

CALAVO GROWERS, INC.

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

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

|  | July 31,<br>2021  | October 31,<br>2020 |
|--|-------------------|---------------------|
| <b>Assets</b>  |                   |                     |
| Current assets:  |                   |                     |
| Cash and cash equivalents  | \$ 368            | \$ 4,055            |
| Restricted cash  | 970               | —                   |
| Accounts receivable, net of allowances of \$6,860 (2021) and \$3,498 (2020)  | 79,979            | 63,668              |
| Inventories  | 47,443            | 41,787              |
| Prepaid expenses and other current assets  | 14,227            | 10,733              |
| Advances to suppliers  | 8,703             | 5,061               |
| Income taxes receivable  | 6,577             | 10,591              |
| Total current assets   | 158,267           | 135,895             |
| Property, plant, and equipment, net  | 129,080           | 130,270             |
| Operating lease right-of-use assets  | 57,036            | 60,262              |
| Investment in Limoneira Company  | 30,040            | 23,197              |
| Investments in unconsolidated entities   | 4,309             | 6,065               |
| Deferred income taxes  | 2,790             | 2,486               |
| Goodwill   | 28,653            | 28,568              |
| Intangibles, net   | 9,137             | 10,323              |
| Other assets   | 40,006            | 32,558              |
|  | <u>\$ 459,318</u> | <u>\$ 429,624</u>   |
| <b>Liabilities and shareholders' equity</b>  |                   |                     |
| Current liabilities:   |                   |                     |
| Payable to growers   | \$ 30,040         | \$ 11,346           |
| Trade accounts payable   | 10,424            | 9,384               |
| Accrued expenses   | 40,713            | 36,922              |
| Borrowings pursuant to credit facilities, current  | —                 | 20,550              |
| Dividend payable   | —                 | 20,343              |
| Other current liabilities  | 11,000            | —                   |
| Current portion of operating leases  | 7,051             | 6,443               |
| Current portion of long-term obligations and finance leases  | 1,486             | 1,343               |
| Total current liabilities  | 100,714           | 106,331             |
| Long-term liabilities:   |                   |                     |
| Borrowings pursuant to credit facilities, long-term  | 36,000            | —                   |
| Long-term operating leases, less current portion   | 54,447            | 58,273              |
| Long-term obligations and finance leases, less current portion   | 5,688             | 5,716               |
| Other long-term liabilities  | 3,136             | 3,302               |
| Total long-term liabilities  | 99,271            | 67,291              |
| Commitments and contingencies  |                   |                     |
| Shareholders' equity:  |                   |                     |
| Common stock (\$0.001 par value, 100,000 shares authorized; 17,683 (2021) and 17,661 (2020) shares issued and outstanding) | 18                | 18                  |
| Additional paid-in capital   | 167,215           | 165,000             |
| Noncontrolling interest  | 1,451             | 1,472               |
| Retained earnings  | 90,649            | 89,512              |
| Total shareholders' equity   | <u>259,333</u>    | <u>256,002</u>      |
|  | <u>\$ 459,318</u> | <u>\$ 429,624</u>   |

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

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

|  | Three months ended |                    | Nine months ended |                    |
|--|--------------------|--------------------|-------------------|--------------------|
|  | July 31,           | 2020               | July 31,          | 2020               |
|  | 2021               |                    | 2021              |                    |
| Net sales  | \$ 285,008         | \$ 270,425         | \$ 782,407        | \$ 824,941         |
| Cost of sales  | 277,141            | 239,590            | 734,101           | 756,223            |
| Gross profit   | 7,867              | 30,835             | 48,306            | 68,718             |
| Selling, general and administrative  | 12,387             | 13,424             | 40,374            | 44,226             |
| Expenses related to Mexican tax matters  | 1,342              | —                  | 1,342             | —                  |
| Gain on sale of Temecula packinghouse  | (54)               | (54)               | (162)             | (162)              |
| Operating income (loss)  | (5,808)            | 17,465             | 6,752             | 24,654             |
| Interest expense   | (208)              | (203)              | (573)             | (732)              |
| Other income, net  | 180                | 628                | 792               | 2,250              |
| Recovery (Loss) on reserve for FreshRealm note receivable and impairment of investment | 6,000              | (37,192)           | 6,130             | (37,192)           |
| Unrealized net gain (loss) on Limoneira shares   | (252)              | 218                | 6,843             | (9,125)            |
| Income (loss) before income taxes and loss from unconsolidated entities                | (88)               | (19,084)           | 19,944            | (20,145)           |
| Income tax (provision) benefit   | (12,358)           | 4,682              | (17,073)          | 6,540              |
| Net loss from unconsolidated entities  | (469)              | (1,170)            | (1,755)           | (6,375)            |
| Net income (loss)  | (12,915)           | (15,572)           | 1,116             | (19,980)           |
| Add: Net loss (income) attributable to noncontrolling interest                         | (66)               | (64)               | 21                | 128                |
| Net Income (loss) attributable to Calavo Growers, Inc.                                 | <u>\$ (12,981)</u> | <u>\$ (15,636)</u> | <u>\$ 1,137</u>   | <u>\$ (19,852)</u> |
| <b>Calavo Growers, Inc.'s net income (loss) per share:</b>                             |                    |                    |                   |                    |
| Basic  | <u>\$ (0.74)</u>   | <u>\$ (0.89)</u>   | <u>\$ 0.06</u>    | <u>\$ (1.13)</u>   |
| Diluted  | <u>\$ (0.74)</u>   | <u>\$ (0.89)</u>   | <u>\$ 0.06</u>    | <u>\$ (1.13)</u>   |
| <b>Number of shares used in per share computation:</b>                                 |                    |                    |                   |                    |
| Basic  | <u>17,630</u>      | <u>17,586</u>      | <u>17,616</u>     | <u>17,558</u>      |
| Diluted  | <u>17,630</u>      | <u>17,586</u>      | <u>17,669</u>     | <u>17,558</u>      |

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

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

|  | <u>Nine months ended July 31,</u> |                 |
|--|-----------------------------------|-----------------|
|  | <u>2021</u>                       | <u>2020</u>     |
| <b>Cash Flows from Operating Activities:</b>   |                                   |                 |
| Net income (loss)  | \$ 1,116                          | \$ (19,980)     |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                 |
| Depreciation and amortization  | 12,925                            | 11,850          |
| Non-cash operating lease expense   | 57                                | 145             |
| Net loss from unconsolidated entities  | 1,755                             | 6,375           |
| Unrealized net loss (gain) on Limoneira shares   | (6,843)                           | 9,125           |
| Loss (recovery) on reserve for FreshRealm note receivable and impairment of investment   | (6,130)                           | 37,192          |
| Interest income on notes to FreshRealm   | —                                 | (1,732)         |
| Stock-based compensation expense   | 2,818                             | 3,569           |
| Gain on sale of Temecula packinghouse  | (162)                             | (162)           |
| Loss (gain) on disposal of property, plant, and equipment                                | (170)                             | 230             |
| Deferred income taxes on FreshRealm reserve and impairment loss                          | —                                 | (7,525)         |
| Effect on cash of changes in operating assets and liabilities:                           |                                   |                 |
| Accounts receivable, net   | (16,137)                          | (4,045)         |
| Inventories, net   | (5,687)                           | (6,363)         |
| Prepaid expenses and other current assets  | 2,291                             | (814)           |
| Advances to suppliers  | (3,642)                           | 4,873           |
| Income taxes receivable/payable  | 4,014                             | (4,678)         |
| Other assets   | (7,003)                           | (9)             |
| Payable to growers   | 18,694                            | 5,027           |
| Trade accounts payable, accrued expenses and other liabilities                           | 14,500                            | (12,722)        |
| Net cash provided by operating activities  | <u>12,396</u>                     | <u>20,356</u>   |
| <b>Cash Flows from Investing Activities:</b>   |                                   |                 |
| Purchases of property, plant, and equipment  | (9,639)                           | (8,349)         |
| Acquisition of SFFI, net of cash acquired of \$623                                       | —                                 | (18,396)        |
| Loan to Agricola Belher  | (3,500)                           | —               |
| Recovery of proceeds from FreshRealm Separation Agreement                                | 6,000                             | —               |
| Investment in FreshRealm   | —                                 | (1,477)         |
| Infrastructure advance to tomato growers   | (1,326)                           | —               |
| Net cash used in investing activities  | <u>(8,465)</u>                    | <u>(28,222)</u> |
| <b>Cash Flows from Financing Activities:</b>   |                                   |                 |
| Payment of dividend to shareholders  | (20,343)                          | (19,354)        |
| Proceeds from revolving credit facility  | 266,350                           | 172,450         |
| Payments on revolving credit facility  | (250,900)                         | (147,850)       |
| Payments of minimum withholding taxes on net share settlement of equity awards           | (650)                             | (1,179)         |
| Payments on long-term obligations and finance leases                                     | (1,152)                           | (687)           |
| Proceeds from stock option exercises   | 47                                | 86              |
| Net cash provided by (used in) financing activities                                      | <u>(6,648)</u>                    | <u>3,466</u>    |
| Net decrease in cash, cash equivalents and restricted cash                               | (2,717)                           | (4,400)         |
| Cash, cash equivalents and restricted cash, beginning of period                          | 4,055                             | 7,973           |
| Cash, cash equivalents and restricted cash, end of period                                | <u>\$ 1,338</u>                   | <u>\$ 3,573</u> |
| <b>Noncash Investing and Financing Activities:</b>                                       |                                   |                 |
| Right of use assets obtained in exchange for new financing lease obligations             | \$ 1,222                          | \$ 593          |
| Notes receivable from FreshRealm converted to investment in FreshRealm                   | \$ —                              | \$ 2,761        |
| Property, plant, and equipment included in trade accounts payable and accrued expenses   | \$ 375                            | \$ 568          |
| Collection for Agricola Belher Infrastructure Advance                                    | \$ —                              | \$ 800          |

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

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

|  | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Noncontrolling<br>Interest | Total      |
|--|--------------|--------|----------------------------------|----------------------|----------------------------|------------|
|  | Shares       | Amount |                                  |                      |                            |            |
| <b>Balance, October 31, 2019</b>   | 17,595       | \$ 18  | \$ 161,606                       | \$ 122,557           | \$ 1,688                   | \$ 285,869 |
| Cumulative effect adjustment on ASC 842 related to leases                      | —            | —      | —                                | 1,165                | —                          | 1,165      |
| Exercise of stock options and income tax benefit                               | 2            | —      | 47                               | —                    | —                          | 47         |
| Stock compensation expense   | —            | —      | 931                              | —                    | —                          | 931        |
| Restricted stock issued  | 17           | —      | —                                | —                    | —                          | —          |
| Avocados de Jalisco noncontrolling interest contribution                       | —            | —      | —                                | —                    | (63)                       | (63)       |
| Net loss attributable to Calavo Growers, Inc.                                  | —            | —      | —                                | (938)                | —                          | (938)      |
| <b>Balance, January 31, 2020</b>   | 17,614       | 18     | 162,584                          | 122,784              | 1,625                      | 287,011    |
| Exercise of stock options and income tax benefit                               | 2            | —      | 39                               | —                    | —                          | 39         |
| Stock compensation expense   | —            | —      | 667                              | —                    | —                          | 667        |
| Restricted stock issued  | 23           | —      | 1,119                            | —                    | —                          | 1,119      |
| Payments of minimum withholding taxes on net share settlement of equity awards | —            | —      | (1,179)                          | —                    | —                          | (1,179)    |
| Avocados de Jalisco noncontrolling interest contribution                       | —            | —      | —                                | —                    | (129)                      | (129)      |
| Net loss attributable to Calavo Growers, Inc.                                  | —            | —      | —                                | (3,278)              | —                          | (3,278)    |
| <b>Balance, April 30, 2020</b>   | 17,639       | \$ 18  | \$ 163,230                       | \$ 119,506           | \$ 1,496                   | \$ 284,250 |
| Stock compensation expense   | —            | —      | 852                              | —                    | —                          | 852        |
| Restricted stock issued  | 18           | —      | —                                | —                    | —                          | —          |
| Unrealized gain on Limoneira investment, net                                   | —            | —      | —                                | —                    | —                          | —          |
| Avocados de Jalisco noncontrolling interest contribution                       | —            | —      | —                                | —                    | 64                         | 64         |
| Net loss attributable to Calavo Growers, Inc.                                  | —            | —      | —                                | (15,636)             | —                          | (15,636)   |
| <b>Balance, July 31, 2020</b>  | 17,657       | \$ 18  | \$ 164,082                       | \$ 103,870           | \$ 1,560                   | \$ 269,530 |

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

*See accompanying notes to consolidated condensed financial statements.*

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

**1. Description of the business**

***Business***

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

The accompanying unaudited consolidated condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

***Recently Adopted Accounting Standards***

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

On November 1, 2020, the Company adopted an ASU, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update provides guidance regarding the capitalization of implementation costs incurred in a cloud computing arrangement that is a service contract. This ASU was adopted prospectively and cloud computing implementation costs incurred on November 1, 2020 or later are included in other noncurrent assets in the consolidated balance sheet and are presented within operating cash flows. As of July 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 three and nine months ended July 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.

## 2. Information regarding our operations in different segments

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

|   | Three months ended July 31, 2021 |                   |                  |                   | Three months ended July 31, 2020 |                  |                  |                   |
|---|----------------------------------|-------------------|------------------|-------------------|----------------------------------|------------------|------------------|-------------------|
|   | Fresh products                   | RFG               | Calavo Foods     | Total             | Fresh products                   | RFG              | Calavo Foods     | Total             |
| Avocados                                  | \$ 148,757                       | \$ —              | \$ —             | \$ 148,757        | \$ 145,670                       | \$ —             | \$ —             | \$ 145,670        |
| Tomatoes                                  | 11,344                           | —                 | —                | 11,344            | 13,827                           | —                | —                | 13,827            |
| Papayas                                   | 2,683                            | —                 | —                | 2,683             | 2,695                            | —                | —                | 2,695             |
| Other fresh income                        | 95                               | —                 | —                | 95                | 88                               | —                | —                | 88                |
| Prepared avocado products                 | —                                | —                 | 22,095           | 22,095            | —                                | —                | 19,764           | 19,764            |
| Salsa                                     | —                                | —                 | 746              | 746               | —                                | —                | 816              | 816               |
| Fresh-cut fruit & veg. and prepared foods | —                                | 107,846           | —                | 107,846           | —                                | 91,200           | —                | 91,200            |
| Total gross sales                         | 162,879                          | 107,846           | 22,841           | 293,566           | 162,280                          | 91,200           | 20,580           | 274,060           |
| Less sales incentives                     | (1,299)                          | (4,060)           | (1,528)          | (6,887)           | (141)                            | (277)            | (1,613)          | (2,031)           |
| Less inter-company eliminations           | (672)                            | —                 | (999)            | (1,671)           | (399)                            | —                | (1,205)          | (1,604)           |
| Net sales                                 | <u>\$ 160,908</u>                | <u>\$ 103,786</u> | <u>\$ 20,314</u> | <u>\$ 285,008</u> | <u>\$ 161,740</u>                | <u>\$ 90,923</u> | <u>\$ 17,762</u> | <u>\$ 270,425</u> |

|   | Nine months ended July 31, 2021 |            |              |            | Nine months ended July 31, 2020 |            |              |            |
|---|---------------------------------|------------|--------------|------------|---------------------------------|------------|--------------|------------|
|   | Fresh products                  | RFG        | Calavo Foods | Total      | Fresh products                  | RFG        | Calavo Foods | Total      |
| Avocados                                  | \$ 398,887                      | \$ —       | \$ —         | \$ 398,887 | \$ 413,335                      | \$ —       | \$ —         | \$ 413,335 |
| Tomatoes                                  | 33,963                          | —          | —            | 33,963     | 46,151                          | —          | —            | 46,151     |
| Papayas                                   | 8,081                           | —          | —            | 8,081      | 7,677                           | —          | —            | 7,677      |
| Other fresh income                        | 548                             | —          | —            | 548        | 328                             | —          | —            | 328        |
| Prepared avocado products                 | —                               | —          | 59,848       | 59,848     | —                               | —          | 60,683       | 60,683     |
| Salsa                                     | —                               | —          | 2,154        | 2,154      | —                               | —          | 2,143        | 2,143      |
| Fresh-cut fruit & veg. and prepared foods | —                               | 296,107    | —            | 296,107    | —                               | 306,853    | —            | 306,853    |
| Total gross sales                         | 441,479                         | 296,107    | 62,002       | 799,588    | 467,491                         | 306,853    | 62,826       | 837,170    |
| Less sales incentives                     | (2,754)                         | (5,727)    | (3,494)      | (11,975)   | (1,294)                         | (1,467)    | (5,522)      | (8,283)    |
| Less inter-company eliminations           | (1,915)                         | —          | (3,291)      | (5,206)    | (1,098)                         | —          | (2,848)      | (3,946)    |
| Net sales                                 | \$ 436,810                      | \$ 290,380 | \$ 55,217    | \$ 782,407 | \$ 465,099                      | \$ 305,386 | \$ 54,456    | \$ 824,941 |

|  | Fresh products | RFG        | Calavo Foods | Interco. Elimin. | Total      |
|--|----------------|------------|--------------|------------------|------------|
| (All amounts are presented in thousands) |                |            |              |                  |            |
| <b>Three months ended July 31, 2021</b>  |                |            |              |                  |            |
| Net sales                                | \$ 161,580     | \$ 103,786 | \$ 21,313    | \$ (1,671)       | \$ 285,008 |
| Cost of sales                            | 149,378        | 109,375    | 20,059       | (1,671)          | 277,141    |
| Gross profit                             | \$ 12,202      | \$ (5,589) | \$ 1,254     | \$ —             | \$ 7,867   |
| <b>Three months ended July 31, 2020</b>  |                |            |              |                  |            |
| Net sales                                | \$ 162,139     | \$ 90,923  | \$ 18,967    | \$ (1,604)       | \$ 270,425 |
| Cost of sales                            | 144,405        | 82,868     | 13,921       | (1,604)          | 239,590    |
| Gross profit                             | \$ 17,734      | \$ 8,055   | \$ 5,046     | \$ —             | \$ 30,835  |
| <b>Nine months ended July 31, 2021</b>   |                |            |              |                  |            |
| Net sales                                | \$ 438,725     | \$ 290,380 | \$ 58,508    | \$ (5,206)       | \$ 782,407 |
| Cost of sales                            | 398,370        | 293,704    | 47,233       | (5,206)          | 734,101    |
| Gross profit                             | \$ 40,355      | \$ (3,324) | \$ 11,275    | \$ —             | \$ 48,306  |
| <b>Nine months ended July 31, 2020</b>   |                |            |              |                  |            |
| Net sales                                | \$ 466,197     | \$ 305,386 | \$ 57,304    | \$ (3,946)       | \$ 824,941 |
| Cost of sales                            | 427,476        | 291,720    | 40,973       | (3,946)          | 756,223    |
| Gross profit                             | \$ 38,721      | \$ 13,666  | \$ 16,331    | \$ —             | \$ 68,718  |

For the three months ended July 31, 2021 and 2020, intercompany sales and cost of sales of \$0.8 million and \$0.4 million between Fresh products and RFG were eliminated. For the nine months ended July 31, 2021 and 2020, intercompany sales and cost of sales of \$1.9 million and \$1.1 million between Fresh products and RFG were eliminated. For the three months ended July 31, 2021 and 2020, intercompany sales and cost of sales of \$1.0 million and \$1.2 million between Calavo Foods and RFG were eliminated. For the nine months ended July 31, 2021 and 2020, intercompany sales and cost of sales of \$3.3 million and \$2.8 million between Calavo Foods and RFG were eliminated.

Sales to customers outside the U.S. were approximately \$8.8 million, and \$6.5 million for the three months ended July 31, 2021 and 2020. Sales to customers outside the U.S. were approximately \$25.7 million, and \$21.9 million for the nine months ended July 31, 2021 and 2020.

Our foreign operations in Mexico are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries in Mexico is the United States dollar (U.S. dollar). As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements and foreign currency transactions are recognized within cost of sales. We recognized foreign currency remeasurement losses in the current quarter. These losses were due primarily to certain long-term net peso receivables. Foreign currency remeasurement gains, net of losses, for the three months ended July 31, 2021 and 2020 was \$0.6 million and \$1.4 million. Foreign currency remeasurement gains, net of losses, for the nine months ended July 31, 2021 was \$1.2 million. Foreign currency remeasurement losses, net of gains, for the nine months ended July 31, 2020 was \$1.9 million.

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

|                  | United States | Mexico    | Consolidated |
|------------------|---------------|-----------|--------------|
| July 31, 2021    | \$ 89,218     | \$ 39,862 | \$ 129,080   |
| October 31, 2020 | \$ 95,110     | \$ 35,160 | \$ 130,270   |

### 3. Inventories

Inventories consist of the following (in thousands):

|                                  | July 31,<br>2021 | October 31,<br>2020 |
|----------------------------------|------------------|---------------------|
| Fresh fruit                      | \$ 20,659        | \$ 14,677           |
| Packing supplies and ingredients | 15,842           | 12,540              |
| Finished prepared foods          | 10,942           | 14,570              |
|                                  | <u>\$ 47,443</u> | <u>\$ 41,787</u>    |

Inventories are stated at the lower of cost or net realizable value. We periodically review the value of items in inventory and record any necessary write downs of inventory based on our assessment of market conditions. Inventory includes reserves of \$0.2 million and \$0.2 million in slow moving and obsolete packing supply inventory as of July 31, 2021 and October 31, 2020. No additional inventory reserve was considered necessary as of July 31, 2021 and October 31, 2020.

### 4. Related party transactions

Certain members of our Board of Directors market California avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. For the three months ended July 31, 2021 and 2020, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$10.4 million and \$9.1 million. For the nine months ended July 31, 2021 and 2020, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$15.4 million and \$15.3 million. Amounts payable to these Board members were \$4.5 million as of July 31, 2021. We did not have any amounts payable to these Board members as of October 31, 2020.

During the three months ended July 31, 2021 and 2020, we received \$0.1 million and \$0.2 million as dividend income from Limoneira Company (Limoneira). During the nine months ended July 31, 2021 and 2020, we received \$0.3 million and \$0.4 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. We paid rent expense to Limoneira totaling \$0.1 million for the three months ended July 31, 2021 and 2020. We paid rent expense to Limoneira totaling \$0.3 million for the nine months ended July 31, 2021 and 2020. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. As of July 31, 2021, we own approximately 9% of Limoneira's outstanding shares.

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

As of July 31, 2021, and October 31, 2020, we had an investment of \$4.3 million and \$6.0 million, representing Calavo’s 50% ownership in Don Memo, which was included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission and aforementioned advances. As of July 31, 2021 and October 31, 2020, we had outstanding advances of \$4.2 million and \$2.4 million to Don Memo. In October 2020, we entered into an infrastructure loan agreement with Don Memo for up to \$2.4 million secured by certain property and equipment of Don Memo. This infrastructure loan accrues interest at 7.25%. In October 2020, we funded \$0.7 million related to this loan agreement, and we funded an additional \$0.7 million, and \$0.6 million in the first, and second quarters of fiscal 2021, for a total outstanding balance at July 31, 2021 of \$2.0 million. This infrastructure loan agreement will mature in fiscal 2024. Of these infrastructure advances \$0.4 million was recorded as a receivable in prepaid and other current assets as of July 31, 2021. The remaining \$1.6 million of these infrastructure advances were recorded in other assets. During the three months ended July 31, 2021 and 2020, we incurred \$5.7 million and \$10.6 million of cost of sales to Don Memo pursuant to our purchase consignment agreement. During the nine months ended July 31, 2021 and 2020, we incurred \$9.6 million and \$15.2 million of cost of sales to Don Memo pursuant to our purchase consignment agreement.

We make advances to Belher for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Belher, net of our commission and aforementioned advances. We had grower advances due from Belher totaling \$3.5 million and \$4.5 million as of July 31, 2021 and October 31, 2020, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of \$1.8 million as of July 31, 2021 and October 31, 2020. Of these infrastructure advances \$1.8 million and \$0.9 million was recorded as a receivable in prepaid and other current assets as of July 31, 2021 and October 31, 2020. The remaining \$0.9 million of these infrastructure advances were recorded in other assets as of October 31, 2020. 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. During the three months ended July 31, 2021 and 2020, we incurred \$1.8 million and \$4.0 million of cost of sales to Belher pursuant to our purchase consignment agreement. During the nine months ended July 31, 2021 and 2020, we incurred \$16.3 million and \$23.6 million of cost of sales to Belher pursuant to our purchase consignment agreement.

In August 2015, we entered into a Shareholder’s Agreement with various Mexican partners and created Avocados de Jalisco, S.A.P.I. de C.V. (“Avocados de Jalisco”). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. As of July 31, 2021, this entity was approximately 83% owned by Calavo and was consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico, which began operations in June of 2017. During the three months ended July 31, 2021 and 2020, we purchased approximately \$2.2 million and \$3.5 million of avocados from the partners of Avocados de Jalisco. During the nine months ended July 31, 2021 and 2020, we purchased approximately \$5.4 million and \$5.4 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 12 for more information.

## 5. Other assets

Other assets consist of the following (in thousands):

|  | July 31,<br>2021 | October 31,<br>2020 |
|--|------------------|---------------------|
| Mexican IVA (i.e. value-added) taxes receivable (see note 11)    | \$ 36,978        | \$ 30,126           |
| Infrastructure advances to Agricola Belher and Agricola Don Memo | 1,641            | 1,215               |
| Other  | 1,387            | 1,217               |
|  | <u>\$ 40,006</u> | <u>\$ 32,558</u>    |

Intangible assets consist of the following (in thousands):

|                             | Weighted-Average Useful Life | July 31, 2021        |                     |                 | October 31, 2020     |                     |                  |
|-----------------------------|------------------------------|----------------------|---------------------|-----------------|----------------------|---------------------|------------------|
|                             |                              | Gross Carrying Value | Accum. Amortization | Net Book Value  | Gross Carrying Value | Accum. Amortization | Net Book Value   |
|                             |                              |                      |                     |                 |                      |                     |                  |
| Customer list/relationships | 7 years                      | \$ 17,340            | \$ (9,661)          | \$ 7,679        | \$ 17,340            | \$ (8,613)          | \$ 8,727         |
| Trade names                 | 11 years                     | 4,060                | (2,943)             | 1,117           | 4,060                | (2,852)             | 1,208            |
| Trade secrets/recipes       | 9 years                      | 630                  | (564)               | 66              | 630                  | (517)               | 113              |
| Brand name intangibles      | indefinite                   | 275                  | —                   | 275             | 275                  | —                   | 275              |
| Intangibles, net            |                              | <u>\$ 22,305</u>     | <u>\$ (13,168)</u>  | <u>\$ 9,137</u> | <u>\$ 22,305</u>     | <u>\$ (11,982)</u>  | <u>\$ 10,323</u> |

We anticipate recording amortization expense of \$0.4 million for the remainder of fiscal 2021, \$1.6 million for fiscal year 2022, \$1.5 million for fiscal year 2023, \$1.5 million for fiscal year 2024, and \$3.9 million thereafter.

## 6. Stock-Based Compensation

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the “2011 Plan”). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Shares were issuable under the 2011 Plan through December 2020. On April 21, 2021, the shareholders of Calavo approved the Calavo Growers, Inc. 2020 equity incentive plan. This is a ten-year plan, with up to 1,500,000 shares issuable through December 2031.

In April 2021, the Board of Directors approved the vesting of all of the remaining restricted shares outstanding to our former Chief Executive Officer and Board member. With this vesting, we recognized stock-based compensation of \$0.7 million for the nine months ended July 31, 2021.

On November 2, 2020, 11 of our non-employee directors were each granted 1,500 restricted shares, as part of their annual compensation (total of 16,500 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$67.97. On January 2, 2022, as long as the directors are still serving on the board, these shares will fully vest. These shares were granted pursuant to our 2011 Plan. The total

recognized stock-based compensation expense for these grants was \$0.3 million for the three months ended July 31, 2021. The total recognized stock-based compensation expense for these grants was \$0.6 million for the nine months ended July 31, 2021.

On November 2, 2020, our executive officers were granted a total of 9,334 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$67.97. These shares vest over two years, on an annual basis, beginning November 2, 2021. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was \$0.1 million for the three months ended July 31, 2021. The total recognized stock-based compensation expense for these grants was \$0.2 million for the nine months ended July 31, 2021.

On November 2, 2020, certain key employees were granted a total of 2,600 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$67.97. These shares vest over three years, on an annual basis, beginning November 2, 2021. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants were insignificant for the three months and for the nine months ended July 31, 2021.

In June 2021, our former chief financial officer, resigned from Calavo and 5,418 restricted shares were forfeited.

A summary of restricted stock activity, related to our 2011 Management Incentive 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                          | (50)             | \$ 78.14                     |                           |
| Forfeited                       | (5)              | \$ 63.77                     |                           |
| Granted                         | 28               | \$ 67.97                     |                           |
| Outstanding at July 31, 2021    | <u>49</u>        | <u>\$ 73.71</u>              | <u>\$ 2,754</u>           |

The total recognized stock-based compensation expense for restricted stock was \$0.6 million and \$0.9 million for the three months ended July 31, 2021 and 2020. The total recognized stock-based compensation expense for restricted stock was \$2.8 million and \$3.6 million for the nine months ended July 31, 2021 and 2020. Total unrecognized stock-based compensation expense totaled \$3.1 million as of July 31, 2021 and will be amortized through fiscal year 2023.

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

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

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 July 31, 2021    | <u>14</u>        | <u>\$ 47.17</u>                 | <u>\$ 128</u>             |
| Exercisable at July 31, 2021    | <u>12</u>        | <u>\$ 45.59</u>                 | <u>\$ 129</u>             |

At July 31, 2021, outstanding and exercisable stock options had a weighted-average remaining contractual term of 2.8 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three and nine months ended July 31, 2021 and 2020.

## 7. Other events

### *Dividend payment*

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

### *Litigation*

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

### *Mexico tax audits*

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

### **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. \$109.0 million USD at July 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 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.

## 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 approx. \$128.8 million USD at July 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 July 31, 2021 to the amount of \$3 billion Mexican pesos (approx. \$150 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 July 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 footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment.

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. It should be noted that although the SAT

is not obligated to act upon the Reconsideration, we believe that 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.

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 \$0.1 million USD of related professional fees, which have been recorded in Expenses related to Mexican Tax matters.

## 8. Fair value measurements

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

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

|  | <u>Level 1</u>   | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>     |
|--|------------------|----------------|----------------|------------------|
| (All amounts are presented in thousands)         |                  |                |                |                  |
| <b>Assets at Fair Value at July 31, 2021:</b>    |                  |                |                |                  |
| Investment in Limoneira Company <sup>(1)</sup>   | \$ 30,040        | -              | -              | \$ 30,040        |
| Total assets at fair value                       | <u>\$ 30,040</u> | <u>-</u>       | <u>-</u>       | <u>\$ 30,040</u> |
| <b>Assets at Fair Value at October 31, 2020:</b> |                  |                |                |                  |
| Investment in Limoneira Company <sup>(1)</sup>   | \$ 23,197        | -              | -              | \$ 23,197        |
| Total assets at fair value                       | <u>\$ 23,197</u> | <u>-</u>       | <u>-</u>       | <u>\$ 23,197</u> |

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company common stock. We currently own approximately 9% of Limoneira's outstanding common stock. These securities are measured at fair value using quoted market prices. For the three months ended July 31, 2021 and 2020, we recognized losses of \$0.3 million and gains of \$0.2 million on the consolidated condensed statement of operations. For the nine months ended July 31, 2021 and 2020, we recognized gains of \$6.8 million and losses of \$9.1 million on the consolidated condensed statement of operations.

## 9. Noncontrolling interest

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

| <u>Avocados de Jalisco noncontrolling interest</u>                        | <u>Three months ended July 31,</u> |                 |
|---|------------------------------------|-----------------|
|   | <u>2021</u>                        | <u>2020</u>     |
| Noncontrolling interest, beginning  | \$ 1,385                           | \$ 1,496        |
| Net income attributable to noncontrolling interest of Avocados de Jalisco | 66                                 | 64              |
| Noncontrolling interest, ending   | <u>\$ 1,451</u>                    | <u>\$ 1,560</u> |

| <u>Avocados de Jalisco noncontrolling interest</u>                      | <u>Nine months ended July 31,</u> |                 |
|---|-----------------------------------|-----------------|
|   | <u>2021</u>                       | <u>2020</u>     |
| Noncontrolling interest, beginning                                      | \$ 1,472                          | \$ 1,688        |
| Net loss attributable to noncontrolling interest of Avocados de Jalisco | (21)                              | (128)           |
| Noncontrolling interest, ending   | <u>\$ 1,451</u>                   | <u>\$ 1,560</u> |

## 10. Earnings per share

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

|  | <u>Three months ended July 31,</u> |               |
|--|------------------------------------|---------------|
|  | <u>2021</u>                        | <u>2020</u>   |
| <b>Numerator:</b>  |                                    |               |
| Net loss attributable to Calavo Growers, Inc.                  | \$ (12,981)                        | \$ (15,636)   |
| <b>Denominator:</b>  |                                    |               |
| Weighted average shares – Basic                                | 17,630                             | 17,586        |
| Effect of dilutive securities – Restricted stock/options       | —                                  | —             |
| Weighted average shares – Diluted                              | <u>17,630</u>                      | <u>17,586</u> |
| <b>Net loss per share attributable to Calavo Growers, Inc:</b> |                                    |               |
| Basic  | \$ (0.74)                          | \$ (0.89)     |
| Diluted  | \$ (0.74)                          | \$ (0.89)     |

|   | <u>Nine months ended July 31,</u> |               |
|---|-----------------------------------|---------------|
|   | <u>2021</u>                       | <u>2020</u>   |
| <b>Numerator:</b>   |                                   |               |
| Net Income (loss) attributable to Calavo Growers, Inc.                  | \$ 1,137                          | \$ (19,852)   |
| <b>Denominator:</b>   |                                   |               |
| Weighted average shares - Basic   | 17,616                            | 17,558        |
| Effect on dilutive securities – Restricted stock/options                | 53                                | —             |
| Weighted average shares - Diluted                                       | <u>17,669</u>                     | <u>17,558</u> |
| <b>Net income (loss) per share attributable to Calavo Growers, Inc:</b> |                                   |               |
| Basic   | \$ 0.06                           | \$ (1.13)     |
| Diluted   | \$ 0.06                           | \$ (1.13)     |

## 11. Mexican IVA taxes receivable

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

As of July 31, 2021, and October 31, 2020, CDM IVA receivables totaled \$37.0 million (733.8 million Mexican pesos) and \$30.2 million (640.7 million Mexican pesos). Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2021, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances 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 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. Furthermore, our internationally recognized tax advisors believe that there are legal grounds to prevail in the Federal Tax Court and that therefore, the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

## **12. FreshRealm Separation**

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

Calavo was previously a limited liability company member in FreshRealm and was a party to that certain FreshRealm, LLC Seventh Amended and Restated Limited Liability Company Agreement, dated as of February 27, 2019, by and among FreshRealm and its members. Calavo and FreshRealm were also parties to that certain Sixth Amended and Restated Senior Promissory Note, effective August 10, 2018, as amended (the "Prior Note"), pursuant to which Calavo loaned to FreshRealm principal plus accrued interest in the total sum of \$34.5 million. 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 July 31, 2021, with respect to a sale or success event.

### **13. Credit Facility**

On January 29, 2021, we entered into the Third Amendment to Credit Agreement (the “Third Amendment”) with Farm Credit West, PCA and Bank of America, N.A. relating to our Credit Agreement dated as of June 14, 2016, First Amendment to Credit Agreement dated as of August 29, 2016, and Second Amendment to Credit Agreement dated as of February 28, 2019 (collectively, the “Credit Facility”). This Third Amendment, among other things, provides for a five-year extension of the maturity date to January 29, 2026, a \$20 million increase in the revolving commitment to \$100 million (from \$80 million) (for a total facility size of \$150 million if the \$50 million accordion is exercised, up from a total size of \$130 million), and a 25 basis point increase in the interest rate. The new interest rate schedules are effective mid-June 2021. The weighted-average interest rate under the Credit Facility was 2.9% and 1.9% at July 31, 2021 and October 31, 2020. Under the Credit Facility, we had \$36.0 million and \$20.6 million outstanding as of July 31, 2021 and October 31, 2020. 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 July 31, 2021.

The Credit Facility agreement contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all financial covenants at July 31, 2021.

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

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

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

The 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. 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.

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

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

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the fiscal year ended October 31, 2020 of Calavo Growers, Inc. ("we", "Calavo", or the "Company").

### **Recent Developments**

#### *COVID-19 Pandemic Impact*

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.

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

*Litigation*

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

*Mexico tax audits*

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

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. \$109.0 million USD at July 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.

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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.

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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 footnote 11 regarding IVA refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment.

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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:

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  - 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. It should be noted that although the SAT is not obligated to act upon the Reconsideration, we believe that 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.

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 \$0.1 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.

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, 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 July 31, 2021, with respect to a sale or success event.

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

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

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

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

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

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

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

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

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

|   | Three months ended<br>July 31, |             | Nine months ended<br>July 31, |             |
|---|--------------------------------|-------------|-------------------------------|-------------|
|   | 2021                           | 2020        | 2021                          | 2020        |
| Net income (loss) attributable to Calavo Growers, Inc.        | \$ (12,981)                    | \$ (15,636) | \$ 1,137                      | \$ (19,852) |
| Non-GAAP adjustments:   |                                |             |                               |             |
| Non-cash losses recognized from unconsolidated entities (a)   | 469                            | 1,170       | 1,755                         | 6,375       |
| Loss (Recovery) from FreshRealm (b)                           | (6,000)                        | 37,192      | (6,130)                       | 37,192      |
| Certain management transition expenses (c)                    | —                              | —           | 685                           | 1,119       |
| Acquisition costs (d)   | —                              | —           | 262                           | 510         |
| Net (gain) loss on Limoneira shares (e)                       | 252                            | (218)       | (6,843)                       | 9,125       |
| RFG rent expense add back (f)                                 | 108                            | —           | 324                           | —           |
| Professional expenses related to FreshRealm                   | —                              | —           | 141                           | —           |
| Consulting expenses related to restructuring (g)              | 125                            | —           | 125                           | —           |
| Mexican tax matters (h)                                       | 13,815                         | —           | 13,815                        | —           |
| Tax impact of adjustments (i)                                 | 1,168                          | (9,596)     | 2,332                         | (13,762)    |
| Adjusted net income (loss) attributed to Calavo Growers, Inc. | \$ (3,044)                     | \$ 12,912   | \$ 7,603                      | \$ 20,707   |
| Calavo Growers, Inc.’s net income (loss) per share:           |                                |             |                               |             |
| Diluted EPS (GAAP)  | \$ (0.74)                      | \$ (0.89)   | \$ 0.06                       | \$ (1.13)   |
| Adjusted Diluted EPS  | \$ (0.17)                      | \$ 0.73     | \$ 0.43                       | \$ 1.18     |
| Number of shares used in per share computation:               |                                |             |                               |             |
| Diluted   | 17,630                         | 17,586      | 17,669                        | 17,558      |

- (a) For the three and nine months ended July 31, 2021, we realized losses from Agricola Don Memo totaling \$0.5 million and \$1.8 million. For the three and nine months ended July 31, 2020, we realized income from Agricola Don Memo totaling \$0.6 million and \$0.9 million. For the three and nine months ended July 31, 2020, we recorded \$1.8 million \$7.2 million of non-cash losses from FreshRealm.
- (b) In July 2021, as part of the FreshRealm Separation Agreement (See Note 12), 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. During the third quarter of fiscal 2020, we recorded an impairment of 100% of our equity investment of \$2.8 million, and we recorded a reserve for collectability of 100% of our note receivable of \$34.2 million (which included accrued interest of \$4.1 million), and \$0.2 million in trade accounts receivable as of July 31, 2020, which resulted in a loss of \$37.2 million.
- (c) The nine months ended July 31, 2021 includes higher stock-based compensation for the early vesting of restricted stock for the retirement of our former Chief Executive Officer and Board member. The nine months ended July 31, 2020 includes higher stock-based compensation expense related to senior management transitions, which does not impact the underlying cost structure of the company.
- (d) In the first quarter of 2021, we incurred professional service costs related to a considered but non-consummated acquisition. In the first quarter of 2020, we incurred transaction expenses related to the acquisition of SFFI Company, Inc. doing business as Simply Fresh Fruit.
- (e) For the three and nine months ended July 31, 2021, we recorded \$0.3 million in unrealized gains and \$6.8 million in unrealized losses related to these mark-to-market adjustments. For the three and nine months ended July 31, 2020, we recorded \$0.2 million in unrealized gains and \$9.1 million in unrealized losses related to these mark-to-market adjustments.
- (f) For the three and nine months ended July 31, 2021, we incurred \$0.1 million and \$0.3 million related to rent paid for RFG corporate office space that we have vacated and plan to sublease.

(g) For the three and nine months ended July 31, 2021, we recorded \$0.1 million of consulting expenses related to an enterprise-wide strategic business operations study conducted by a third-party management consulting organization for the purpose of restructuring to improve the profitability of the organization and efficiency of its operations.

(h) 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 included in this Quarterly Report for more 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 \$0.1 million of related professional fees have also been recorded as Expenses related to the Mexican tax matters. See Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

(i) Tax impact of non-GAAP adjustments are based on effective year-to-date tax rates.

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

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

|   | Three months ended |                    | Nine months ended |                    |
|---|--------------------|--------------------|-------------------|--------------------|
|   | July 31,           |                    | July 31,          |                    |
|   | 2021               | 2020               | 2021              | 2020               |
| Net income (loss) attributable to Calavo Growers, Inc.      | \$ (12,981)        | \$ (15,636)        | \$ 1,137          | \$ (19,852)        |
| Interest Income   | 31                 | (299)              | (58)              | (1,933)            |
| Interest Expense  | 208                | 203                | 573               | 732                |
| Provision (benefit) for Income Taxes (h)                    | 12,358             | (4,682)            | 17,073            | (6,540)            |
| Depreciation & Amortization                                 | 4,554              | 4,204              | 12,925            | 11,850             |
| Stock-Based Compensation                                    | 554                | 852                | 2,818             | 3,569              |
| <b>EBITDA</b>   | <b>\$ 4,724</b>    | <b>\$ (15,358)</b> | <b>\$ 34,468</b>  | <b>\$ (12,174)</b> |
| <b>Adjustments:</b>   |                    |                    |                   |                    |
| Non-cash losses recognized from unconsolidated entities (a) | 469                | 1,170              | 1,755             | 6,375              |
| Net (gain) loss on Limoneira shares (e)                     | 252                | (218)              | (6,843)           | 9,125              |
| Loss (Recovery) from FreshRealm (b)                         | (6,000)            | 37,192             | (6,130)           | 37,192             |
| Professional expenses related to FreshRealm                 | —                  | —                  | 141               | —                  |
| RFG rent expense add back (f)                               | 108                | —                  | 324               | —                  |
| Acquisition costs (d)                                       | —                  | —                  | 262               | 510                |
| Consulting expenses related to restructuring (g)            | 125                | —                  | 125               | —                  |
| Expenses related to Mexican tax matters (h)                 | 1,342              | —                  | 1,342             | —                  |
| <b>Adjusted EBITDA</b>                                      | <b>\$ 1,020</b>    | <b>\$ 22,786</b>   | <b>\$ 25,444</b>  | <b>\$ 41,028</b>   |
| <b>Adjusted EBITDA per dilutive share</b>                   | <b>\$ 0.06</b>     | <b>\$ 1.30</b>     | <b>\$ 1.44</b>    | <b>\$ 2.34</b>     |

See prior page for footnote references

**Net Sales**

The following table summarizes our net sales by business segment for each of the three and nine months ended July 31, 2021 and 2020:

|                                  | Three months ended July 31, |            |                   | Nine months ended July 31, |             |                   |
|----------------------------------|-----------------------------|------------|-------------------|----------------------------|-------------|-------------------|
|                                  | 2021                        | Change     | 2020              | 2021                       | Change      | 2020              |
| <b>Gross sales:</b>              |                             |            |                   |                            |             |                   |
| Fresh products                   | \$ 161,580                  | (0)%       | \$ 162,139        | \$ 438,725                 | (6)%        | \$ 466,197        |
| RFG                              | 103,786                     | 14 %       | 90,923            | 290,380                    | (5)%        | 305,386           |
| Calavo Foods                     | 21,313                      | 12 %       | 18,967            | 58,508                     | 2 %         | 57,304            |
| Less intercompany eliminations   | (1,671)                     | 4 %        | (1,604)           | (5,206)                    | 32 %        | (3,946)           |
| Total net sales                  | <u>\$ 285,008</u>           | <u>5 %</u> | <u>\$ 270,425</u> | <u>\$ 782,407</u>          | <u>(5)%</u> | <u>\$ 824,941</u> |
| <b>As a percentage of sales:</b> |                             |            |                   |                            |             |                   |
| Fresh products                   | 56.4 %                      |            | 59.6 %            | 55.7 %                     |             | 56.2 %            |
| RFG                              | 36.2 %                      |            | 33.4 %            | 36.9 %                     |             | 36.8 %            |
| Calavo Foods                     | 7.4 %                       |            | 7.0 %             | 7.4 %                      |             | 6.9 %             |
|                                  | <u>100.0 %</u>              |            | <u>100.0 %</u>    | <u>100.0 %</u>             |             | <u>100.0 %</u>    |

**Summary**

Net sales for the three months ended July 31, 2021, compared to the corresponding period in fiscal 2020, increased by \$14.6 million, or approximately 5%. The increase was due to an increase in the RFG and Calavo Foods segments, partially offset by a decline in the Fresh products segment. Net sales for the nine months ended July 31, 2021, compared to the corresponding period in fiscal 2020, decreased by \$42.4 million, or approximately 5%. This decrease was due to declines across the Fresh products and RFG segments.

For the three months ended July 31, 2021, the decrease in Fresh product sales was due to a decline in sales of tomatoes. For the nine months ended July 31, 2021, the decrease in Fresh product sales was due to declines in sales of avocados and tomatoes. For the three months ended July 31, 2021, the increase in RFG sales was due primarily to increased sales from fresh-cut fruit & vegetables and prepared foods products. For the nine months ended July 31, 2021, the decrease in RFG sales was due primarily to decreased sales from fresh-cut fruit & vegetables and prepared foods products. For the three and nine months ended July 31, 2021, the increase in Calavo Foods was due primarily to a decrease in the sales of prepared avocado products. See discussion below for further details.

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

**Fresh products**

**Three Months Ended July 31, 2021 vs. Three Months Ended July 31, 2020**

Net sales for the Fresh products business decreased by approximately \$0.6 million, or less than 1%, for the third quarter of fiscal 2021 compared to the corresponding period in fiscal 2020. This decrease in Fresh product sales during the third quarter of fiscal 2021 was primarily related to decreased sales prices of tomatoes due to higher supply of tomatoes in the marketplace. Partially offsetting this decrease, was an increase in avocado sales.

Sales of tomatoes decreased \$2.5 million, or 18%, for the third quarter of 2021, when compared to the 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 prior year period.

Sales of avocados increased \$1.9 million, or 1%, for the third quarter of 2021 compared to the prior year period. The average avocado sales price per carton increased 10% compared to the prior year period. This increase in the sales price per carton was mainly due to a decrease of supply of avocados in the marketplace. The volume of avocados sold in the third quarter of 2021 decreased 8% compared to the prior year period.

Nine Months Ended July 31, 2021 vs. Nine Months Ended July 31, 2020

Net sales for the Fresh products business decreased by approximately \$27.5 million, or 6%, for the nine months ended July 31, 2021, compared to the corresponding period in fiscal 2020. This decrease was primarily related to decreased sales prices of avocados due to higher supply of avocados in the marketplace. In addition, tomato sales decreased due to a decline of tomato sales prices.

Sales of avocados decreased \$15.9 million, or 4%, for the nine months ended July 31, 2021, compared to the prior year period. The average avocado sales price per carton decreased 5% compared to the prior year period. This decrease in the sales price per carton was mainly due to an increase of supply of avocados in the marketplace. The volume of avocados sold in the nine months ended July 31, 2021 increased 1% compared to the prior year period.

Sales of tomatoes decreased \$12.2 million, or 26%, for the nine months ended July 31, 2021, compared to the prior year period. This decrease in tomato sales was primarily due to a 24% decrease in the average sales price per carton compared to the prior year period, in addition to a decrease of 3% of the number of tomato cartons sold due to a delay in the start of the growing season.

*RFG*

Three Months Ended July 31, 2021 vs. Three Months Ended July 31, 2020

Net sales for RFG for the quarter ended July 31, 2021, compared to the corresponding period in fiscal 2020, increased \$12.9 million, or 14%. The increase was primarily due to additional sales in regions where RFG has added manufacturing capacity.

Nine Months Ended July 31, 2021 vs. Nine Months Ended July 31, 2020

Net sales for RFG for the nine months end July 31, 2021, compared to the corresponding period in fiscal 2020, decreased \$15.0 million, or 5%. 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 nine months ended July 31, 2021.

*Calavo Foods*

Three Months Ended July 31, 2021 vs. Three Months Ended July 31, 2020

Net sales for Calavo Foods for the quarter ended July 31, 2021, compared to the corresponding period in fiscal 2020, increased \$2.3 million, or 12%. Sales of prepared avocado products increased by approximately \$2.4 million, or 13%, primarily related to an increase in the total volume of pounds sold.

Nine Months Ended July 31, 2021 vs. Nine Months Ended July 31, 2020

Net sales for Calavo Foods for the nine months ended July 31, 2021, compared to the corresponding period in fiscal 2020, increased \$1.2 million, or 2%. Sales of prepared avocado products increased by approximately \$1.2 million, or 2%, 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.

### Gross Profit

The following table summarizes our gross profit and gross profit percentages by business segment for the three and nine months ended July 31, 2021 and 2020:

|                                  | Three months ended July 31, |              |                  | Nine months ended July 31, |              |                  |
|----------------------------------|-----------------------------|--------------|------------------|----------------------------|--------------|------------------|
|                                  | 2021                        | Change       | 2020             | 2021                       | Change       | 2020             |
| <b>Gross Profit:</b>             |                             |              |                  |                            |              |                  |
| Fresh products                   | \$ 12,202                   | (31)%        | \$ 17,734        | \$ 40,355                  | 4 %          | \$ 38,721        |
| RFG                              | (5,589)                     | (169)%       | 8,055            | (3,324)                    | (124)%       | 13,666           |
| Calavo Foods                     | 1,254                       | (75)%        | 5,046            | 11,275                     | (31)%        | 16,331           |
| <b>Total gross profit</b>        | <b>\$ 7,867</b>             | <b>(74)%</b> | <b>\$ 30,835</b> | <b>\$ 48,306</b>           | <b>(30)%</b> | <b>\$ 68,718</b> |
| <b>Gross profit percentages:</b> |                             |              |                  |                            |              |                  |
| Fresh products                   | 7.6 %                       |              | 10.9 %           | 9.2 %                      |              | 8.3 %            |
| RFG                              | (5.4)%                      |              | 8.9 %            | (1.1)%                     |              | 4.5 %            |
| Calavo Foods                     | 5.9 %                       |              | 26.6 %           | 19.3 %                     |              | 28.5 %           |
| Consolidated                     | 2.8 %                       |              | 11.4 %           | 6.2 %                      |              | 8.3 %            |

### Summary

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

Gross profit decreased by approximately \$23.0 million, or 74%, for the third quarter of fiscal 2021 compared to the corresponding period in fiscal 2020. The decrease was primarily attributable to gross profit declines across all segments. Gross profit decreased by approximately \$20.4 million, or 30%, for the nine months ended July 31, 2021, compared to the corresponding period in fiscal 2020. The decrease was primarily attributable to gross profit declines in the Calavo Foods and RFG segments, partially offset by a gross margin improvement in the Fresh products segment.

### Fresh products

The decrease in our Fresh products segment gross profit percentage for the quarter ended July 31, 2021, was the result of decreased gross profit for avocados. For the third quarter of fiscal 2021, the gross profit percentage for avocados was 7.5% compared to 11.0% for the third quarter of 2020. In fiscal 2021, we were unable to increase prices sufficiently to match increases in fruit costs. In addition, we experienced increased labor and freight costs, and less desirable fruit that negatively impacted gross margin for the Fresh products segment.

Gross profit for the quarter was also affected by the strengthening of the U.S. dollar in relation to the Mexican peso during the quarter, resulting in a \$0.6 million net gain related the remeasurement of peso-dominated net assets at our Mexican subsidiaries. During the same period last year, we had a remeasurement gain of \$1.4 million.

The increase in our Fresh products segment gross profit percentage for the nine months ended July 31, 2021 was the result of increased gross profit for avocados. For the nine months ended July 31, 2021, the gross profit percentage for avocados was 9.1% compared to 8.2% for the prior year period. Gross profit benefited for the nine-month period by the strengthening of the U.S. dollar in relation to the Mexican peso during the nine months ended July 31, 2021, which resulted in a \$1.1 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 \$1.9 million.

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

**RFG**

RFG's gross profit (loss) percentage for the quarter ended July 31, 2021 was (5.4)%, compared to 8.9% for the prior year period. RFG's gross profit (loss) percentage for the nine months ended July 31, 2021 was (1.1)%, compared to 4.5% for the prior year period. The declines in gross profit for the quarter and nine months ended July 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, and extraordinary weather events. 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.

Lastly, in July 2021, we reserved \$2.3 million as allowance for disputed accounts receivable from certain significant customers from the RFG segment that we deemed were uncollectible.

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 you that such price increases will not cause a loss of sales, will improve margins in our RFG and Foods segments or that we will be able to undertake future initiatives to drive growth.

Management has considered the impact of current operating results as well as expected future results and has concluded that there were no impairment indicators as of July 31, 2021. This is consistent with the Company's previous assessments which had reflected a significant cushion between the Company's fair value determinations and the recorded carrying values of the respective intangible assets. Management will continue to evaluate the impact of operating results on these considerations in future quarters.

**Calavo Foods**

Calavo Foods' gross profit percentage for the third quarter of fiscal 2021 was 5.9%, compared to 26.6% for the prior year period. Calavo Foods' gross profit percentage for the nine months ended July 31, 2021 was 19.3%, compared to 28.5% for the prior year period. The decreases in Calavo Foods gross profit percentage were due primarily to higher per pound fruit costs and manufacturing costs. The increase in manufacturing costs for the nine months ended July 31, 2021, compared to the prior year period is mainly due to a decrease in the pounds produced. Any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. dollar and the Mexican peso may have a material impact on future gross profit for our Calavo Foods segment.

**Selling, General and Administrative**

|                                     | Three months ended July 31, |                                  | Nine months ended July 31, |                                  |
|-------------------------------------|-----------------------------|----------------------------------|----------------------------|----------------------------------|
|                                     | 2021                        | Change<br>(Dollars in thousands) | 2021                       | Change<br>(Dollars in thousands) |
| Selling, general and administrative | \$ 12,387                   | (8)% \$ 13,424                   | \$ 40,374                  | (9)% \$ 44,226                   |
| Percentage of net sales             | 4.3 %                       |                                  | 5.0 %                      | 5.2 %                            |

Selling, general and administrative expenses of \$12.4 million for the three months ended July 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 \$1.0 million, or 8%, for the three months ended July 31, 2021 compared to the prior year period. This decrease was primarily due to a decrease in salaries and benefit expense due to the eliminations of staff positions (\$0.3 million), stock-based compensation decreased due to less amortization related to MIP stock awards from prior year (\$0.3 million) and a decrease in insurance expense (\$0.3 million).

Selling, general and administrative expenses decreased by \$3.9 million, or 9%, for the nine months ended July 31, 2021 compared to the prior year period. This decrease was primarily due to a decrease in salaries and benefit expense due to the eliminations of staff positions (\$2.3 million), prior year stock grants for certain management transition expenses (\$1.1 million) and a decrease in broker commission (\$0.7 million). Partially offsetting these decreases was the vesting of restricted stock for the retirement of our former Chairman (\$0.7 million).

**Loss from unconsolidated entities**

|                                   | Three months ended July 31, |        |            | Nine months ended July 31, |        |            |
|-----------------------------------|-----------------------------|--------|------------|----------------------------|--------|------------|
|                                   | 2021                        | Change | 2020       | 2021                       | Change | 2020       |
|                                   | (Dollars in thousands)      |        |            | (Dollars in thousands)     |        |            |
| Loss from unconsolidated entities | \$ (469)                    | (60)%  | \$ (1,170) | \$ (1,755)                 | (72)%  | \$ (6,375) |

Losses from unconsolidated entities includes our participation in earnings or losses from our investments in FreshRealm and Don Memo. For the three and nine months ended July 31, 2021, we realized losses from Agricola Don Memo totaling \$0.5 million and \$1.8 million. For the three and nine months ended July 31, 2020, we realized income from Agricola Don Memo totaling \$0.6 million and \$0.9 million. For the three and nine months ended July 31, 2020, we realized losses from FreshRealm totaling \$1.8 million and \$7.2 million.

**Income Taxes (Provision) Benefit**

|                                | Three months ended July 31, |        |          | Nine months ended July 31, |        |          |
|--------------------------------|-----------------------------|--------|----------|----------------------------|--------|----------|
|                                | 2021                        | Change | 2020     | 2021                       | Change | 2020     |
| Income tax benefit (provision) | \$ (12,358)                 | (364)% | \$ 4,682 | \$ (17,073)                | (361)% | \$ 6,540 |
| Effective tax rate             | (2,218.7)%                  |        | 23.1 %   | 93.9 %                     |        | 24.7 %   |

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

In June 2021, we paid \$2.4 million related to the settlement of the 2011 Assessment (See Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information). Of this amount, \$1.5 million was included 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 statement of operations.

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 financials, which has been recorded as a discrete item in tax provision expense. An additional \$0.1 million of related professional fees have also been recorded as expenses related to the Mexican tax matters. See Note 7 to the consolidated condensed financial statements included in this Quarterly Report for further information.

For the first quarter ended in fiscal 2020, we recorded a discrete income tax benefit of approximately \$0.2 million, pursuant to ASU 2016-09, *Improvements to Employee Share-based Payment Accounting*. Our effective tax rate was higher in the first quarter of fiscal 2020 as a result of discrete excess tax benefits on vesting share-based compensation in addition to the tax benefit associated with the quarter-to-date loss. We recognize the effects of tax legislation in the period in which the law is enacted. Our deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years we estimate the related temporary differences to reverse.

**Liquidity and Capital Resources**

Cash provided by operating activities was \$12.4 million for the nine months ended July 31, 2021, compared to cash used by operating activities of \$20.4 million for the corresponding period in fiscal 2020. Cash used by operating activities for the nine months ended July 31, 2021 reflect primarily our net income of \$1.1 million, plus add-backs for

non-cash activities (depreciation and amortization, stock-based compensation expense, provision for losses on accounts receivable, losses from unconsolidated entities, net gains or losses on Limoneira shares, deferred taxes, loss on disposal of property, plant and equipment, loss on the reserve for FreshRealm, SFFI, and gain on the sale of the Temecula packinghouse) of \$4.3 million and a net increase in the components of our working capital of approximately \$7.0 million.

Increases in operating cash flows caused by working capital changes include an increase in payable to growers of \$18.7 million, a net increase in accounts payable, accrued expenses and other liabilities of \$14.5 million, a decrease in income taxes receivable of \$4.0 million, and a decrease in prepaid expenses and other current assets of \$1.4 million, partially offset by, an increase in accounts receivable of \$16.1 million, an increase in other assets of \$6.1 million, an increase in inventory of \$5.7 million, and an increase in advances to suppliers of \$3.6 million.

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

Cash used in investing activities was \$8.5 million for the nine months ended July 31, 2021, which primarily related to the purchases of property, plant and equipment of \$9.6 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.

Cash used in financing activities was \$6.6 million for the nine months ended July 31, 2021, which related principally 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 \$0.7 million, partially offset by, net proceeds on our credit facilities totaling \$15.5 million

Our principal sources of liquidity are our existing cash balances, cash generated from operations, amounts available for borrowing under our existing Credit Facility, and our investment in Limoneira shares. Restricted cash, cash and cash equivalents as of July 31, 2021 and October 31, 2020 totaled \$1.3 million and \$4.1 million. Our working capital at July 31, 2021 was \$57.6 million, compared to \$29.6 million at October 31, 2020.

We believe that cash flows from operations, the available Credit Facility, and other sources will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for at least the next twelve months. We will continue to pursue grower recruitment opportunities and expand relationships with retail and/or foodservice customers to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Farm Credit West as joint lead arranger. Under the terms of this agreement, we may draw on funds for both working capital and long-term productive asset purchases. Total credit available under this agreement is \$100 million and it expires in January 2026. See Note 13 to the consolidated condensed financial statements included in this Quarterly Report for more information. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding \$50 million. For our Credit Facility, the weighted-average interest rate was 2.9% and 1.9% at July 31, 2021 and October 31, 2020. Under the Credit Facility, we had \$36.0 million and \$20.6 million outstanding as July 31, 2021 and October 31, 2020. As of July 31, 2021, we have \$64 million of our line of credit available.

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

ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at July 31, 2021 and at the date of this Quarterly Report.

### Contractual Obligations

There have been no material changes to our contractual commitments, other than the Mexican tax matters discussed in footnote 7, from those previously disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2020. For a summary of the contractual commitments at October 31, 2020, see Part II, Item 7, in our 2020 Annual Report on Form 10-K.

### Impact of Recently Issued Accounting Pronouncements

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

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

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

| (All amounts in thousands)                     | Expected maturity date July 31, |      |      |      |        |            | Total     | Fair Value |
|--|---------------------------------|------|------|------|--------|------------|-----------|------------|
|  | 2022                            | 2023 | 2024 | 2025 | 2026   | Thereafter |           |            |
| <b>Assets</b>                                  |                                 |      |      |      |        |            |           |            |
| Restricted cash, cash and cash equivalents (1) | \$ 1,338                        | \$ — | \$ — | \$ — | \$ —   | \$ —       | \$ 1,338  | \$ 1,338   |
| Accounts receivable (1)                        | 79,979                          | —    | —    | —    | —      | —          | 79,979    | 79,979     |
| Advances to suppliers (1)                      | 8,703                           | —    | —    | —    | —      | —          | 8,703     | 8,703      |
| <b>Liabilities</b>                             |                                 |      |      |      |        |            |           |            |
| Payable to growers (1)                         | \$ 30,040                       | \$ — | \$ — | \$ — | \$ —   | \$ —       | \$ 30,040 | \$ 30,040  |
| Accounts payable (1)                           | 10,424                          | —    | —    | —    | —      | —          | 10,424    | 10,424     |
| Borrowings pursuant to credit facilities (1)   | —                               | —    | —    | —    | 36,000 | —          | 36,000    | 36,000     |

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

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

Our Mexican-based operations transact a significant portion of business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Management does, however, evaluate this opportunity from time to time. Total foreign currency remeasurement gains for the three months ended July 31, 2021 and 2020, net of losses, was \$0.6 million and \$1.4 million. Total foreign currency remeasurement gains for the nine months ended July 31, 2021, net of losses, was \$1.1 million. Total foreign currency remeasurement losses for the nine months ended July 31, 2020, net of gains, was \$1.9 million.

#### ITEM 4. CONTROLS AND PROCEDURES

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

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

#### PART II. OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

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

##### ITEM 1A. RISK FACTORS

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

***The recovery from the COVID-19 pandemic and the current economic climate is increasing labor costs, commodity costs and logistical costs which 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. These factors and others caused a significant decline in gross margin for our RFG segment and on a companywide basis for the three months ended July 31, 2021 compared to the prior year period.

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.

***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.

***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. Both of these offices will be held on an interim basis until we are able to recruit qualified replacements. 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.

***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. \$128.8 million USD at July 31, 2021) related to a fiscal 2013 tax audit. This amount has been adjusted for inflation as of July 31, 2021 to the amount of \$3 billion Mexican pesos (approx. \$150 million USD). Additionally, the tax authorities have determined that we owe our employees profit-sharing liability, totaling approximately \$118 million Mexican pesos (approx. \$5.8 million USD at July 31, 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 that the SAT is ultimately able to recover.

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

In December 2020, Calavo withheld 12,448 shares from certain officers for the payments of minimum withholding of taxes on the net share settlement of equity awards. In February 2021, Calavo withheld 1,664 shares from our chief executive officer for the payment of minimum withholding of taxes on the net share settlement of equity awards. In May 2021, Calavo withheld 603 shares from our former chief financial officer for the payment of minimum withholding of taxes on the net share settlement of equity awards.

## ITEM 6. EXHIBITS

- 10.1 [Separation Agreement dated June 16<sup>th</sup>, 2021 by and between Calavo Growers, Inc. and Kevin Manion](#) <sup>(1)</sup>
- 10.2 [Independent Contractor Agreement dated June 17<sup>th</sup>, 2021 by and between Calavo Growers, Inc. and Kevin Manion](#) <sup>(1)</sup>
- 31.1 [Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#) \*
- 31.2 [Certification of Principal Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#) \*
- 32.1 [Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.](#) \*
- 101 The following financial information from the Quarterly Report on Form 10-Q of Calavo Growers, Inc. for the quarter ended July 31, 2021, formatted in Inline XBRL (Extensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of July 31, 2021 and October 31, 2020; (2) Consolidated Condensed Statements of Operations for the three and nine months ended July 31, 2021 and 2020; (3) Consolidated Condensed Statements of Cash Flows for the three and nine months ended July 31, 2021 and 2020; (4) Consolidated Statements of Shareholders' Equity for the three and nine months ended July 31, 2021 and 2020; and (5) Notes to Consolidated Condensed Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL).

(1) Previously filed on June 16, 2021 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

\* Filed with this Form 10-Q.

**SIGNATURES**

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

Calavo Growers, Inc.  
(Registrant)

Date: September 8, 2021

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

Date: September 8, 2021

By /s/ Farha Aslam  
Farha Aslam  
Chief Financial Officer  
(Principal Financial Officer)

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

I, James Gibson, certify that:

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

Date: September 8, 2021

/s/ James Gibson  
James Gibson  
Chief Executive Officer

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

I, Farha Aslam, certify that:

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

Date: September 8, 2021

/s/ Farha Aslam

Farha Aslam  
Chief Financial Officer  
(Principal Financial Officer)

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WRITTEN STATEMENT OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER

Each of the undersigned, the Chief Executive Officer, and Chief Financial Officer of Calavo Growers, Inc. (the Company), hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the Report), fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 8, 2021

/s/ James Gibson

\_\_\_\_\_  
James Gibson  
Chief Executive Officer

/s/ Farha Aslam

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Farha Aslam  
Chief Financial Officer

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