

Limoneira CO  
Form 10-K  
January 26, 2011

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

FORM 10-K

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

For the fiscal year ended October 31, 2010

OR

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

Commission file number: 001-34755  
Limoneira Company  
(Exact name of registrant as specified in its charter)

Delaware  
(State of incorporation)

77-0260692  
(I.R.S. Employer Identification No.)

1141 Cummings Road, Santa Paula, CA  
(Address of principal executive offices)

93060  
(Zip code)

Registrant's telephone number, including area code: (805) 525-5541

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

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market, LLC

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

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

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

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

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Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Based on the closing price as reported on the NASDAQ Global Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2010 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$162.5 million. Shares of Common Stock held by each executive officer and director and by each stockholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of December 31, 2010 was 11,176,752.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders, which we intend to hold on March 22, 2011 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2010.

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### CAUTIONARY STATEMENT

This annual report on Form 10-K contains statements which, to the extent that they do not recite historical fact, constitute forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words "may," "will," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan" or other words or expressions of similar meaning. We have based these forward-looking statements on our current expectations about future events. The forward-looking statements include statements that reflect management's beliefs, plans, objectives, goals, expectations, anticipations and intentions with respect to our financial condition, results of operations, future performance and business, including statements relating to our business strategy and our current and future development plans.

The potential risks and uncertainties that could cause our actual financial condition, results of operations and future performance to differ materially from those expressed or implied in this annual report include:

- changes in laws, regulations, rules, quotas, tariffs, and import laws;
- weather conditions, including freezes and rains, that affect the production, transportation, storage, import and export of fresh produce;
  - market responses to industry volume pressures;
  - increased pressure from disease, insects and other pests;
  - disruption of water supplies or changes in water allocations;
  - product and raw materials supplies and pricing;
    - energy supply and pricing;
  - changes in interest and currency exchange rates;
  - availability of financing for land development activities;
    - political changes and economic crises;
      - international conflict;
      - acts of terrorism;
  - labor disruptions, strikes or work stoppages;
  - loss of important intellectual property rights; and
  - other factors disclosed in this annual report.

In addition, this annual report on Form 10-K contains industry data related to our business and the markets in which we operate. This data includes projections that are based on a number of assumptions. If these assumptions turn out to be incorrect, actual results could differ from the projections. We urge you to carefully review this annual report on Form 10-K, particularly the section "Risk Factors," for a complete discussion of the risks of an investment in our

common stock.

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Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this annual report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this annual report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

All references to “we,” “us,” “our,” “our Company,” “the Company,” or “Limoneira” in this annual report on Form 10-K mean Limoneira Company, a Delaware corporation, and its wholly-owned subsidiaries.

## PART I

### Item 1. Business

Limoneira Company was incorporated in Delaware in 1990 as the successor to several businesses with operations in California since 1893. Our business and operations are described below. For detailed financial information with respect to our business and our operations, see our consolidated financial statements and the related notes to consolidated financial statements, which are included in this annual report on Form 10-K beginning on page 54. In addition, general information concerning the Company can be found on our website, the internet address of which is [www.limoneira.com](http://www.limoneira.com). All of our SEC filings, including but not limited to, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments thereto, are available free of charge on our website as soon as reasonably practicable after such material is electronically filed or furnished to the SEC.

#### Overview

We are an agriculture and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 7,300 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production and marketing, real estate development and capital investment activities.

We are one of California's oldest citrus growers and, according to Sunkist Growers, Inc., which we refer to as Sunkist, we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of other specialty citrus and other crops. We have agricultural plantings throughout Ventura, Santa Barbara and Tulare Counties in California, which plantings consist of approximately 1,840 acres of lemons, 1,370 acres of avocados, 1,060 acres of oranges and 400 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons that we grow as well as lemons grown by others.

Our water resources include water rights, usage rights and pumping rights to the water in aquifers under, and canals that run through, the land we own. Water for our farming operations is sourced from the existing water resources associated with our land, which includes rights to water in the adjudicated Santa Paula Basin (aquifer) and the unadjudicated Fillmore, Santa Barbara and Paso Robles Basins (aquifers). We also use ground water and water from local water districts in Tulare County, which is in the San Joaquin Valley.

For more than 100 years, we have been making strategic investments in California agricultural and development real estate, and more recently, in Arizona real estate. As of the date of this annual report on Form 10-K, we have seven active real estate development projects in California and one in Arizona. Our real estate developments range from apartments to luxury, single-family homes and in California include approximately 200 completed units and another approximately 2,000 units in various stages of planning and entitlement. Our real estate development in Arizona, 6037 East Donna Circle, LLC ("Donna Circle"), consists of one luxury home in Paradise Valley, which is adjacent to Phoenix and Scottsdale. This home is currently being leased.

#### 2010 Highlights

On May 27, 2010, shares of our common stock commenced trading on the NASDAQ Global Market under the ticker symbol "LMNR".

On July 30, 2010, we provided written notice to Sunkist Growers, Inc., which we refer to as Sunkist, that we were terminating the Sunkist Growers, Inc. Commercial Packinghouse License Agreement dated as of October 1, 2008,

which we refer to as the Sunkist License Agreement, effective November 1, 2010. Under the Sunkist License Agreement, we were authorized to grade, label, pack, prepare for marketing by Sunkist and ship lemons grown by us as well as other growers. The Sunkist License Agreement also authorized us to use the SUNKIST® trademark, including any and all variations thereto, in connection with the foregoing.

Commencing November 1, 2010, we began marketing and selling our lemons directly to our food service, wholesale and retail customers throughout North America, Asia, Australia and certain other countries.

In August 2010, the Company sold the Cactus Wren property for \$3,000,000 cash, realizing net cash from escrow of \$2,811,000 after selling and other closing costs. A description of the Cactus Wren Project is included below under the heading “Business Segments – Real Estate Development.”



## Business Segments

We have three business segments: agriculture, rental operations, and real estate development. The agriculture segment includes our farming and lemon packing operations. The rental operations segment includes our housing, organic recycling, commercial and leased land operations. The real estate development segment includes our real estate projects and development. Financial information and further discussion of these segments, are contained in Note 24 to the accompanying consolidated financial statements of this Annual Report on Form 10-K.

### Agriculture

Our agriculture segment includes our operations for farming and lemon packing. The agriculture segment represented approximately 87%, 89%, and 93% of our fiscal 2010, fiscal 2009 and fiscal 2008 consolidated revenues, respectively.

### Farming

We are one of California's oldest citrus growers and one of the largest growers of lemons and the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of specialty citrus and other crops. We have agricultural plantings throughout Ventura, Santa Barbara and Tulare Counties in California, which consist of approximately 1,840 acres of lemons, 1,370 acres of avocados, 1,060 acres of oranges and 400 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons we grow as well as lemons grown by others.

**Lemons.** We are one of the largest lemon growers in the United States with approximately 1,840 acres of lemons planted throughout Ventura County, California and Tulare County in the San Joaquin Valley in Central California. In California, the lemon growing area stretches from the Coachella Valley to Fresno and Monterey Counties, with the majority of the growing areas being located in the coastal areas from Ventura County to Monterey County. Ventura County is California's top lemon producing county. Approximately 87% of our lemons are grown in Ventura County and approximately 13% are grown in Tulare County in Central California's San Joaquin Valley.

There are over fifty varieties of lemons, with the Lisbon, Eureka and Genoa being the predominant varieties marketed on a worldwide basis. California grown lemons are available 12 months of the year, with peak production periods occurring from January through August. Approximately 92% of our lemon plantings are of the Lisbon and Eureka varieties and approximately 8% are of other varieties. The storage life of fresh lemons is limited and generally ranges from one to 18 weeks, depending upon the maturity of the fruit, the growing methods used and the handling conditions in the distribution chain.

With an average annual production of approximately 750,000 tons of lemons, California accounts for approximately 87% of the United States lemon crop, with Arizona producing a vast majority of the rest. Between 50% and 70% percent of the United States lemon crop is utilized in the fresh market, with the remainder going to the processed market for products such as juice, oils and essences. Most lemons are consumed as either a cooking ingredient, a garnish, or as juice in lemonade or other carbonated beverages or drinks. Demand for lemons is typically highest in the summer, although California producers through various geographical zones are typically able to harvest lemons year round.

Prior to November 1, 2010, most of our lemons, including our packinghouse branded lemons, such as Santa® and Paula®, were marketed and sold under the Sunkist brand to the food service industry, wholesalers and retail operations throughout North America, Asia and certain other countries primarily through Sunkist Growers, Inc., an agricultural marketing cooperative with which we previously sold our lemons. As discussed above under the heading "2010 Highlights," effective November 1, 2010, we terminated the Sunkist License Agreement and began to market and

sell our lemons directly to our food service, wholesale and retail customers throughout North America, Asia, Australia and certain other countries.

Avocados. We are the largest avocado grower in the United States with approximately 1,370 acres of avocados planted throughout Ventura and Santa Barbara Counties. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County.

Over the last 70 years, the avocado has transitioned from a single specialty fruit to an array of 10 varieties ranging from the green-skinned Zutanos to the black-skinned Hass, which is the predominant avocado variety marketed on a worldwide basis. California grown avocados are available year round, with peak production periods occurring between February and September. Other avocado varieties have a more limited picking season and typically command a lower price. Because of superior eating quality, the Hass avocado has contributed greatly to the avocado's growing popularity through its retail, restaurant and other food service uses. Approximately 98% of our avocado plantings are of the Hass variety. The storage life of fresh avocados is limited and generally ranges from one to four weeks, depending upon the maturity of the fruit, the growing methods used and the handling conditions in the distribution chain.

We provide all of our avocado production to Calavo Growers, Inc., which we refer to as Calavo, a packing and marketing company listed on NASDAQ under the symbol CVGW. Calavo's customers include many of the largest retail and food service companies in the United States and Canada. Our marketing relationship with Calavo dates back to 2003. Calavo receives fruit from our orchards at its packinghouse located in Santa Paula. Calavo's proximity to our agricultural operations enables us to keep transportation and handling costs to a minimum. Our avocados are packed by Calavo, sold and distributed under its own brands to its customers primarily in the United States and Canada.

Primarily due to differing soil conditions, the care of avocado trees is intensive and during our 70-year history of growing avocados, growing techniques have changed dramatically. The need for more production per acre to compete with foreign sources of supply has required us to take an important lead in the practice of dense planting (typically four times the number of avocado trees per acre versus traditional avocado plantings) and mulching composition to help trees acclimate under conditions that more closely resemble those found in the tropics, a better climate for avocado growth.

Oranges. While we are primarily known for our high quality lemons, we also grow oranges. We have approximately 1,060 acres of oranges planted throughout Tulare County in the San Joaquin Valley in Central California. In California, the growing area stretches from Imperial County to Yolo County.

For many decades, the Valencia variety of oranges was grown in Ventura County primarily for export to the Pacific Rim. Throughout the late 20th century, developing countries began producing the larger, seedless Navel variety of oranges that successfully competed against the smaller Valencia variety of oranges. California grown Valencia oranges are available from March to October, with peak production periods occurring between June and September. California grown Navel oranges are available from October to June, with peak production periods occurring between January and April. Approximately 19% of our orange plantings are of the Valencia variety and approximately 81% are of the Navel variety.

Navel oranges comprise most of California's orange crop, accounting for approximately 75% over the past three growing seasons. Valencia oranges account for a vast majority of the remainder of California's orange crop. While California produces approximately 24% of the nation's oranges, its crop accounts for approximately 80% of those going to the fresh market. The share of California's crop going to fresh market, as opposed to the processed market (i.e. juices, oils and essences) varies by season, depending on the quality of the crop.

While Sunkist no longer markets and sells our lemons, it will continue to market and sell our oranges under the Sunkist brand to the food service industry, wholesalers and retail operations throughout the world. As an agricultural cooperative, Sunkist coordinates the sales and marketing of our oranges and orders are processed by a packinghouse for direct shipment to customers. We typically partner with outside packers to process and ship our oranges. Approximately 70% of our oranges are sold to retail outlets and approximately 30% are sold to the food service industry.

Specialty Citrus and Other Crops. A few decades ago in response to an ever changing marketplace, we began growing specialty citrus varieties and other crops that we believed would appeal to changing North American and worldwide demand. As a result, we currently have approximately 400 acres of specialty citrus and other crops planted such as pummelos, Moro blood oranges, Cara Cara oranges, Satsuma mandarins, sweet Meyer lemons, proprietary seedless lemons, pink variegated lemons, Minneola tangelos, pistachios, cherries and Star Ruby grapefruit.

Acreage devoted to specialty citrus and other crops in California has been growing significantly over the past few decades, especially with the popularity of the Clementine, a type of mandarin orange. We grow Satsumas, a type of mandarin orange similar to Clementine oranges. All of our specialty citrus, other than specialty lemons such as sweet Meyer lemons, pink variegated lemons and proprietary seedless lemons, is marketed and sold under the Sunkist brand by Sunkist and packed and shipped to major retail operations in the United States through arrangements with other packers similar to our oranges.

We market our other specialty crops, such as pistachios and cherries, independently. All of our pistachios are harvested and sold to an independent roaster, packager and marketer of nuts. All of our cherries are harvested and sold to independent packers and shippers.

We have agricultural plantings on 13 properties located throughout Ventura, Santa Barbara and Tulare Counties in California. The following is a description of each such property.

**Limoneira/Olivelands Ranch.** The Limoneira/Olivelands Ranch is the original site of the Company and consists of approximately 1,744 contiguous acres located just west of Santa Paula, California. The Company's headquarters, lemon packing operations and storage facilities are located on this property. There are approximately 1,190 acres of agricultural plantings on this property, which consist of approximately 540 acres of lemons, 640 acres of avocados and 2 acres of specialty citrus and other crops. The Company leases approximately 200 acres to third party agricultural tenants who grow a variety of row crops. The Company also leases to Calavo office space located on this property.

**Orchard Farm Ranch.** The Orchard Farm Ranch consists of approximately 1,120 acres located just west of Santa Paula, California. There are approximately 810 acres of agricultural plantings on this property, which consist of approximately 420 acres of lemons, 30 acres of avocados and 7 acres of specialty citrus and other crops planted by the Company and approximately 350 acres leased to third party agricultural tenants who grow a variety of row crops. The Orchard Farm Ranch is directly adjacent to the Limoneira/Olivelands Ranch, which together comprise nearly 2,900 contiguous acres approximately eight miles from the Pacific Ocean.

**Teague McKeveitt Ranch.** The Teague McKeveitt Ranch consists of approximately 520 acres located just east of Santa Paula, California. There are approximately 410 acres of agricultural plantings on this property, which consist of approximately 210 acres of lemons and 181 acres of avocados planted by the Company and approximately 20 acres leased to third party tenants who grow a variety of row crops. As described below under the heading "Real Estate Development", the Teague McKeveitt Ranch comprises all of East Area I.

**La Cuesta Ranch.** The La Cuesta Ranch consists of approximately 220 acres located between Santa Paula, California and Ojai, California. The Company has approximately 130 acres of agricultural plantings on this property, which consist of approximately 90 acres of lemons, 30 acres of avocados and 10 acres of specialty citrus and other crops.

**San Cayetano Ranch.** The San Cayetano Ranch consists of approximately 90 acres located between Santa Paula, California and Fillmore, California. The Company has approximately 80 acres of agricultural plantings on this property, which consist of approximately 10 acres of lemons and 70 acres of avocados.

**Sawyer Ranch.** The Sawyer Ranch consists of approximately 30 acres located between Santa Paula, California and Fillmore, California. The Company leases this property and has approximately 30 acres of agricultural plantings consisting of approximately 10 acres of lemons and 20 acres of avocados.

**La Campana Ranch.** The La Campana Ranch consists of approximately 320 acres located between Santa Paula, California and Fillmore, California. The Company has approximately 290 acres of agricultural plantings on this property, which consists of approximately 110 acres of lemons and 180 acres of avocados.

**Wilson Ranch.** The Wilson Ranch consists of approximately 50 acres located between Santa Paula, California and Fillmore, California. The Company has approximately 30 acres of avocado plantings on this property.

**Limco Del Mar Ranch.** The Limco Del Mar Ranch consists of approximately 210 acres located on the east end of Ventura, California. As described in "Real Estate Development" below, this property is owned by a limited partnership of which the Company is the general partner and owns an interest of 23.4%, which is comprised of a 1.3% general

partner interest and a 22.1% limited partner interest. This property has approximately 190 acres of agricultural plantings consisting of 120 acres of lemons and 70 acres of avocados. The Company manages the agricultural operations on this property.

Rancho Refugio/Caldwell Ranch. The Rancho Refugio/Caldwell Ranch consists of approximately 450 acres located north of Santa Barbara on the California Coast. This property has approximately 210 acres of agricultural plantings consisting of approximately 90 acres of lemons, 120 acres of avocados. The Company leases this property and had an option to purchase the property at any time prior to the expiration of the lease term in early 2012. In December 2010, the Company exercised the purchase option contained in its lease of the Rancho Refugio/Caldwell Ranch, which allows the Company to acquire the property for a purchase price of approximately \$6,500,000. Concurrently with the exercise of its purchase option, the Company entered into an agreement to sell the property for \$10,000,000. The closing of each of the purchase and sale of the property are expected to occur on or about January 31, 2011. The Company estimates the gain on the \$10,000,000 property sale will be approximately \$1,300,000, net of the \$6,500,000 property purchase, \$1,500,000 remaining capitalized in leasehold improvements previously incurred on the property and \$700,000 of estimated selling costs. The net cash realized from the transaction will be approximately \$2,800,000. The Company expects to enter into a lemon packing agreement with the purchaser, for which it will earn certain as yet undetermined fees. The sale of the property will result in a reduction in lemon and avocado production and related agriculture revenues, agriculture costs and expenses and operating income of approximately \$1,300,000, \$1,000,000 and \$300,000, respectively, off-set by fees from the anticipated lemon packing agreement.

Porterville Ranch. The Porterville Ranch consists of approximately 670 acres located about 50 miles north of Bakersfield, California. The Company has approximately 660 acres of agricultural plantings on this property, which consist of approximately 150 acres of lemons, 380 acres of Navel oranges, 30 acres of Valencia oranges, and 100 acres of specialty citrus and other crops.

Jencks Ranch. The Jencks Ranch consists of approximately 100 acres located about 50 miles north of Bakersfield, California. This property is adjacent to our Porterville Ranch. The Company has approximately 60 acres of agricultural plantings on this property, which consist of approximately 50 acres of Navel oranges and 10 acres of Valencia oranges.

Ducor Ranch. The Ducor Ranch consists of approximately 1,030 acres located about 50 miles north of Bakersfield, California. The Company has approximately 980 acres of agricultural plantings on this property, which consist of approximately 100 acres of lemons, 430 acres of Navel oranges, 170 acres of Valencia oranges and 280 acres of specialty citrus and other crops.

#### Lemon Packing

We are the oldest continuous lemon packing operation in North America. We pack lemons grown by us as well as lemons grown by others. Lemons delivered to our packinghouse in Santa Paula are graded, sized, packed, and cooled and ripened for delivery to customers. Our ability to accurately estimate the size, grade, and timing of the delivery of the annual lemon crop has a substantial impact on both our costs and the sales price we receive for the fruit.

A significant portion of the costs related to our lemon packing operation are fixed. Our strategy for growing the profitability of our lemon packing operations calls for optimizing the percentage of a crop that goes to the fresh market, or fresh utilization, and procuring a larger percentage of the California lemon crop.

We invest considerable time and research into refining and improving our lemon operations through innovation and are continuously in search of new techniques to refine how premium lemons are delivered to our consumers.

#### Rental Operations

Our rental operations segment includes our housing, organic recycling, commercial and leased land operations. The rental operations segment represented approximately 7%, 11% and 7% of our fiscal 2010, 2009, and 2008

consolidated revenues, respectively.

#### Housing

The Company owns and maintains approximately 193 residential housing units located in Ventura and Tulare Counties that it leases to employees, former employees and non-employees. We expect to add approximately 74 new units in Santa Paula, California as a result of recently receiving approval from the Ventura County Planning Commission to build new residential housing units. These properties generate reliable cash flows which we use to partially fund the operating costs of our business and provide affordable housing for many of our employees and the community.

#### Commercial

The Company owns several commercial office buildings and a multi-use facility consisting of a retail convenience store, gas station, car wash, and quick-serve restaurant. As with our housing units, these properties generate reliable cash flows which we use to partially fund the operating costs of our business.



#### Leased Land

As of October 31, 2010, we lease approximately 590 acres of our land to third party agricultural tenants who grow a variety of row crops such as strawberries, raspberries, celery and cabbage. Our leased land business typically provides us with a profitable method to diversify the use of our land.

#### Organic Recycling

With the help of Agromin, a manufacturer of premium soil products and a green waste recycler located in Oxnard, California, we have created and implemented an organic recycling program. Agromin provides green waste recycling for approximately 19 cities in Santa Barbara, Los Angeles and Ventura Counties. We worked with Agromin to develop two organic recycling facilities, one on our land in Ventura County and another in Los Angeles County, to receive green materials (lawn clipping, leaves, bark, plant materials) and convert such material into mulch that we spread throughout our agricultural properties to help curb erosion, improve water efficiency, reduce weeds and moderate soil temperatures. We receive a percentage of the gate fees collected from regional waste haulers and enjoy the benefits of the organic material.

#### Real Estate Development

Our real estate development segment includes our real estate development operations. The real estate development segment represented 6% of our consolidated revenues in fiscal 2010, less than 1% of our consolidated revenues in fiscal 2009 and did not generate any significant revenues during fiscal 2008.

For more than 100 years, we have been making strategic real estate investments in California agricultural and developable real estate and more recently, in Arizona. Our current real estate developments include developable land parcels, single- and multi- family affordable housing and a luxury single-family home with nearly 2,000 units in various stages of planning and development. The following is a summary of each of the strategic agricultural and development real estate investment properties in which we own an interest:

East Area I - Santa Paula, California. Santa Paula East Area I consists of 520 acres that we presently use as agricultural land and is located in Santa Paula approximately ten miles from the City of Ventura and the Pacific Ocean. This property is also known as our Teague McKevevett Ranch. We believe East Area I is an ideal location for a master planned community of commercial and residential properties designed to satisfy expected demand in a region that we believe will have few other developments in this coming decade. In 2008, after we completed a process of community planning and environmental review, the citizens of Santa Paula voted to approve the annexation of East Area I into Santa Paula. This vote was a requirement of the Save Open-Space and Agricultural Resources, or SOAR, ordinance that mandates a public vote of the City of Santa Paula for land use conversion. We are currently in the process of obtaining final documentation to complete the entitlement and have executed a 30-year pre-annexation and development agreement with Santa Paula. The development agreement with the City of Santa Paula related to East Area I was approved by ordinance No. 1191 on March 17, 2008 (which ordinance became effective by its terms on April 17, 2008) and contemplates a development project consisting of up to 1,500 residential units and an estimated 810,800 square feet of office, retail, light industrial and civic facilities, together with schools, park sites and open spaces. The final discretionary approval required prior to construction of the project is the annexation of the land into the City of Santa Paula. The action is taken by the Local Agency Formation Commission, which we refer to as LAFCO, and is due to be considered for approval by this agency during our fiscal year 2011. The remaining permits are non-discretionary and include a final tract map, complete "Site Civil Construction Drawings" and offsite construction drawings, which we will commence with following the annexation of the land. We expect to develop this property with financial and development partners, outside consultants and our own internal resources. If current U.S. economic conditions continue to deteriorate, however, we are prepared to continue using this land for agricultural

purposes until attractive development opportunities present themselves.

East Area II - Santa Paula, California. We and our design associates are in the process of formulating plans for East Area II, a parcel of approximately 30 acres adjacent to East Area I, also a part of our Teague McKeveitt Ranch, that we believe is suited to commercial and/or industrial development along the south side of California Highway 126, a heavily traveled corridor that connects Highway 101 at Ventura on the west with Interstate 5 at Santa Clarita on the east. When completed, we expect that the development will contribute to the economic vitality of the region and allow residents to work and shop within close proximity to their homes.

The successful development of East Area II will be partly dependent on the success of East Area I described above. We expect that East Area II could accommodate large retailers, a medium or large employer, a complex of mixed business and retail, or some combination of the foregoing. We are actively cultivating prospects to buy or become future tenants in East Area II and expect that development will closely follow the build-out of East Area I.

Windfall Farms - Creston, California. Windfall Farms is an approximately 720-acre former thoroughbred breeding farm and equestrian facility located in Creston, California, near Paso Robles. The property has paved roads, water wells, irrigation, piping, stables, homes, other out-buildings and a race track. Presently, parcels of at least 40 acres are available for sale. However, restrictions imposed by the California Land Conservation Act (also known as the Williamson Act) expire at the end of 2012, at which time 76 parcels as large as ten acres can be subdivided and resold, creating small agricultural parcels with home sites.

Santa Maria - Santa Barbara County, California. In early fiscal 2007, we invested in four entitled development parcels in Santa Barbara County, California, a county that, in our experience, entitles very few parcels. Located in Santa Maria, each of these parcels offers a residential and/or commercial development opportunity. A brief description of each parcel is as follows:

- Centennial Square has been approved for 72 condominiums on 5 acres, is close to medical facilities, shopping and transportation, and includes one acre zoned for commercial development.
- The Terraces at Pacific Crest is an approximately eight-acre parcel approved for 112 attached-housing units.
- Sevilla is approved for 69 single-family homes adjacent to shopping, transportation, schools, parks, and medical facilities, with a parcel of approximately three-acres zoned for commercial use.
- East Ridge is approved for 120 single family homes on approximately 40 acres. Approximately 3 acres are zoned for commercial use. In February 2010, the Company and a developer formed a limited liability corporation for the purpose of developing this property.

Donna Circle and Cactus Wren - Paradise Valley, Arizona. We partnered with an Arizona home developer to construct two luxury homes in Paradise Valley, Arizona. The first home, which we refer to as Donna Circle, was completed in December 2008 and listed for sale. In June 2009, we decided not to sell the Donna Circle project and instead executed a two year lease agreement with a third party. The agreement contains an option to extend the lease an additional year and the third-party may purchase the home during the option period. The second home, which we refer to as the Cactus Wren, was completed in June 2009 and sold in August 2010 for \$3,000,000 cash, resulting in a realization of net cash from escrow of approximately \$2,811,000 after selling and other closing costs.

Limco Del Mar Ranch - Ventura, California. We believe our Limco Del Mar Ranch, which we currently use for agricultural purposes, has long-term development potential. The Limco Del Mar Ranch is located on the east end of Ventura with southerly views of the Pacific Ocean. As described above in "Business Segments - Agriculture - Farming," this property is owned by a limited partnership of which we are the general partner and own an interest of approximately 23%. The Company manages the agricultural operations on this property.

## Competitive Strengths

### Agriculture

With agricultural operations dating back to 1893, we are one of California's oldest citrus growers and one of the largest growers of lemons and the largest grower of avocados in the United States. Consequently, we have developed a body of experience with many crops, most significantly lemons, avocados and oranges. The following is a brief list of what we believe are our significant competitive strengths with respect to our agriculture segment.

- Our agricultural properties in Ventura County are located near the Pacific ocean, which provides an ideal environment for growing lemons, avocados and other row crops. Our agricultural properties in Tulare County,

which is in the San Joaquin Valley in Central California, are also located in areas that are well-suited for growing citrus crops.

- Historically, a higher percentage of our crops go to the fresh market, which is commonly referred to as fresh utilization, than other growers and packers with which we compete.
- We have contiguous and nearby land resources that permit us to efficiently use our agricultural land and resources.
- In all but one of our properties, we are not dependent on State or Federal water projects to support our agriculture or real estate development operations.
  - We own approximately 90% of our agricultural land and take a long view on fruit production practices.

- We have a well-trained and retentive labor force with many employees remaining with the Company for more than 30 years.
- Our lemon packing operations allow us to enter into marketing alignments with successful companies in their respective products.
- We have achieved GLOBALGAP Certification by successfully demonstrating our adherence to specific GLOBALGAP standards. GLOBALGAP is an internationally recognized set of farm standards dedicated to “Good Agricultural Practices” or GAP. We believe that GLOBALGAP Certification differentiates us from our competitors and serves as reassurance to consumers and retailers that food reaches acceptable levels of safety and quality, and has been produced sustainably, respecting the health, safety and welfare of workers, the environment, and in consideration of animal welfare issues.
- We have made investments in ground-based solar projects that provide us with tangible and intangible non-revenue generating benefits. The electricity generated by these investments, provides us with a majority of the electricity required to operate our packinghouse and cold storage facilities located in Santa Paula and provides a majority of the electricity required to operate four deep-water well pumps at one of our ranches in Tulare County. Additionally, these investments support our sustainable agricultural practices, reduce our dependence on fossil-based electricity generation and lower our carbon footprint. Moreover, electricity that we generate and do not use is conveyed seamlessly back to the investor-owned utilities operating in these two markets. Finally, over time, we expect that our customers and the end consumers of our fruit will value the investments that we have made in renewable energy as a part of our farming and packing operations, which we believe may help us differentiate our products from similar commodities.
- We have made various other investments in water rights, mutual water companies and cooperative memberships. We own shares in the following mutual water companies: Thermal Belt Mutual Water Co., Farmers Irrigation Co., Canyon Irrigation Co., San Cayetano Mutual Water Co. and the Middle Road Mutual Water Co. In 2007, we acquired additional water rights in the adjudicated Santa Paula Basin (aquifer).
- Until October 31, 2010, we were a member of the Sunkist cooperative and continue to belong to certain other cooperatives. We paid Sunkist and continue to pay certain other cooperatives annual assessments into revolving funds based on sales volume or other criteria, with such funds typically being held by the applicable cooperative for a period of five years at which time they are refunded to us. We also pay into revolving funds related to fruit that we have packed by outside packing houses, with such funds typically being refunded after a period of five years. The aggregate balance of such revolving funds was \$462,000 and \$514,000 at October 31, 2010 and 2009, respectively, and the net change in the funds was a net (refund) or contribution of (\$52,000), (\$61,000) and \$40,000 for fiscal years 2010, 2009 and 2008, respectively.

#### Rental Operations

With respect to our rental operations segment, we believe our competitive advantages are as follows:

- Our housing and land rentals provide a consistent, dependable source of cash flow that helps to counter the volatility typically associated with an agricultural business.
- Our housing rental business allows us to offer a unique benefit to our employees, which in turn helps to provide us with a dependable, long-term employee base.
-

Our organic recycling business provides us with a low cost, environmentally friendly solution to weed and erosion control.

- Our leased land business allows us to partner with other producers that can serve as a typically profitable alternative to under-producing tree crop acreage.

## Real Estate Development

With respect to our real estate development segment, we believe our competitive advantages are as follows:

- Our real estate development activities are primarily focused in coastal areas north of Los Angeles and south of Santa Barbara, which we believe has a desirable climate for lifestyle families, retirees, and athletic and sports enthusiasts.
  - We have entitlements to build approximately 1,500 residential units in our Santa Paula East Area I development and 373 residential units in our Santa Maria properties.
- Several of our agricultural and real estate investment properties are unique and carry longer term development potential. These include Limco Del Mar and Windfall Farms, both as discussed above in “Business Segments - Real Estate Development.”
- Our East Area II property has approximately 30 acres of land commercially zoned, which is adjacent to our East Area I property, and our Santa Maria properties have approximately 10 acres zoned for mixed use retail, commercial and light manufacturing.

## Business Strategy

While each of our business segments has a separate business strategy, we are an agriculture and real estate development company that generates annual cash flows to support investments in agricultural and real estate development activities. As our agricultural and real estate development investments are monetized we intend to seek to expand our agriculture into new regions and markets and invest in cash producing residential, commercial and industrial real estate assets.

The following describes the key elements of our business strategy for each of our agriculture, rental operations and real estate development business segments.

### Agriculture

With respect to our agriculture segment, key elements of our strategy are:

- **Expand International Production and Marketing of Lemons.** We estimate that we currently have approximately 5% of the fresh lemon market in the United States and a larger share of the United States lemon export market. We intend to explore opportunities to expand our international production and marketing of lemons. We have the ability to supply a wide range of customers and markets and, because we produce high quality lemons, we can export our lemons to international customers, which many of our competitors are unable to supply.
- **Acquire Additional Lemon Producing Properties.** To the extent attractive opportunities arise and our capital availability permits, we intend to consider the acquisition of additional lemon producing properties. In order to be considered, such properties would need to have certain characteristics to provide acceptable returns, such as an adequate source of water, a warm micro-climate and well-drained soils. We anticipate that the most attractive opportunities to acquire lemon producing properties will be in the San Joaquin Valley near our existing operations in Tulare County.
- **Increase the Volume of our Lemon Packing Operations.** We regularly monitor our costs for redundancies and opportunities for cost reductions. In this regard, cost per carton is a function of throughput. We continually seek to

acquire additional lemons from third party growers to pack through our plant. Growers are only added if we determine their fruit is of good quality and can be cost effective for both us and the third party grower. Of most importance is the overall fresh utilization rate for our fruit, which is directly related to quality.

- Explore the Construction of a New Lemon Packinghouse. Over the years, new machinery and equipment along with upgrades have been added to our nearly 80 year old packinghouse and cold storage facilities. This, along with an aggressive and proactive maintenance program has allowed us to operate an efficient, competitive lemon packing operation. We are continuing to consider the construction of a new packinghouse that may have the potential to lower our packing costs by reducing labor and handling inputs.
- Opportunistically Expand our Plantings of Avocados. We intend to opportunistically expand our plantings of avocados primarily because our profitability and cash flow realized from our avocados frequently offsets occasional losses in other crops we grow and helps to diversify our fruit production base.



- **Maintain and Grow our Relationship with Calavo.** Our alignment with, and ownership stake in, Calavo comprises our current marketing strategy for avocados. Calavo has expanded its sourcing into other regions of the world, including Mexico, Chile, and Peru, which allows it to supply avocados to its retail and food service customers on a year-round basis. California avocados occupy a unique market window in the year-round supply chain and Calavo has experienced a general expansion of volume as consumption has grown. Thus, we intend to continue to have a strong and viable market for our California avocados as well as an equity participation in Calavo's overall expansion and profitability.
- **Opportunistically Expand Our Plantings of Oranges, Specialty Citrus and Other Crops.** Our plantings of oranges, specialty citrus and other crops have been profitable and have been pursued to diversify our product line. Agricultural land that we believe is not suitable for lemons is typically planted with other specialty citrus or other crops. While we intend to expand our orange, specialty citrus and other crops, we expect to do so on an opportunistic basis in locations that we believe offer a record of historical profitability.

### Rental Operations

With respect to our rental operations segment, key elements of our strategy include the following:

- **Secure Additional Rental and Housing Units.** Our housing, commercial and land rental operations provide us with a consistent, dependable source of cash flow that helps to fund our overall activities. Additionally, we believe our housing rental operation allows us to offer a unique benefit to our employees. Consequently, we intend to secure additional units through infill projects on existing sites and groupings of units on new sites within our owned acreage.
- **Opportunistically Lease Land to Third-Party Crop Farmers.** We regularly monitor the profitability of our fruit-producing acreage to ensure acceptable per acre returns. When we determine that leasing the land to third-party row crop farmers would be more profitable than farming the land, we intend to seek to lease such land.
- **Opportunistically Expand our Income-Producing Commercial and Industrial Real Estate Assets.** We intend to redeploy our future financial gains to acquire additional income-producing real estate investments and agricultural properties.

### Real Estate

With respect to our real estate segment, key elements of our strategy include:

- **Selectively and Responsibly Develop Our Agricultural Land.** We recognize that long-term strategies are required for successful real estate development activities. We thus intend to maintain our position as a responsible agricultural land owner and major employer in Ventura County while focusing our real estate development activities on those agricultural land parcels that we believe offer the best opportunities to demonstrate our long-term vision for our community.
- **Opportunistically Increase Our Real Estate Holdings.** We intend to redeploy our future financial gains to acquire additional income-producing real estate investments and agricultural properties.

### Customers

During the fiscal year ended October 31, 2010, Sunkist marketed and sold nearly all of our lemon production and a majority of our orange production and Calavo marketed and sold through all of our avocado production. Our lemons

are packed in our own packinghouse, our avocados are packed using Calavo and a majority of our oranges are packed using other third-party, Sunkist-affiliated packinghouses. We directly sell certain of our specialty citrus and other crops, which for the fiscal year ended October 31, 2010, accounted for less than 1% of our revenues. Sunkist and Calavo market and sell our fruit to a wide range of retail and food service customers throughout North America, Asia and certain other countries. None of the respective customers of Sunkist or Calavo to our knowledge account for more than 10% of the sales of either organization or the loss of which would have a material adverse effect on us. Effective November 1, 2010, we terminated the Sunkist License Agreement and now market and sell all of our lemon production directly to food service, wholesale and retail customers throughout North America, Asia, Australia and certain other countries.

### Information about Geographic Areas

Customers from within the United States, which includes Sunkist and Calavo, comprised 100% of our revenue for fiscal years 2010, 2009, and 2008. Also, all of our long-lived assets are located within the United States.

### Seasonal Nature of Business

As with any agriculture enterprise, our agriculture operations are predominantly seasonal in nature. The harvest and sale of our lemons, avocados, oranges and specialty citrus and other crops occurs in all quarters, but is generally more concentrated during our second and third quarters. Our lemons are generally grown and marketed throughout the year. Our Navel oranges are primarily sold January through April and our Valencia oranges are primarily sold June through September. Our avocados are sold generally throughout the year with the peak months being March through July. Our specialty citrus is sold from November through June and our specialty crops, such as cherries, are sold in May and/or June and our pistachios are sold in September and/or October.

### Competition

The lemon, avocado, orange and specialty citrus and other crop markets are intensely competitive, but no single producer has any significant market power over any market segments, as is consistent with the production of most agricultural commodities. Generally, there are a large number of global producers that sell through joint marketing organizations and cooperatives. Such fruit is also sold to independent packers, both public and private, who then sell to their own customer base. Customers are typically large retail chains, food service companies, industrial manufacturers and distributors who sell and deliver to smaller customers in local markets throughout the world. In the purest sense, our largest competitors are other citrus and avocado producers in California, Mexico, Chile, Argentina and Florida, a number of which are members of cooperatives such as Sunkist or have selling relationships with Calavo similar to that of Limoneira. In another sense, we compete with other fruits and vegetables for the share of consumer expenditures devoted to fresh fruit and vegetables: apples, pears, cherries, melons, pineapples and other tropical fruit. Avocado products compete in the supermarket with hummus products and other dips and salsas. U.S. producers of tree fruits and nuts generate approximately \$18 billion of tree fruits and nuts each year, about 10% of which is exported. For our specific crops, the size of the U.S. market is approximately \$300 million for lemons, approximately \$300 to \$400 million for avocados depending on the year, and approximately \$1.5 to \$2.0 billion for oranges, both fresh and juice. Competition in the various markets in which we operate is affected by reliability of supply, product quality, brand recognition and perception, price and the ability to satisfy changing customer preferences through innovative product offerings.

The sale and leasing of residential, commercial and industrial real estate is very competitive, with competition coming from numerous and varied sources throughout California. The degree of competition has increased due to the current economic climate, which has caused an oversupply of comparable real estate available-for-sale or lease due to the decline in demand as a result of the current downturn in the housing market and the credit crisis. Our greatest direct competition for each of our current real estate development properties in Ventura and Santa Barbara Counties as well as Arizona comes from other residential and commercial developments in nearby areas. Windfall Farms competes generally with the second home and life style real estate market, which includes golf course communities, marinas, destination resorts and other equestrian facilities located in Southern California, and, therefore, its competition ranges over a greater area and range of consumer options.

### Intellectual Property

Prior to November 1, 2010, most of our lemons were marketed and sold under the Sunkist brand. Effective November 1, 2010, the Company terminated the Sunkist License Agreement for the sale and marketing of lemons and began

marketing and selling lemons directly to its customers. The Company has numerous trademarks and brands under which it markets and sells its fruits, particularly lemons, domestically and internationally, many of which have been owned for decades. The Limoneira brands of lemons, including Santa®, Paula® Bridal Veil®, Fountain®, Golden Bowl® and Level®, are examples of such trademarks owned by the Company and registered with the United States Patent and Trademark Office. Under the Company's direct lemon sales strategy, trademark rights in our brands is, and will continue to be, more important than in the past when our lemons were marketed and sold under the Sunkist brand.

## Employees

At October 31, 2010 we had 206 employees, 53 of which were salaried and 153 of which were hourly. None of our employees are subject to a collective bargaining agreement. We believe our relations with our employees are good.

## Research and Development

Our research and development programs concentrate on sustaining the productivity of our agricultural lands, product quality and value-added product development. Agricultural research is directed toward sustaining and improving product yields and product quality by examining and improving agricultural practices in all phases of production (such as the development of specifically adapted plant varieties, land preparation, fertilization, pest and disease control, post-harvest handling, packing and shipping procedures), and includes on-site technical services and the implementation and monitoring of recommended agricultural practices. Research efforts are also directed towards integrated pest management. We conduct agricultural research at field facilities in Santa Paula, California. We also sponsor research related to environmental improvements and the protection of worker and community health. The aggregate amounts we spent on research and development in each of the last three years have not been material in any of such years.

## Environmental and Regulatory Matters

The California State Department of Food and Agriculture oversees the packing and processing of California lemons and conducts tests for fruit quality and packaging standards. All of our packages are stamped with the state seal, which qualifies our fruit as meeting standards. Various states have instituted regulations providing differing levels of oversight with respect to weights and measures, as well as quality standards.

In addition, advertising of our products is subject to regulation by the Federal Trade Commission, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act.

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

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses. Nevertheless, there is no guarantee that we will be able to comply with any future laws and regulations for necessary permits and licenses. Our failure to comply with applicable laws and regulations or obtain any necessary permits and licenses could subject us to civil remedies including fines, injunctions, recalls or seizures, as well as potential criminal sanctions. These remedies can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

## Capital Structure Changes

Effective March 24, 2010, we amended our certificate of incorporation to increase the authorized number of shares of common stock and effect a ten-for-one split of our common stock.



## Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. The risks described below are not the only ones we will face. If any of the following risks or other risks actually occurs, our business, financial condition, results of operations or future prospects could be materially and adversely affected. In such event, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

### Risks Related to Our Agriculture Business

Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on our business.

Fresh produce is vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict. Unfavorable growing conditions can reduce both crop size and crop quality. In extreme cases, entire harvests may be lost in some geographic areas. These factors can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

Citrus and avocado orchards are subject to damage from frost and freezes and this has happened periodically in the recent past. In some cases, the fruit is simply lost while in the case of extended periods of cold, the trees can also be damaged or killed.

Fresh produce is also vulnerable to crop disease and to pests, e.g. the Mediterranean Fruit Fly and the Asian Citrus Psyllid (“ACP”), which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions.

On December 31, 2010, the California Department of Food and Agriculture expanded its existing quarantine area and related restrictions to include all of Ventura County and a portion of Santa Barbara County due to the discovery of ACP infestation in Ventura County, near the Company’s orchards. ACP quarantines are now in place in Ventura, San Diego, Imperial, Orange, Los Angeles, San Bernardino, Riverside and a portion of Santa Barbara Counties in California. The quarantine prohibits the movement of nursery stock out of quarantine areas and requires that all citrus fruit be cleaned of leaves and stems prior to movement out of the quarantine area. 87% of the Company’s lemon orchards are located in the quarantine area.

ACP is an aphid-like insect that is a serious pest to all citrus plants because it can transmit the disease, Huanglongbing (“HLB”), when it feeds on the plants’ leaves and trees. By itself, ACP causes only minor cosmetic damage to citrus trees. HLB, however, is considered to be the most devastating disease of citrus in the world. Symptoms of HLB include yellow shoots, leaf mottle, small upright leaves and lopsided fruit with a bitter flavor. Trees infected with HLB decline in health, produce inedible fruit and eventually die, usually in 3 to 5 years after becoming infected. There is no cure for the disease and infected trees must be removed and destroyed to prevent further spreading. Both ACP and HLB are federal action quarantine pests subject to interstate and international quarantine restrictions by the United States Department of Agriculture. ACP and HLB exist in Florida, Louisiana, Georgia and South Carolina. ACP has been detected but not HLB in Texas, Mississippi and Alabama. ACP and HLB also exist in Mexico and certain other countries.

To date, ACP has not been discovered on the Company’s orchards and HLB has not been detected in trapped ACP or trees in California, but there can be no assurance that HLB will not be detected in the future. The quarantine and treatment of ACP under current protocols is not expected to have a significant direct financial impact on the

Company. There are a number of registered insecticides known to be effective against ACP. However, certain markets and customer responses to the discovery of ACP and the related quarantine could result in a significant decline in revenue due to restrictions on where the Company's lemons can be sold and lower demand for the Company's lemons. Additional government regulations and other quarantine requirements or customer handling and inspection requirements could increase agriculture costs to the Company. The Company's citrus orchards could be at risk if ACP starts to transmit the HLB disease to the Company's trees. Agriculture costs could also increase significantly as a result of HLB. For example, a recent study in Florida indicated the presence of HLB has increased citrus production costs by as much as 40%.

The costs to control these diseases and other infestations vary depending on the severity of the damage and the extent of the plantings affected. Moreover, there can be no assurance that available technologies to control such infestations will continue to be effective. These infestations can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.



Our business is highly competitive and we cannot assure you that we will maintain our current market share.

Many companies compete in our different businesses. However, only a few well-established companies operate on an international, national and regional basis with one or several product lines. We face strong competition from these and other companies in all our product lines.

Important factors with respect to our competitors include the following:

- Some of our competitors may have greater operating flexibility and, in certain cases, this may permit them to respond better or more quickly to changes in the industry or to introduce new products and packaging more quickly and with greater marketing support.
- We cannot predict the pricing or promotional actions of our competitors or whether those actions will have a negative effect on us.

There can be no assurance that we will continue to compete effectively with our present and future competitors, and our ability to compete could be materially adversely affected by our debt levels and debt service requirements.

Our strategy of marketing and selling our lemons directly to our food service, wholesale and retail customers may not be successful.

Prior to November 1, 2010, most of our lemons, including our packinghouse branded lemons, such as Santa® and Paula®, were marketed and sold under the Sunkist brand to the food service industry, wholesalers and retail operations throughout North America, Asia and certain other countries primarily through Sunkist, an agricultural marketing cooperative with which we previously sold our lemons. Effective November 1, 2010, we terminated the Sunkist License Agreement and began to market and sell our lemons directly to our food service, wholesale and retail customers throughout North America, Asia, Australia and certain other countries. This represents a significant departure from our traditional method of selling our lemons through Sunkist, and there can be no assurance that such strategy will be successful. If we are not successful in implementing this strategy, our business, results of operations and financial condition may be adversely affected.

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

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

Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. Some items, such as avocados, oranges and specialty citrus, must be sold more quickly, while other items can be held in cold storage for longer periods of time. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products. However, even if market prices are unfavorable, produce items which are ready to be, or have been harvested must be brought to market promptly. A decrease in the selling price received for our products due to the factors described above could

have a material adverse effect on our business, results of operations and financial condition.

Our earnings are subject to seasonal variability.

Our earnings may be affected by seasonal factors, including:

- the seasonality of our supplies and consumer demand;
- the ability to process products during critical harvest periods; and
- the timing and effects of ripening and perishability.

Our lemons are generally grown and marketed throughout the year. Our Navel oranges are sold January through April and our Valencia oranges are sold June through September. Our avocados are sold generally throughout the year with the peak months being March through July. Our specialty citrus is sold from November through June, our cherries in the May/June time period and our pistachios in the September/October period.

Currency exchange fluctuation may impact the results of our operations.

We distribute our products both nationally and internationally. Our international sales are transacted in U.S. dollars. Our results of operations are affected by fluctuations in currency exchange rates in both sourcing and selling locations. In the past, periods of a strong U.S. dollar relative to other currencies has led international customers, particularly in Asia, to find alternative sources of fruit.

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

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

The price of various commodities can significantly affect our costs. Our fuel costs have increased substantially in recent years, and there can be no assurance that there will not be further increases in the future. In addition, the rising price of oil can have a significant impact on the cost of our herbicides and pesticides.

The cost of paper is also significant to us because some of our products are packed in cardboard boxes for shipment. If the price of paper increases and we are not able to effectively pass these price increases along to our customers, then our operating income will decrease. Increased costs for paper have in the past negatively impacted our operating income, and there can be no assurance that these increased costs will not adversely affect our operating results in the future.

The lack of sufficient water would severely impact our ability to produce crops or develop real estate.

The average rainfall in Ventura County is between 14 and 15 inches per year, with most of it falling in fall and winter. These amounts are substantially below amounts required to grow crops and therefore we are dependent on our rights to pump water from underground aquifers. Extended periods of drought in California may put additional pressure on the use and availability of water for agricultural uses and in some cases Governmental authorities have diverted water to other uses. As California has grown, there are increasing and multiple pressures on the use and distribution of water, which many view as a finite resource. Lack of available potable water can also limit real estate

development.

The use of herbicides, pesticides and other potentially hazardous substances in our operations may lead to environmental damage and result in increased costs to us.

We use herbicides, pesticides and other potentially hazardous substances in the operation of our business. We may have to pay for the costs or damages associated with the improper application, accidental release or the use or misuse of such substances. Our insurance may not be adequate to cover such costs or damages or may not continue to be available at a price or under terms that are satisfactory to us. In such cases, payment of such costs or damages could have a material adverse effect on our business, results of operations and financial condition.

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Global capital and credit market issues affect our liquidity, increase our costs of borrowing and disrupt the operations of our suppliers and customers.

The global capital and credit markets have experienced increased volatility and disruption over the past year, making it more difficult for companies to access those markets. We depend in part on stable, liquid and well-functioning capital and credit markets to fund our operations. Although we believe that our operating cash flows and existing credit facilities will permit us to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. Our business could also be negatively impacted if our suppliers or customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy.

The current global economic downturn may have other impacts on participants in our industry, which cannot be fully predicted.

The full impact of the current global economic downturn on customers, vendors and other business partners cannot be anticipated. For example, major customers or vendors may have financial challenges unrelated to us that could result in a decrease in their business with us or, in extreme cases, cause them to file for bankruptcy protection. Similarly, parties to contracts may be forced to breach their obligations under those contracts. Although we exercise prudent oversight of the credit ratings and financial strength of our major business partners and seek to diversify our risk to any single business partner, there can be no assurance that there will not be a bank, insurance company, supplier, customer or other financial partner that is unable to meet its contractual commitments to us. Similarly, stresses and pressures in the industry may result in impacts on our business partners and competitors, which could have wide ranging impacts on the future of the industry.

Terrorism and the uncertainty of war may have a material adverse effect on our operating results.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, the subsequent response by the United States in Afghanistan, Iraq and other locations, and other acts of violence or war in the United States or abroad may affect the markets in which we operate and our operations and profitability. Further terrorist attacks against the United States or operators of United States-owned businesses outside the United States may occur, or hostilities could develop based on the current international situation. The potential near-term and long-term effect these attacks may have on our business operations, our customers, the markets for our products, the United States economy and the economies of other places we source or sell our products is uncertain. The consequences of any terrorist attacks, or any armed conflicts, are unpredictable, and we may not be able to foresee events that could have an adverse effect on our markets or our business.

We are subject to the risk of product contamination and product liability claims.

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

insured or that exceed the amount of our insurance coverage.

We are subject to transportation risks.

An extended interruption in our ability to ship our products could have a material adverse effect on our business, financial condition and results of operations. Similarly, any extended disruption in the distribution of our products could have a material adverse effect on our business, financial condition and results of operations. While we believe we are adequately insured and would attempt to transport our products by alternative means if we were to experience an interruption due to strike, natural disasters or otherwise, we cannot be sure that we would be able to do so or be successful in doing so in a timely and cost-effective manner.

Events or rumors relating to the LIMONEIRA, Santa®, Paula®, Bridal Veil®, Fountain®, Golden Bowl® and Level®, brands could significantly impact our business.

Consumer and institutional recognition of the LIMONEIRA, Santa®, Paula®, Bridal Veil®, Fountain®, Golden Bowl® and Level®, trademarks and related brands and the association of these brands with high quality and safe food products are an integral part of our business. The occurrence of any events or rumors that cause consumers and/or institutions to no longer associate these brands with high quality and safe food products may materially adversely affect the value of the our brand names and demand for our products.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

We currently depend heavily on the services of our key management personnel. The loss of any key personnel could materially and adversely affect our results of operations, financial condition, or our ability to pursue land development. Our success will also depend in part on our ability to attract and retain additional qualified management personnel.

Inflation can have a significant adverse effect on our operations.

Inflation can have a major impact on our farming operations. The farming operations are most affected by escalating costs and unpredictable revenues (due to an oversupply of certain crops) and very high irrigation water costs. High fixed water costs related to our farm lands will continue to adversely affect earnings. Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Therefore, it is difficult for us to accurately predict revenue, just as we cannot pass on cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices.

#### Risks Related to Our Indebtedness

We may be unable to generate sufficient cash flow to service our debt obligations.

To service our debt, we require a significant amount of cash. Our ability to generate cash, make scheduled payments or refinance our obligations depends on our successful financial and operating performance. Our financial and operating performance, cash flow and capital resources depend upon prevailing economic conditions and various financial, business and other factors, many of which are beyond our control. These factors include among others:

- economic and competitive conditions;
- changes in laws and regulations;
- operating difficulties, increased operating costs or pricing pressures we may experience; and
- delays in implementing any strategic projects.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. If we are required to take any actions referred to above, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we would be able to take any of these actions on terms acceptable to us, or at all, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our various debt agreements.





Restrictive covenants in our debt instruments restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely restrict our financial and operating flexibility and subject us to other risks.

Our revolving credit and term loan facilities contain various restrictive covenants that limit our and our subsidiaries' ability to take certain actions. In particular, these agreements limit our and our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- make certain investments or acquisitions;
- create certain liens on our assets;
- engage in certain types of transactions with affiliates;
- merge, consolidate or transfer substantially all our assets; and
- transfer and sell assets.

Our revolving credit facility with Rabobank N.A. contains a financial covenant that requires us to maintain compliance with a specified debt service coverage ratio on an annual basis. At October 31, 2009, we were not in compliance with such debt service coverage ratio and we may not be able to comply with such covenant in the future. This prior noncompliance with the covenant was waived by Rabobank and at October 31, 2010, we were in compliance with such debt service coverage ratio. Our failure to comply with this covenant in the future may result in the declaration of an event of default under our revolving credit facility with Rabobank.

Any or all of these covenants could have a material adverse effect on our business by limiting our ability to take advantage of financing, merger and acquisition or other corporate opportunities and to fund our operations. Any future debt could also contain financial and other covenants more restrictive than those imposed under our line of credit and term loan facilities.

A breach of a covenant or other provision in any credit facility governing our current and future indebtedness could result in a default under that facility and, due to cross-default and cross-acceleration provisions, could result in a default under our other credit facilities. Upon the occurrence of an event of default under any of our credit facilities, the applicable lender(s) could elect to declare all amounts outstanding to be immediately due and payable and, with respect to our revolving credit facility, terminate all commitments to extend further credit. If we were unable to repay those amounts, our lenders could proceed against the collateral granted to them to secure the indebtedness. If the lenders under our current or future indebtedness were to accelerate the payment of the indebtedness, we cannot assure you that our assets or cash flow would be sufficient to repay in full our outstanding indebtedness.

Despite our relatively high current indebtedness levels and the restrictive covenants set forth in agreements governing our indebtedness, we may still incur significant additional indebtedness, including secured indebtedness. Incurring more indebtedness could increase the risks associated with our substantial indebtedness.

Subject to the restrictions in our credit facilities, we may incur significant additional indebtedness through Limoneira Company or any of its subsidiaries. If new debt is added to the current debt levels of Limoneira Company or its subsidiaries, the related risks that we now face could increase.

Some of our debt is based on variable rates of interest, which could result in higher interest expenses in the event of an increase in the interest rates.

Our revolving credit facility and a portion of our term loan facilities and non-revolving line of credit with Farm Credit West currently bear interest at variable rates, which will generally change as interest rates change. We bear the risk that the rates we are charged by our lenders will increase faster than the earnings and cash flow of our business, which could reduce profitability, adversely affect our ability to service our debt, cause us to breach covenants contained in our revolving credit facility with Rabobank, or our term loan facilities and non-revolving line of credit with Farm Credit West, any of which could materially adversely affect our business, financial condition and results of operations. In addition, while we have entered into interest rate swaps as hedging instruments to fix a substantial portion of the variable component of our indebtedness, such interest rate swaps could also have an adverse impact on the comparative results of operation of the Company if prevailing interest rates remain below fixed rates established in such instruments.

## Risks Related to Our Real Estate Development Business

We are involved in a cyclical industry and are affected by changes in general and local economic conditions.

The real estate development industry is cyclical and is significantly affected by changes in general and local economic conditions, including:

- employment levels; availability of financing;
- interest rates; consumer confidence;
- demand for the developed product, whether residential or industrial; and
- supply of similar product, whether residential or industrial.

The process of project development and the commitment of financial and other resources occurs long before a real estate project comes to market. A real estate project could come to market at a time when the real estate market is depressed. It is also possible in a rural area like ours that no market for the project will develop as projected.

A prolonged recession in the national economy, or a further downturn in national or regional economic conditions, could continue to adversely impact our real estate development business.

The collapse of the housing market together with the crisis in the credit markets, have resulted in a recession in the national economy. At such times, potential home buyer and commercial real estate customers often defer or avoid real estate transactions due to the substantial costs involved and uncertainties in the economic environment. Our future real estate sales, revenues, financial condition and results of operations could suffer as a result. Our business is especially sensitive to economic conditions in California and Arizona, where our properties are located.

There is no consensus as to when the current recession will end, and California and Arizona, as two of the hardest hit states, could take longer to recover than the rest of the nation. A prolonged recession will continue to have a material adverse effect on our business and results of operations.

Higher interest rates and lack of available financing can have significant impacts on the real estate industry.

Higher interest rates generally impact the real estate industry by making it harder for buyers to qualify for financing, which can lead to a decrease in the demand for residential, commercial or industrial sites. Any decrease in demand will negatively impact our proposed developments. Lack of available credit to finance real estate purchases can also negatively impact demand. Any downturn in the economy or consumer confidence can also be expected to result in reduced housing demand and slower industrial development, which would negatively impact the demand for land we are developing.

We are subject to various land use regulations and require governmental approvals for our developments that could be denied.

In planning and developing our land, we are subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, infrastructure design, subdivision of land, and construction. All of our new developments require amending existing general plan and zoning designations, so it is possible that our entitlement applications could be denied. In addition, the zoning that ultimately is approved could include density provisions that would limit the number of homes and other structures that could be built within the boundaries of a particular area,

which could adversely impact the financial returns from a given project. In addition, many states, cities and counties (including Ventura County) have in the past approved various “slow growth” or “urban limit line” measures.

The final discretionary approval required prior to construction of East Area I project is the annexation of the land into the City of Santa Paula. The action is taken by the Local Agency Formation Commission, which we refer to as LAFCO, and is due to be considered for approval through this agency during our fiscal year 2011. If LAFCO does not approved the annexation, we may not be able to develop East Area I and the approximately \$40 million investment we have into the project could be impaired.

Third-party litigation could increase the time and cost of our development efforts.

The land use approval processes we must follow to ultimately develop our projects have become increasingly complex. Moreover, the statutes, regulations and ordinances governing the approval processes provide third parties the opportunity to challenge the proposed plans and approvals. As a result, the prospect of third-party challenges to planned real estate developments provides additional uncertainties in real estate development planning and entitlements. Third-party challenges in the form of litigation would, by their nature, adversely affect the length of time and the cost required to obtain the necessary approvals. In addition, adverse decisions arising from any litigation would increase the costs and length of time to obtain ultimate approval of a project and could adversely affect the design, scope, plans and profitability of a project.

We are subject to environmental regulations and opposition from environmental groups that could cause delays and increase the costs of our development efforts or preclude such development entirely.

Environmental laws that apply to a given site can vary greatly according to the site's location and condition, present and former uses of the site, and the presence or absence of sensitive elements like wetlands and endangered species. Environmental laws and conditions may (i) result in delays, (ii) cause us to incur additional costs for compliance, where a significant amount of our developable land is located, mitigation and processing land use applications, or (iii) preclude development in specific areas. In addition, in California, third parties have the ability to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. While we have worked with representatives of various environmental interests and wildlife agencies to minimize and mitigate the impacts of our planned projects, certain groups opposed to development may oppose our projects vigorously, so litigation challenging their approval could occur. Recent concerns over the impact of development on water availability and global warming increases the breadth of potential obstacles that our developments face.

Our developable land is concentrated entirely in California.

All of our developable land is in California and our business is especially sensitive to the economic conditions within California. Any adverse change in the economic climate of California, which is currently in a recession, or our region of that state, and any adverse change in the political or regulatory climate of California, or the counties where our land is located could adversely affect our real estate development activities. There is no consensus as to when the recession will end or how long it could take to recover from the recession. Ultimately, our ability to sell or lease lots may decline as a result of weak economic conditions or restrictive regulations.

If the downturn in the real estate industry or the instability of the mortgage industry and commercial real estate financing continues, it could have an adverse effect on our real estate business.

Our residential housing projects are currently in various stages of planning and entitlement, and therefore they have not been impacted by the current downturn in the housing market or the mortgage lending crisis. However, if the downturn in the housing market or the instability of the mortgage industry continues at the time these projects move into their development and marketing phases, our residential business could be adversely affected. An excess supply of homes available due to foreclosures or the expectation of deflation in house prices could also have a negative impact on our ability to sell our inventory when it becomes available.

We may encounter other risks that could impact our ability to develop our land.

We may also encounter other difficulties in developing our land, including:

- natural risks, such as geological and soil problems, earthquakes, fire, heavy rains and flooding, and heavy winds;
  - shortages of qualified trades people;
  - reliance on local contractors, who may be inadequately capitalized;
    - shortages of materials; and
    - increases in the cost of certain materials.

## Risks Relating to Our Common Stock

The value of our common stock could be volatile.

The overall market and the price of our common stock may fluctuate greatly and we cannot assure you that you will be able to resell shares at or above market price. The trading price of our common stock may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- our ability to meet the earnings estimates and other performance expectations of financial analysts or investors;
  - unfavorable commentary or downgrades of our stock by equity research analysts;
  - fluctuations in the stock prices of our peer companies or in stock markets in general; and
  - general economic or political conditions.

Concentrated ownership of our common stock creates a risk of sudden change in our share price.

As of October 31, 2010, directors and members of our executive management team beneficially owned or controlled approximately 12.9% of our common stock. Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large stockholders of a significant portion of that stockholder's holdings could have a material adverse effect on the market price of our common stock. In addition, the registration of any significant amount of additional shares of our common stock will have the immediate effect of increasing the public float of our common stock and any such increase may cause the market price of our common stock to decline or fluctuate significantly.

Our charter documents contain provisions that may delay, defer or prevent a change of control.

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. These provisions include the following:

- division of our board of directors into three classes, with each class serving a staggered three-year term;
- removal of directors by stockholders by a supermajority of two-thirds of the outstanding shares;
- ability of the board of directors to authorize the issuance of preferred stock in series without stockholder approval; and
- prohibitions on our stockholders that prevent them from acting by written consent and limitations on calling special meetings.

We will incur increased costs as a result of being a publicly traded company.

As a Company with publicly traded securities, we have incurred, and will continue to incur, significant legal, accounting and other expenses not historically incurred. In addition, the Sarbanes-Oxley Act of 2002, which we refer to as SOX, as well as rules promulgated by the U.S. Securities and Exchange Commission, which we refer to as the SEC, and NASDAQ Stock Market, LLC, which we refer to as NASDAQ, require us to adopt corporate governance practices applicable to U.S. public companies. These rules and regulations may increase our legal and financial compliance costs, which could adversely affect the trading price of our common stock.

If we do not timely satisfy the requirements of Section 404 of SOX, the trading price of our common stock could be adversely affected.

As a voluntary filer with the SEC, we are currently subject to Section 404 of SOX, as a non-accelerated filer. SOX requires us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal control over financial reporting. Our annual report for the fiscal year ending October 31, 2011 will include management's first report of internal control over financial reporting which will be required to be audited by an Independent Registered Public Accounting Firm. Any delays or difficulty in satisfying the requirements of SOX could, among other things, cause investors to lose confidence in, or otherwise be unable to rely on, the accuracy of our reported financial information, which could adversely affect the trading price of our common stock.



## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

## Real Estate

We own our corporate headquarters in Santa Paula, California. We own approximately 5,870 acres of land in California with approximately 4,070 acres located in Ventura County and approximately 1,800 acres located in Tulare County, which is in the San Joaquin Valley. We lease approximately 30 acres of land located in Ventura County and approximately 450 acres of land located in Santa Barbara County. We also have an interest in a partnership that owns approximately 210 acres of land in Ventura County. The land used for agricultural plantings consists of approximately 1,840 acres of lemons, approximately 1,370 acres of avocados, approximately 1,060 acres of oranges and approximately 400 acres of specialty citrus and other crops. Our agriculture land holdings are summarized below:

Ranch Name	Acres	Book Value	Acquisition Date	Book Value per Acre
Limoneira/Olivelands Ranch	1,744	\$ 767,000	1907, 1913, 1920	\$ 440
Orchard Farm Ranch	1,119	\$ 3,240,000	1920	\$ 2,895
La Campana Ranch	324	\$ 758,000	1964	\$ 2,340
Teague McKeveitt Ranch	460	\$ 8,253,000	1994	\$ 17,941
Rancho La Cuesta Ranch	222	\$ 2,899,000	1994	\$ 13,059
Porterville Ranch	669	\$ 6,427,000	1997	\$ 9,607
Ducor Ranch	890	\$ 6,064,000	1997	\$ 6,813
Wilson Ranch	52	\$ 1,100,000	2001	\$ 21,154
Jencks Ranch	101	\$ 846,000	2007	\$ 8,376
Other agriculture land	223	\$ 296,000	1963, 1998, 2008	\$ 1,327
	5,804	\$ 30,650,000		

The book value of our agriculture land holdings of \$30,650,000 differs from the land balance of \$25,014,000 included in property plant and equipment, Note 2 of the consolidated financial statements in section 8 of Form 10K. The table above presents our current land holdings in agriculture operations, and therefore excludes rental operations land and includes the Teague McKeveitt Ranch, which is classified as real estate development in the consolidated financial statements because of its planned development as East Area I.

We own our packing facility located in Santa Paula, California, where we process and pack our lemons as well as lemons for other growers. In 2008, we entered into an operating lease agreement and completed the installation of a 5.5 acre, one-megawatt ground-based photovoltaic solar generator, which provides the majority of the power to operate our packing facility. In 2009 we completed the installation of a one-megawatt solar array (which we also lease through an operating lease agreement), which provides us with a majority of the electricity required to operate four deep water well pumps at one of our ranches in the San Joaquin Valley.

We own 193 residential units that we lease as part of our Rental Operations segment to our employees, former employees and outside tenants and several commercial office buildings and properties that are leased to various tenants.

We own real estate development property in the California counties of San Luis Obispo, Santa Barbara and Ventura. These properties are in various stages of development for up to 1,873 residential units and approximately 811,000 square feet of commercial space. Additionally, we developed a luxury home in Paradise Valley, Arizona.

## Water Rights

Our water resources include water rights, usage rights and pumping rights to the water in aquifers under, and canals that run through, the land we own. Water for our farming operations is sourced from the existing water resources associated with our land, which includes rights to water in the adjudicated Santa Paula Basin (aquifer) and the unadjudicated Fillmore, Santa Barbara and Paso Robles Basins (aquifers). We also use ground water and water from local water districts in the San Joaquin Valley. We believe our water resources are adequate for our current farming operations in our Agriculture segment.

Our rights to extract groundwater from the Santa Paula Basin, which we refer to as the Santa Paula Basin, are governed by the Santa Paula Basin Judgment, which we refer to as the Judgment. The Judgment was entered in 1996 by stipulation among the United Water Conservation District, the City of Ventura, and various members of the Santa Paula Basin Pumpers Association, which we refer to as the Association. The Association is not-for-profit, mutual benefit corporation, which represents the interests of all overlying landowners with rights to extract groundwater from the Santa Paula Basin and the City of Santa Paula. We are a member of the Association. Membership in the Association is governed by the Association's Bylaws.

The Judgment adjudicated and allocated water rights in the Santa Paula Basin among the Association's members and the City of Ventura. The water rights are established and governed by a seven-year moving average (i.e., production can rise or fall in any particular year so long as the seven year average is not exceeded). Under California law, the water rights are considered "property." A perpetual right to water, evidenced by the Judgment, can be exchanged for interests in real property under IRS Code Section 1031 and if condemned by a public agency, just compensation must be paid to the rightful owner. Our rights under the Judgment are perpetual and considered very firm and reliable which reflects favorably upon their fair market value.

For ease of administration, the Association is appointed by the Judgment as the trustee of its members' water rights, and is responsible for coordinating and promoting the interests of its members. The Judgment includes provisions for staged reductions in production rights should shortage conditions develop. It also allows the adjudicated water rights to be leased or sold among the parties. The Judgment established a Technical Advisory Committee composed of the United Water Conservation District, the City of Ventura and the Association to assist the Superior Court of the State of California, Ventura County, which we refer to as the Court, with the technical aspects of Santa Paula Basin management. Finally, the Judgment reserves continuing jurisdiction to the Court to hear motions for enforcement or modification of the Judgment as necessary.

We believe water is a natural resource that is critical to economic growth in the Western United States and firm, reliable water rights are essential to the Company's sustainable business practices. Consequently, we have long been a private steward and advocate of prudent and efficient water management. We have made substantial investments in securing water and water rights in quantities that are sufficient to support and, we believe will exceed, our long-term business objectives. We strive to follow best management practices for the diversion, conveyance, distribution and use of water. In the future, we intend to continue to provide leadership in the area of, and seek innovation opportunities that promote, increased water use efficiency and the development of new sources of supply for our neighboring communities.

### Item 3. Legal Proceedings

We are from time to time involved in legal proceedings arising in the normal course of business. Other than proceedings incidental to our business, we are not a party to, nor is any of our property the subject of, any material pending legal proceedings and no such proceedings are, to our knowledge, contemplated by governmental authorities

### Item 4. [Removed and Reserved]

None.

## PART II

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

## Market Information

On May 27, 2010, we listed our common stock on the NASDAQ Global Market, which we refer to as NASDAQ. Prior to May 27, 2010, our common stock was traded on the Pink Sheets. Our common stock is currently quoted under the symbol "LMNR". On April 7, 2010, we declared a ten-for-one stock split. All stockholders of record on March 24, 2010 received nine additional shares for each share. This did not change the proportionate interest that a stockholder maintained in the Company. All shares and per share amounts set forth in this report have been adjusted for the ten-for-one stock split. There is no assurance that our common stock will continue to be traded on NASDAQ or that any liquidity exists for our stockholders.

## Market Price

The following table shows the high and low per share price quotations of our common stock for the two most recently completed fiscal years as reported on the Pink Sheets market for each quarterly period through May 26, 2010, and the high and low per share price quotations for our common stock as reported on the NASDAQ from May 27, 2010 to October 31, 2010. The share prices quoted below have been adjusted to reflect the ten-for-one stock split approved by our stockholders on March 23, 2010. The Pink Sheets quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions. The Pink Sheets market is extremely limited and the prices quoted by brokers are not a reliable indication of the value of our common stock. Furthermore, since limited or no public information was available about our business, operating results or financial condition during the time the trades on the Pink Sheets occurred, the trading prices set forth below for the Pink Sheets might not reflect the historical value of our company on a per common share basis, nor be an accurate indication of the prices at which common shares may be traded in the future.

	High	Low
NASDAQ Global Market		
2010		
Fourth Quarter Ended October 31, 2010	\$ 22.14	\$ 16.05
Third Quarter Ended July 31, 2010	\$ 29.66	\$ 15.70
Pink Sheets		
2010		
Second Quarter Ended April 30, 2010	\$ 19.50	\$ 12.50
First Quarter Ended January 31, 2010	\$ 15.50	\$ 13.50
2009		
Fourth Quarter Ended October 31, 2009	\$ 16.00	\$ 12.63
Third Quarter Ended July 31, 2009	\$ 15.50	\$ 12.50
Second Quarter Ended April 30, 2009	\$ 15.00	\$ 10.20
First Quarter Ended January 31, 2009	\$ 17.50	\$ 11.50

## Holders

On December 31, 2010, there were 337 holders of our common stock. The number of registered holders includes banks and brokers who act as nominees, each of whom may represent more than one stockholder.

## Dividends

The following table presents cash dividends per common share declared and paid in the periods shown. The amount of the cash dividend per share has been adjusted to reflect the ten-for-one stock split approved by our stockholders on March 23, 2010.

	Dividend
<b>2010</b>	
Fourth Quarter Ended October 31, 2010	\$ 0.0313
Third Quarter Ended July 31, 2010	\$ 0.0313
Second Quarter Ended April 30, 2010	\$ 0.0313
First Quarter Ended January 31, 2010	\$ 0.0313
<b>2009</b>	
Fourth Quarter Ended October 31, 2009	\$ 0.0313
Third Quarter Ended July 31, 2009	-
Second Quarter Ended April 30, 2009	-
First Quarter Ended January 31, 2009	\$ 0.0313

We expect to continue to pay quarterly dividends at a rate similar to the fourth quarter of 2010, to the extent permitted by our business and other factors beyond management's control.

### Performance Graph

The line graph above compares the percentage change in cumulative total stockholder return of the Company's common stock registered under section 12 of the Exchange Act with (i) the cumulative total return of the Russell 2000 Index assuming reinvestment of dividends, and (ii) the cumulative total return, assuming reinvestment of dividends of Dow Jones U.S. Food Producers Index. The comparison is presented since April 13, 2010, which is the effective date of the Company's registration under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

### Recent Sales of Unregistered Securities

None.

### Purchases of Equity Securities by Issuer and Affiliated Purchasers

None.

## Item 6. Selected Financial Data

The following selected financial data are derived from the audited consolidated financial statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended October 31,				
	2010	2009	2008	2007	2006
Total revenues	\$ 54,284,000	\$ 34,838,000	\$ 53,512,000	\$ 48,267,000	\$ 51,619,000
Income (loss) from continuing operations	\$ 366,000	\$ (2,865,000)	\$ 3,747,000	\$ 2,391,000	\$ 3,791,000
Basic and diluted net (loss) income from continuing operations per share of common stock(a)	\$ 0.01	\$ (0.28)	\$ 0.31	\$ 0.19	\$ 0.38
Total assets	\$ 159,691,000	\$ 141,868,000	\$ 140,990,000	\$ 127,341,000	\$ 86,961,000
Current and long-term debt	\$ 85,938,000	\$ 69,716,000	\$ 65,582,000	\$ 38,475,000	\$ 14,515,000
Redeemable preferred stock	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Cash dividends declared per share of common stock(a)	\$ 0.13	\$ 0.06	\$ 0.33	\$ 0.23	\$ 0.23

(a) All shares and per share amounts have been adjusted for the ten-for-one stock split effected in the form of a 100 percent stock dividend distributed on April 7, 2010 to stockholders of record as of May 24, 2010.

As described in Note 3 to the consolidated financial statements, on November 15, 2009, the Company was assigned the 85% interest in Windfall Investors, LLC that it did not previously own. The transaction was accounted for as a business combination assuming net liabilities of \$1,742,000, comprised of \$17,699,000 in primarily real estate development assets and \$19,441,000 of current liabilities and debt.

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

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

### Overview

Limoneira Company was incorporated in Delaware in 1990 as the successor to several businesses with operations in California since 1893. We are an agriculture and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 7,300 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production and marketing, real estate development and capital investment activities.

We are one of California's oldest citrus growers. According to Sunkist, we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of other specialty citrus and other crops. We have agricultural plantings throughout Ventura, Santa Barbara and Tulare Counties in California, which plantings consist of approximately 1,840 acres of lemons, 1,370 acres of avocados, 1,060 acres of oranges and 400 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons that we grow, as well as lemons grown by others.

Our water resources include water rights, usage rights to the water in aquifers under, and canals that run through, the land we own. Water for our farming operations is sourced from the existing water resources associated with our land, which includes rights to water in adjudicated Santa Paula Basin (aquifer) and the un-adjudicated Fillmore, Santa Barbara and Paso Robles Basins (aquifers). We also use ground water and water from local water districts in Tulare County, which is in the San Joaquin Valley.

For more than 100 years, we have been making strategic investments in California agriculture and development real estate, and more recently, in Arizona real estate. We currently have seven active real estate development projects in California and one in Arizona. Our real estate developments range from apartments to luxury, single-family homes and, in California, include approximately 200 completed units and another approximately 2,000 units in various stages of planning and retirement. Our real estate development in Arizona consists of one leased luxury home in Paradise Valley, which is adjacent to Phoenix and Scottsdale.

We have three business segments: agriculture, rental operations and real estate development. Our agriculture segment currently generates the majority of our revenue from its farming and lemon packing operations; our rental operations segment generates revenue from our housing, organic recycling and commercial and leased land operations; and our real estate development segment primarily generates revenues from the sale of real estate development projects. From a general view, we see the Company as a land and farming company that generates annual cash flows to support its progress into diversified real estate development activities. As real estate developments are monetized, our agriculture business will then be able to expand more rapidly into new regions and markets.



## Recent Developments

On May 27, 2010, shares of Limoneira Company's common stock commenced trading on the NASDAQ Global Market, LLC under the ticker symbol "LMNR".

On July 30, 2010, the Company provided written notice to Sunkist that it was terminating the Sunkist License Agreement effective November 1, 2010. Under the Sunkist License Agreement, the Company was authorized to grade, label, pack, prepare for marketing by Sunkist and ship lemons grown by the Company as well as other growers. The Sunkist License Agreement also authorized the Company to use the SUNKIST® trademark, including any and all variations thereto, in connection with the foregoing.

On November 1, 2010, the Company began marketing and selling its lemons directly to its food service, wholesale and retail customers throughout North America, Asia and certain other countries.

In December 2010, the Company exercised the purchase option contained in its lease of the Rancho Refugio/Caldwell Ranch, which allows the Company to acquire the property for a purchase price of approximately \$6,500,000. Concurrently with the exercise of its purchase option, the Company entered into an agreement to sell the property for \$10,000,000. The closing of each of the purchase and sale of the property are expected to occur on or about January 31, 2011. The Company estimates the gain on the \$10,000,000 property sale will be approximately \$1,300,000, net of the \$6,500,000 property purchase, \$1,500,000 in leasehold improvements sold with the property and \$700,000 of estimated selling costs. The net cash realized from the transaction will be approximately \$2,800,000. The Company expects to enter into a lemon packing agreement with the purchaser, for which it will earn certain as yet undetermined fees. The sale of the property will result in a reduction in lemon and avocado production and related agriculture revenues, agriculture costs and expenses and operating income of approximately \$1,300,000, \$1,000,000 and \$300,000, respectively, off-set by fees from the anticipated lemon packing agreement.

## Results of Operations

The following table shows the results of operations for the years ended October 31:

	Years Ended October 31,		
	2010	2009	2008
<b>Revenues:</b>			
Agriculture	\$ 47,034,000	\$ 31,033,000	\$ 49,794,000
Rental	3,976,000	3,766,000	3,718,000
Real estate development	3,274,000	39,000	-
<b>Total revenues</b>	<b>54,284,000</b>	<b>34,838,000</b>	<b>53,512,000</b>
<b>Costs and expenses:</b>			
Agriculture	31,457,000	27,281,000	34,805,000
Rental	2,173,000	2,061,000	2,236,000
Real estate development	4,416,000	318,000	991,000
Impairments of real estate development assets	2,422,000	6,203,000	1,341,000
Selling, general and administrative	10,694,000	6,469,000	8,292,000
(Gain) loss from disposals/sales of assets	(1,000)	10,000	11,000
<b>Total costs and expenses</b>	<b>51,161,000</b>	<b>42,342,000</b>	<b>47,676,000</b>
<b>Operating income (loss):</b>			
Agriculture	15,577,000	3,752,000	14,989,000
Rental	1,803,000	1,705,000	1,482,000
Real estate development	(3,564,000)	(6,482,000)	(2,332,000)

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Selling, general and administrative	(10,693,000)	(6,479,000)	(8,303,000)
Operating income (loss)	3,123,000	(7,504,000)	5,836,000
Other (expense) income:			
Interest expense	(1,632,000)	(692,000)	(1,419,000)
Interest expense related to derivative instruments	(1,987,000)	-	-
Gain on sale of investment in Calavo Growers, Inc.	-	2,729,000	-
Interest income and other	445,000	481,000	1,305,000
Total other (expense) income	(3,174,000)	2,518,000	(114,000)
Income tax benefit (provision)	72,000	2,291,000	(2,128,000)
Equity in earnings (losses) of investments	345,000	(170,000)	153,000
Loss from discontinued operations, net of income taxes	(43,000)	(12,000)	(252,000)
Net income (loss)	\$ 323,000	\$ (2,877,000)	\$ 3,495,000

## Non-GAAP Financial Measures

Due to significant depreciable assets associated with the nature of our operations and interest costs associated with our capital structure, management believes that earnings before interest expense, income taxes, depreciation and amortization (“EBITDA”) and adjusted EBITDA, which excludes impairments on real estate development assets, is an important measure to evaluate the Company’s results of operations between periods on a more comparable basis. Such measurements are not prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and should not be construed as an alternative to reported results determined in accordance with GAAP. The non-GAAP information provided is unique to the Company and may not be consistent with methodologies used by other companies. EBITDA and adjusted EBITDA are summarized and reconciled to net income (loss) which management considers to be the most directly comparable financial measure calculated and presented in accordance with GAAP as follows:

	Years Ended October 31,		
	2010	2009	2008
Net income (loss)	\$ 323,000	\$ (2,877,000)	\$ 3,495,000
Total interest expense	3,619,000	692,000	1,419,000
Income taxes	(72,000)	(2,291,000)	2,128,000
Depreciation and amortization	2,337,000	2,323,000	2,434,000
EBITDA	6,207,000	(2,153,000)	9,476,000
Impairments of real estate development assets	2,422,000	6,203,000	1,341,000
Adjusted EBITDA	\$ 8,629,000	\$ 4,050,000	\$ 10,817,000

## Fiscal Year 2010 Compared to Fiscal Year 2009

## Revenues

Total revenue for fiscal year 2010 was \$54.3 million compared to \$34.8 million for fiscal year 2009. The 56% increase of \$19.5 million was primarily the result of increased agricultural and real estate revenue, as detailed below:

- Lemon revenue was \$28.2 million for fiscal year 2010 compared to \$22.3 million for fiscal year 2009. The 26% increase of \$5.9 million was primarily the result of more volume sold at higher lemon prices in the marketplace. Volume and price returned to historical average levels in fiscal year 2010 following the oversupply of the global lemon market experienced in fiscal year 2009. During fiscal years 2010 and 2009, 1.4 million and 1.3 million cartons of lemons were sold at an average price per carton of \$18.93 and \$15.72, respectively. Lemon prices were low in fiscal year 2009 as compared to fiscal year 2010 primarily due to a significant oversupply of product in 2009 resulting from simultaneous production recoveries in California, Argentina, Chile and Spain after damaging freezes in 2007.
- Avocado revenue for fiscal year 2010 was \$11.5 million compared to \$4.0 million in fiscal year 2009. The 188% increase of \$7.5 million was primarily due to increased production in fiscal year 2010. The California avocado crop typically experiences alternating years of high and low production due to plant physiology and, as a result, we expect our avocado production to be lower in fiscal year 2011 than in fiscal year 2010. During fiscal years 2010 and 2009, 17.7 million and 2.4 million pounds of avocados were sold at an average price per pound of \$0.65 and \$1.11, respectively. Fiscal year 2009 revenue included a \$1.3 million estimated crop insurance claim settlement.
- A higher quality crop of Navel oranges in fiscal year 2010 compared to fiscal year 2009 resulted in increased sales at the retail level, which resulted in an 84% increase of \$1.6 million in revenue for this crop. During fiscal year 2010, the Company received an average return of \$10.40 on 337,000 field boxes versus \$9.96 on 194,000 field

boxes in fiscal year 2009.

- Larger volumes and higher sales prices in our specialty crops contributed to a 57% increase of \$1.2 million in specialty citrus crop revenues for fiscal year 2010 compared to fiscal year 2009. As the Company's specialty citrus orchards mature, their production has increased. Additionally, international embargos drove higher prices in the market place for the Company's pistachio crop. During fiscal year 2010, 59,000 field boxes of Cara Cara navels were harvested compared to 30,000 field boxes harvested in fiscal year 2009. In fiscal year 2010, 35,000 field boxes of Satsuma mandarins were harvested compared to 15,000 field boxes in fiscal year 2009. Additionally, the Company realized pistachio revenues of \$669,000 in fiscal year 2010 compared to \$372,000 in fiscal year 2009.
- Real estate revenue was \$3.3 million for fiscal year 2010 compared to \$39,000 for fiscal year 2009. The \$3.2 million increase was primarily the result of the sale of the Cactus Wren project in Arizona for \$3,000,000.

## Costs and Expenses

Total costs and expenses for fiscal year 2010 were \$51.2 million compared to \$42.3 million for fiscal year 2009. This 21% increase of \$8.9 million was primarily attributable to increases in our agriculture costs, real estate development expenses net of impairment charges, and selling, general and administrative expenses of \$4.2 million, \$0.3 million and \$4.2 million, respectively. Costs associated with our agriculture business include packing costs, harvest costs, growing costs, costs related to the lemons we process and sell for third-party growers, and depreciation expense. These costs are discussed further below:

- Harvest costs for fiscal year 2010 were \$6.5 million compared to \$4.6 million for fiscal year 2009. This 41% increase of \$1.9 million primarily resulted from 15.3 million more pounds of avocados being harvested during fiscal year 2010 compared to fiscal year 2009.
- Costs related to the lemons that we process and sell for third-party growers were \$5.2 million for fiscal year 2010 compared to \$3.7 million for fiscal year 2009. This 41% increase of \$1.5 million was attributable to higher sales prices per carton, which directly correlates to amounts expensed and paid to third party growers in fiscal year 2010 compared to fiscal year 2009. This increase was partially offset by a \$0.3 million decrease in lemon packing costs.
- Growing costs for fiscal year 2010 were \$10.2 million compared to \$9.1 million for fiscal year 2009. This 12% increase of \$1.1 million was primarily attributable to higher expenditures for fertilization, water, soil amendments and general tree care during fiscal year 2010 compared to fiscal year 2009. Due to reduced agriculture revenue in fiscal year 2009, the Company delayed expenditures for certain growing costs until fiscal year 2010.

Real estate development expenses consist of costs incurred for our various real estate projects, impairment charges and depreciation expense. Real estate development expenses for fiscal year 2010 were \$6.8 million compared to \$6.5 million for fiscal year 2009. This 5% increase of \$0.3 million was primarily attributable to the following:

- Operating expenses of \$1.1 million at our Windfall Investors, LLC (“Windfall Investors”) real estate development project in Creston, California, which was not a part of our operations until fiscal year 2010.
  - Cost of sales of \$3.0 million during fiscal year 2010 associated with the sale of the Cactus Wren property.
- Offsetting the increased costs noted above was a \$3.8 million decrease in the impairments of real estate development assets for fiscal year 2010 compared to fiscal year 2009. As the rate of decline in real estate values slowed, the Company incurred \$2.4 million of impairment charges during fiscal year 2010 compared to \$6.2 million for fiscal year 2009.

Selling, general and administrative expenses for fiscal year 2010 were \$10.7 million compared to \$6.5 million for fiscal year 2009. This 65% increase of \$4.2 million is primarily attributable to the following:

- Legal and accounting expenses of \$1.4 million associated with the filing of our Form 10 and other costs associated with the filing of quarterly reports on Form 10-Q and current reports on Form 8-K as well as our compliance with other obligations of the Securities Exchange Act of 1934 and the listing of our common stock on the NASDAQ Global Market. Incremental costs of being a public company are estimated to be approximately \$1.0 million per year going forward.
- A \$1.3 million charge associated with the forgiveness of notes receivable from three of our senior executive officers. These notes were issued to the officers to allow them to pay the payroll taxes associated with compensation for shares issued to them under our stock grant performance bonus plan. During the first quarter of

fiscal 2010, the outstanding balances of these loans were repaid by the officers by exchanging 6,756 of the shares issued to them valued at \$150.98 per shares, which was the current market value on the date they were exchanged (and was prior to our 10-for-1 stock split) and loan forgiveness by the Company totaling \$0.7 million. The loan forgiveness resulted in additional compensation to the officers and the Company paid on their behalf, \$0.6 million in payroll taxes associated with this compensation.

- A \$0.6 million expense associated with the first-year vesting of a stock grant to management for fiscal year 2010 performance.
- Employee incentive expenses of \$0.4 million, compared to employee incentive expenses of zero in fiscal year 2009. Additionally, labor and benefits expenses were \$0.4 million higher in fiscal year 2010 compared to fiscal year 2009 due to an increase in salaries and personnel associated with our registration under the Exchange Act and the related periodic reporting and other requirements related thereto.

#### Other Income/Expense

Other income (expense) for fiscal year 2010 was \$3.2 million of expense compared to \$2.5 million of income for fiscal year 2009. The \$5.7 million increase in expense consists of the following:

- For fiscal 2010, other expense includes \$1.6 million of interest expense, \$2.0 million of interest expense related to derivative instruments, \$0.1 million of interest income and \$0.3 million of other miscellaneous income.
- For fiscal 2009, other income includes \$0.7 million of interest expense, \$2.7 million of gain on sale of 335,000 shares of stock in Calavo Growers, Inc., \$0.2 million of interest income and \$0.3 million of other miscellaneous income.

The \$0.9 million increase in interest expense in fiscal 2010 is primarily the result of an average higher debt level during fiscal 2010 compared to fiscal 2009 due to the assumption of an additional \$19.3 million in long-term debt in connection with the acquisition of Windfall Investors in November 2009. Average debt levels in fiscal 2010 were approximately \$87.9 million compared to approximately \$73.2 million in fiscal 2009, which is an increase of approximately \$14.7 million.

The \$2.0 million increase in interest expense related to derivative instruments in fiscal year 2010 is the result of recording \$1.4 million of adjustments to the underlying fair value liability for our interest rate swap plus \$0.6 million of amortization related to fair value adjustments for interest rate swaps previously deferred and recorded in other comprehensive income (loss).

#### Income Taxes

The Company recorded an income tax benefit of \$72,000 for fiscal year 2010 on pre-tax income from continuing operations of \$0.3 million compared to an income tax benefit of \$2.3 million for fiscal year 2009 on pre-tax losses from continuing operations of \$5.2 million.

Our effective tax rate is 24.5% for fiscal year 2010 compared to an effective rate of 44.3% for fiscal year 2009. The primary reasons for this change in our effective tax rate were decreases in the dividend exclusion and allowable domestic production deduction and decreases in the change in unrecognized tax benefits, net of other nondeductible items in fiscal year 2010 over the fiscal year 2009 amounts.

#### Fiscal Year 2009 Compared to Fiscal Year 2008

##### Revenues

Total revenue for fiscal year 2009 was \$34.8 million compared to \$53.5 million for fiscal year 2008. The 35% decrease of \$18.7 million was primarily the result of decreased agricultural revenue, as detailed below:

- Lemon revenue for fiscal year 2009 was \$22.3 million compared to \$40.3 million for fiscal year 2008. The 45% decrease of \$18.0 million was primarily the result of less volume sold at lower lemon prices in the marketplace. During fiscal years 2009 and 2008, 1.3 million and 1.4 million cartons of lemons were sold at an average price per carton of \$15.72 and \$27.15, respectively. The global lemon market experienced an over-supply during fiscal year 2009 compared to a weather-related shortage during fiscal year 2008. Prices per carton were \$15.72 and \$27.15 for fiscal years 2009 and 2008, respectively. Lemon prices in fiscal year 2008 were high due to the Company experiencing minimal impact from adverse global climate conditions in fiscal year 2007 that reduced lemon production in California, Argentina, Chile and Spain. This circumstance enabled the Company to achieve over 70%

fresh utilization, compared to a historical average of approximately 65%, at record sales prices for lemons in fiscal year 2008.

- Avocado revenue for fiscal year 2009 was \$4.0 million compared to \$3.5 million for fiscal year 2008, resulting in a 14% increase of \$0.5 million. We harvested 2.4 million pounds of avocados during fiscal year 2009 compared to 3.7 million pounds during fiscal year 2008. This 1.3 million pound decrease in production was offset by a \$1.3 million estimated crop insurance claim settlement recorded in fiscal year 2009 and is attributable to an unseasonable heat event experienced during the bloom and set cycle of Spring 2008 and the low fiscal year 2008 harvest is due to unseasonably cold weather in fiscal year 2007.
- Navel orange revenue for fiscal year 2009 was \$1.9 million compared to \$2.4 million for fiscal year 2008, resulting in a 21% decrease of \$0.5 million.
- Specialty citrus and other crop revenue for fiscal year 2009 was \$2.1 million compared to \$2.9 million for fiscal year 2008, resulting in a 28% decrease of \$0.8 million.



## Costs and Expenses

Total costs and expenses for fiscal year 2009 were \$42.3 million compared to \$47.7 million for fiscal year 2008. This 11% decrease of \$5.4 million was primarily attributable to decreases in agriculture costs, increases in real estate development expenses and decreases in selling, general and administrative expenses.

Costs associated with our agriculture business include packing costs, harvest costs, growing costs, costs related to the lemons we process and sell for third-party growers, and depreciation expense. These costs are discussed further below:

- Costs related to the lemons that we process and sell for third-party growers for fiscal year 2009 were \$3.7 million compared to \$7.1 million for fiscal year 2008. This 48% decrease of \$3.4 million was attributable to less volume sold at lower lemon prices in fiscal year 2009 compared to fiscal year 2008.
- Growing costs for fiscal year 2009 were \$9.1 million compared to \$11.7 million for fiscal year 2008. This 22% decrease of \$2.6 million was attributable to lower fuel prices and pesticide costs, and the delaying of certain growing costs in fiscal year 2009 compared to fiscal year 2008. Additionally, during fiscal year 2008 we recorded a \$1.2 million write-off in connection with the disposal of 133 acres of specialty crop orchards.
- Harvest costs for fiscal year 2009 were \$4.6 million compared to \$5.3 million for fiscal year 2008. This 13% decrease of \$0.7 million was primarily attributable to a decrease in avocado production from 2.4 million pounds in fiscal year 2009 compared to 3.7 million pounds in fiscal year 2008.
- Packing costs were \$0.7 million lower during fiscal year 2009 compared to fiscal year 2008 as a result of lower volume and lower electricity costs associated with the completion of a one-megawatt solar generator.

Real estate development expenses consist of costs incurred for our various real estate projects, impairment charges and depreciation expense. During fiscal year 2009, costs associated with our real estate development business were \$6.5 million compared to costs of \$2.3 million in fiscal year 2008. This \$4.2 million increase was primarily attributable to the following:

- Due to the continued decline in real estate values, impairment charges for fiscal year 2009 were \$6.2 million compared to \$1.3 million for fiscal year 2008, resulting in a \$4.9 million increase.
- Offsetting the increased impairment charges noted above was a \$0.9 million decrease in expenses associated with our East Areas 1 and 2 Project. The majority of the expenses for planning and entitlement related to this project were incurred in fiscal year 2008 and prior years.

Selling, general and administrative expenses for fiscal year 2009 were \$6.5 million compared to \$8.3 million for fiscal year 2008. This 22% decrease of \$1.8 million primarily consists of the following:

- Employee incentive expenses were zero in fiscal year 2009 compared to \$1.5 million in fiscal year 2008 due to lower operating performance in fiscal year 2009 compared to fiscal year 2008.
- Consulting, travel, promotions and other miscellaneous expenses were \$0.5 million lower in fiscal year 2009 compared to fiscal year 2008 due to austerity measures implemented during fiscal year 2009 as a response to lower agriculture revenues.
- Partially offsetting these decreases were \$0.2 million of higher legal, audit and SEC compliance expenses for fiscal year 2009 compared to fiscal year 2008 associated with the Company's NASDAQ listing in fiscal year 2010.



## Other Income/Expense

Other income (expense) for fiscal year 2009 was \$2.5 million of income compared to \$0.1 million of expense for fiscal year 2008. The \$2.6 million increase in income consists of the following:

- For fiscal year 2009, other income includes \$0.7 million of interest expense, \$2.7 million of gain on sale of 335,000 shares of stock in Calavo Growers, Inc. for net proceeds of \$6.1 million, \$0.2 million of interest income and \$0.3 million of other miscellaneous income.
- For fiscal year 2008, other expense includes \$1.4 million of interest expense, \$0.9 million of interest income and \$0.4 million of other miscellaneous income.

Average debt levels in fiscal year 2009 and 2008 were approximately \$73.2 million and \$44.3 million, respectively. Interest expense was lower in fiscal year 2009 compared to fiscal year 2008 due to lower interest rates and higher debt levels being offset by higher interest capitalization on real estate development projects during fiscal 2009.

## Income Taxes

The Company recorded an income tax benefit of \$2.3 million for fiscal year 2009 on pre-tax loss from continuing operations of \$5.2 million compared to an income tax provision of \$2.1 million for fiscal year 2008 on pre-tax income from continuing operations of \$5.9 million.

Our effective tax rate was 44.3% for fiscal year 2009 compared to an effective rate of 36.1% for fiscal year 2008. The primary reasons for this change in our effective tax rate were a decrease in the allowable domestic production deduction, an increase in the change in unrecognized tax benefits and an increase in other nondeductible items in fiscal year 2009 over the fiscal year 2008 amounts.

## Segment Results of Operations

We evaluate the performance of our agriculture business, rental operations and real estate development segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluations related to current market conditions, market opportunities and available resources. The following table shows the segment results of operations for the years ended October 31:

	Years Ended October, 31					
	2010		2009		2008	
	\$	%	\$	%	\$	%
<b>Revenues:</b>						
Agriculture	\$ 47,034,000	87%	\$ 31,033,000	89%	\$ 49,794,000	93%
Rental operations	3,976,000	7%	3,766,000	11%	3,718,000	7%
Real estate development	3,274,000	6%	39,000	0%	-	0%
Total revenues	54,284,000	100%	34,838,000	100%	53,512,000	100%
<b>Costs and expenses:</b>						
Agriculture	31,457,000	61%	27,281,000	64%	34,805,000	73%
Rental operations	2,173,000	4%	2,061,000	5%	2,236,000	5%
Real estate development	6,838,000	13%	6,521,000	15%	2,332,000	5%
Corporate and other	10,693,000	21%	6,479,000	15%	8,303,000	17%
Total costs and expenses	51,161,000	100%	42,342,000	100%	47,676,000	100%

## Operating income (loss):

Agriculture	15,577,000	3,752,000	14,989,000
Rental operations	1,803,000	1,705,000	1,482,000
Real estate development	(3,564,000)	(6,482,000)	(2,332,000)
Corporate and other	(10,693,000)	(6,479,000)	(8,303,000)
Total operating income (loss)	\$ 3,123,000	\$ (7,504,000)	\$ 5,836,000

#### Fiscal Year 2010 Compared to Fiscal Year 2009

The following analysis should be read in conjunction with the previous section “Results of Operations”.

#### Agriculture

For fiscal year 2010 our agriculture segment revenue was \$47.0 million compared to \$31.0 million for fiscal year 2009. The 52% increase of \$16.0 million reflected higher revenue in most varieties of our crops for fiscal year 2010 compared to fiscal year 2009. The increase in agriculture revenue primarily consists of the following:

- Lemon revenue for fiscal year 2010 was \$5.9 million higher than fiscal year 2009.
- Avocado revenue for fiscal year 2010 was \$7.5 million higher than fiscal year 2009.
- Navel orange revenue in fiscal year 2010 was \$1.6 million higher than in fiscal year 2009.
- Valencia orange revenue for fiscal year 2010 was \$0.5 million compared to \$0.7 million in fiscal year 2009.
- Specialty citrus and other crop revenue for fiscal year 2010 was \$1.1 million higher than fiscal year 2009.

Costs associated with our agriculture business include packing costs, harvest costs, growing costs, costs related to the lemons we process and sell for third-party growers, and depreciation expense. For fiscal year 2010, our agriculture costs and expenses were \$31.5 million compared to \$27.3 million for fiscal year 2009. The 15% decrease of \$4.2 million primarily consists of the following:

- Harvest costs for fiscal year 2010 were \$1.9 million higher than fiscal year 2009.
- Cost related to the lemons we process and sell for third-party growers for fiscal year 2010 were \$1.5 million higher than fiscal year 2009.
- Growing costs for fiscal year 2010 were \$1.2 million higher than fiscal year 2009.
- Partially offsetting these increases was a \$0.3 million decrease in packing costs in fiscal year 2010 compared to fiscal year 2009.
- Depreciation expense was similar year to year at approximately \$1.6 million.

#### Rental Operations

Our rental operations revenue for fiscal year 2010 was \$4.0 million compared to \$3.8 million in fiscal year 2009 resulting in an increase of \$0.2 million. Revenues for all three areas of this segment (residential and commercial rentals, leased land and organic recycling) were similar year to year.

Expenses in our rental operations segment for fiscal year 2010 were \$0.1 million higher than fiscal year 2009 due to increased repairs and maintenance costs for our residential rental facilities. Depreciation expense was similar year to year.

#### Real Estate Development

Our real estate development segment revenue for fiscal year 2010 was \$3.2 million higher than fiscal year 2009.

Costs and expenses in our real estate development segment for fiscal year 2010 were \$0.3 million higher than fiscal year 2009.

Corporate and Other

Corporate costs and expenses include selling, general and administrative expenses and other costs not allocated to the operating segments. Corporate and other costs for fiscal year 2010 were \$4.2 million higher than fiscal year 2009. Depreciation expense was similar year to year.

#### Fiscal Year 2009 Compared Fiscal Year 2008

The following analysis should be read in conjunction with the previous section "Results of Operations".

#### Agriculture

For fiscal year 2009 our agriculture segment revenue was \$31.0 million compared to \$49.8 million for fiscal year 2008. The 38% decrease of \$18.8 million primarily reflected lower revenue for lemons in fiscal year 2009 compared to fiscal year 2008:

- Lemon revenue for fiscal year 2009 was \$18.0 million lower than fiscal year 2008.
- Avocado revenue for fiscal year 2009 was \$0.5 million higher than fiscal year 2008.
- Navel orange revenue was \$1.9 million for fiscal year 2009 compared to \$2.4 million for fiscal year 2008, resulting in decrease of \$0.5 million.
  - Valencia orange revenue did not materially change in fiscal year 2009 from fiscal year 2008.
- Specialty citrus and other crop revenue was \$2.1 million for fiscal year 2009 compared to \$2.9 million for fiscal year 2008 resulting in a decrease of \$0.8 million.

Costs associated with our agriculture business include packing costs, harvest costs, growing costs, costs related to the lemons we process and sell for third-party growers, and depreciation expense. For fiscal year 2009 our agriculture costs and expenses were \$27.3 million compared to \$34.8 million for fiscal year 2008. The 22% decrease of \$7.5 million primarily consists of the following:

- Costs related to the lemons we process and sell for third-party growers for fiscal year 2009 were \$3.4 million lower than fiscal year 2008.
  - Growing costs for fiscal year 2009 were \$2.6 million lower than fiscal year 2008.
  - Harvest costs for fiscal year 2009 were \$0.7 million lower than fiscal year 2008.
- Packing costs for fiscal year 2009 were \$8.3 million compared to \$9.0 million for fiscal year 2008, resulting in a \$0.7 million decrease.
- Depreciation expense for fiscal year 2009 was \$1.6 million compared to \$1.7 million for fiscal year 2008, resulting in a \$0.1 million decrease.

#### Rental Operations

Our rental operations revenue for fiscal year 2009 was \$3.8 million compared to \$3.7 million in fiscal year 2008, resulting in a \$0.1 million increase. Revenues for all three areas of this segment (residential and commercial rental operations, leased land and organic recycling) were similar year to year.

Expenses in our rental operations segment for fiscal year 2009 were \$0.1 million lower than fiscal year 2008 due to decreased repairs and maintenance costs for our residential facilities. Depreciation expense was similar year to year.

#### Real Estate Development

Our real estate development segment revenue for fiscal year 2009 was \$39,000 higher than fiscal year 2008. The fiscal year 2009 revenue consists of incidental revenue from one of the Arizona Development Projects.

Costs and expenses in the real estate development segment for fiscal year 2009 were \$4.2 million higher than fiscal year 2008.

#### Corporate and Other

Corporate costs and expenses include selling, general and administrative expenses and other costs not allocated to the operating segments. Corporate and other costs for fiscal year 2009 were \$1.8 million lower than fiscal year 2009. Depreciation expense was similar year to year.



## Quarterly Results of Operations

The following table presents the Company's operating results for each of the eight fiscal quarters in the period ended October 31, 2010. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with the audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. As with any agriculture enterprise, our agriculture operations are highly seasonal in nature. The harvest and sale of our lemons, avocados, oranges and specialty citrus and other crops occurs in all quarters, but is generally more concentrated during the second and third quarters.

(in thousands, except per common share amounts)	Three Months Ended 2010			
	Oct. 31,	July 31,	Apr. 30,	Jan. 31,
Statement of Operations Data:				
Revenues	\$ 12,483	\$ 22,230	\$ 13,209	\$ 6,362
Costs and expenses	14,598	13,236	12,184	11,143
Operating income (loss)	(2,115)	8,994	1,025	(4,781)
Other income (loss), net	(817)	(1,396)	(925)	(36)
Income (loss) from continuing operations before (provision) benefit for income taxes and equity earnings (loss) of investments	(2,932)	7,598	100	(4,817)
Income tax (provision) benefit	1,115	(2,704)	(48)	1,709
Equity earnings (loss) of investments	270	27	64	(16)
Income (loss) from continuing operations	(1,547)	4,921	116	(3,124)
Loss from discontinued operations, net of tax	(25)	(6)	(4)	(8)
Net Income (loss)	(1,572)	4,915	112	(3,132)
Net income (loss) per common share:				
Basic	\$ (0.14)	\$ 0.43	\$ 0.00	\$ (0.28)
Diluted	\$ (0.14)	\$ 0.43	\$ 0.00	\$ (0.28)
Number of shares used in per common share computations:				
Basic	11,194	11,194	11,194	11,246
Diluted	11,194	11,194	11,194	11,246

(in thousands, except per common share amounts)	Three Months Ended 2009			
	Oct. 31,	July 31,	Apr. 30,	Jan. 31,
Statement of Operations Data:				
Revenues	\$ 9,178	\$ 12,984	\$ 7,760	\$ 4,916
Costs and expenses	13,744	10,498	9,320	8,780
Operating income (loss)	(4,566)	2,486	(1,560)	(3,864)
Other income (loss), net	2,557	(175)	(24)	160
Income (loss) from continuing operations before (provision) benefit for income taxes and equity earnings (loss) of investments	(2,009)	2,311	(1,584)	(3,704)
Income tax (provision) benefit	891	(991)	739	1,652
Equity earnings (loss) of investments	13	(84)	(75)	(24)
Income (loss) from continuing operations	(1,105)	1,236	(920)	(2,076)
Loss from discontinued operations, net of tax	(5)	(1)	(5)	(1)
Net Income (loss)	\$ (1,110)	\$ 1,235	\$ (925)	\$ (2,077)

Net income (loss) per common share:

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Basic	\$	(0.10)	\$	0.10	\$	(0.09)	\$	(0.19)
Diluted	\$	(0.10)	\$	0.10	\$	(0.09)	\$	(0.19)
Number of shares used in per common share computations:								
Basic		11,263		11,263		11,263		11,195
Diluted		11,263		11,263		11,263		11,234

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## Liquidity and Capital Resources

### Overview

The Company's liquidity and capital position fluctuates during the year depending on seasonal production cycles, weather events, and demand for our products. Typically, our first and last fiscal quarters coincide with the fall and winter months during which we are growing crops that are harvested and sold in the spring and summer, our second and third quarters. To meet working capital demand and investment requirements of our agriculture and real estate development segments and to supplement operating cash flows, we utilize our revolving credit facility to fund agricultural inputs and farm management practices until sufficient returns from crops allow us to repay amounts borrowed. Raw materials needed to propagate the various crops grown by us consist primarily of fertilizer, herbicides, insecticides, fuel and water and are readily available from local sources.

### Cash Flows from Operating Activities

For the fiscal years ended October 31, 2010, 2009, and 2008, net cash provided by (used in) operating activities was \$7.1 million, (\$1.0) million and \$6.8 million, respectively. The increase of \$8.1 million in net cash provided by operating activities for fiscal 2010 as compared to fiscal 2009 was primarily attributable to higher net income resulting from higher revenue in most varieties of our crops. The \$7.8 million decrease in cash provided by operating activities in fiscal year 2009 was primarily due to a net loss of \$2.9 million in fiscal year 2009 compared to a net income of \$3.5 million in fiscal year 2008. The significant components of the Company's cash flows provided by operating activities as included in the Consolidated Statements of Cash Flows are as follows:

- Net income (loss) was \$0.3 million, (\$2.9) million and \$3.5 million for fiscal years 2010, 2009, and 2008, respectively. The increase of \$3.2 million in fiscal year 2010 as compared to fiscal year 2009 was primarily attributable to a \$3.7 million decrease in non-cash impairments of real estate development assets. The decrease of \$6.4 million in fiscal year 2009 as compared to fiscal year 2008 was primarily attributable to a \$11.2 million decrease in agriculture operating income and a \$4.8 million increase in non-cash impairments of real estate development assets.
- Depreciation and amortization was \$2.3 million, \$2.3 million and \$2.4 million for fiscal years 2010, 2009 and 2008, respectively. Depreciation and amortization for each of fiscal years 2010, 2009, and 2008 remained stable primarily because the balance of depreciable assets did not change significantly.
- Non-cash impairments of real estate development assets resulting from continued weakness in the real estate market was \$2.4 million, \$6.2 million and \$1.3 million for fiscal years 2010, 2009, and 2008, respectively.
- During fiscal 2009, the Company sold 335,000 shares of its investment in Calavo which resulted in a gain of \$2.7 million. No such transaction occurred in fiscal year 2010 or 2008.
- Non-cash stock compensation expense was \$1.2 million, \$0.8 million and \$0.6 million for fiscal years 2010, 2009, and 2008, respectively, which is comprised of vesting of a 2008 grant to management under the Company's stock grant performance bonus program and the directors stock incentive compensation. The increase in fiscal year 2010 stock compensation expense of \$0.4 million compared to fiscal year 2009 is primarily related to the fiscal 2010 incentive stock grant for management for which there was no such grant in fiscal year 2009.
- Expense related to the forgiveness of notes receivable of \$0.7 million is a non-cash charge that occurred in fiscal 2010 in connection with loans issued to three of our senior executive officers to allow them to pay the payroll taxes associated with the compensation shares issued to them under our stock grant performance bonus plan. There was

no such charge in either fiscal 2009 or 2008.

- Non-cash interest expense on derivative instruments was \$2.0 million for fiscal year 2010 and zero for fiscal years 2009 and 2008. The expense is due to a change in accounting for the Company's interest rate swap agreements. In fiscal years 2009 and 2008, the swap agreements qualified for hedge accounting and as such, the changes in the related fair value liability were included in other comprehensive income. In April 2010, the Company extended the due dates for certain of the swap agreements and combined the swap agreements into one agreement. This transaction disqualified them for hedge accounting and accordingly, required the change in the related fair value liability to be included in earnings.

- Accounts and notes receivable provided (used) operating cash flows of \$0.9 million, (\$1.2) million, and (\$0.1) million for fiscal years 2010, 2009 and 2008, respectively. The \$2.2 million increase in cash flows in fiscal year 2010 compared to fiscal year 2009 was primarily the result of the change in notes receivable – related parties of \$1.5 million. During fiscal year 2010 in relation to officers' notes receivable, the Company issued \$0.2 million of additional notes, \$1.0 million was repaid and \$0.7 million was forgiven. The \$1.1 million decrease in cash flows for fiscal year 2009 compared to fiscal year 2008 was primarily due to an increase in accounts receivable from recording a \$1.3 million estimated crop insurance claim settlement in fiscal year 2009.
- Income taxes receivable balance at October 31, 2010 \$1.2 million compared to zero at October 31, 2009, resulting in a corresponding decrease in operating cash flows of (\$1.2) million for fiscal year 2010 and an increase in operating cash flows of \$1.0 million for fiscal year 2009. The receivable at October 31, 2010 represented the estimated refund due to the Company from the estimated tax payments made during fiscal year 2010. Comparatively, the Company generated a loss in fiscal year 2009 and made no estimated tax payments.
- Accounts payable and growers payable provided (used) operating cash flows of zero, (\$0.7) million and \$1.0 million for the fiscal years 2010, 2009 and 2008, respectively. The \$0.7 million increase in cash flows in fiscal year 2010 compared to fiscal year 2009 is primarily due to higher levels of operating expenses in fiscal year 2010 compared to fiscal year 2009, resulting in corresponding higher levels of payables at fiscal year-end 2010. The \$1.7 million decrease in cash flows in fiscal year 2009 compared to fiscal year 2008 is primarily due to lower levels of operating expenses in fiscal year 2009 compared to fiscal year 2008, resulting in correspondingly lower levels of payables at fiscal year-end 2009.
- Accrued liabilities used operating cash flows of \$0.1 million, (\$1.8) million and (\$1.0) million for fiscal years 2010, 2009 and 2008, respectively. The \$0.1 million non-cash increase in operating activities from accrued liabilities primarily consists of (\$0.2) million related to real estate development costs offset by changes in various accrual balances. The \$1.8 million use of cash in fiscal year 2009 compared to fiscal year 2008 is primarily due to accrued incentive compensation of \$1.5 at October 31, 2008 and there was no such accrual at October 31, 2009.

#### Cash Flows from Investing Activities

For the years ended October 31, 2010, 2009, and 2008, net cash used in investing activities was \$2.7 million, \$1.5 million, and \$29.1 million, respectively.

Net cash used in investing activities is primarily comprised of capital expenditures and sales of assets. Capital expenditures were \$5.5 million for fiscal year 2010 and \$7.2 million for fiscal year 2009, comprised of \$1.8 million and \$2.1 million for property, plant and equipment in fiscal years 2010 and 2009, respectively, and \$3.7 million and \$5.1 million for real estate development projects in fiscal years 2010 and 2009, respectively. During fiscal year 2010, the Company sold its Cactus Wren real estate development project for \$2.8 million in net proceeds. During fiscal 2009, the Company sold 335,000 shares of its investment in Calavo for \$6.1 million in net proceeds to provide working capital and manage its debt level. Other investing activities used net cash of \$0.4 million more in fiscal year 2009 than fiscal year 2008.

The \$27.6 million decrease in net cash used in investing activities for fiscal year 2009 compared to fiscal year 2008 is attributable to \$22.0 million less in capital expenditures, which is primarily related to the purchase in fiscal year 2008 of a 63 acre land parcel that is part of the East Area I development project, net proceeds of \$6.1 million from the sale of 335,000 shares of our investment in Calavo in fiscal year 2009 and \$0.5 million less in equity investment distributions in fiscal year 2009 due to lower agriculture profits on our Limco Del Mar investment. Other investing activities provided net cash of \$0.4 million more in fiscal year 2009 than fiscal year 2008.



### Cash Flows from Financing Activities

For the years ended October 31, 2010, 2009, and 2008, net cash (used in) provided by financial activities was (\$4.8) million, \$3.0 million, and \$22.0 million, respectively.

The \$7.8 million decrease in net cash flows from financing activities for fiscal year 2010 compared to fiscal year 2009 is primarily due to net repayments on long-term debt in the amount of \$3.1 million in fiscal year 2010 and \$4.1 million net borrowings in fiscal year 2009, which is largely the result of an \$8.1 million increase in cash flows from operating activities in fiscal year 2010. In addition, the Company paid common and preferred stock dividends of \$1.7 million in fiscal year 2010 compared to \$1.0 million paid in fiscal year 2009. Lower common stock dividends of \$0.07 million were paid in fiscal year 2009 (\$0.06 per common share) compared to fiscal 2010 (\$0.13 per common share) as a result of reduced fiscal year 2009 operating cash flows. Other financing activities provided net cash of \$0.2 million more in fiscal year 2010 than fiscal year 2009.

The \$19.0 million decrease in net cash flows from financing activities for fiscal year 2009 compared to fiscal year 2008 is primarily related to net cash provided from net repayments and net borrowings on long-term debt, which was \$4.1 million and \$27.1 million in fiscal years 2009 and 2008, respectively. The fiscal year 2008 net cash provided from net borrowings of debt includes \$22.0 million used to purchase approximately 63 acres of property that is part of our East Area I development project. In addition, the Company paid common and preferred stock dividends of \$1.0 million in fiscal year 2009 compared to \$3.9 million paid in fiscal year 2008. Lower common stock dividends of \$0.07 million were paid in fiscal year 2009 (\$0.06 per average common share) compared to fiscal year 2008 (\$0.33 per common share) as a result of reduced fiscal year 2009 operating cash flows. Repurchases of common stock was \$1.1 million less in fiscal year 2009 than fiscal year 2008. Other financing activities used net cash of \$0.2 million more in fiscal year 2009 than fiscal year 2008.

### Transactions Affecting Liquidity and Capital Resources

We finance our working capital and other liquidity requirements primarily through cash from operations and our revolving credit facility with Rabobank, NA, which we refer to as Rabobank. In addition, we have three term loans with Farm Credit West, FLCA, and a non-revolving line of credit, which we refer to as the Farm Credit West Line of Credit, with Farm Credit West, PCA, which we refer to with Farm Credit West, FLCA collectively, as Farm Credit West. Additional information regarding the Rabobank Credit Facility, the Farm Credit West Term Loans and the Farm Credit West Line of Credit can be found in Note 14 to the consolidated financial statements included elsewhere in this Form 10-K.

We believe that the cash flows from operations and available borrowing capacity from our existing credit facilities will be sufficient to satisfy our capital expenditures, debt service, working capital needs and other contractual obligations for fiscal 2011. In addition, we have the ability to control the timing of our investing cash flows to the extent necessary based on our liquidity demands.

### Rabobank Revolving Credit Facility

As of October 31, 2010, our outstanding borrowings under the Credit Facility were \$57.0 million and we had \$23.0 million of availability. The Rabobank Credit Facility bears interest at a variable rate equal to the one month London Interbank Offer Rate (“LIBOR”) plus a spread of 1.50%. The interest rate resets on the first of each month and was 1.76% at October 31, 2010. We have the ability to prepay any amounts outstanding under the Credit Facility without penalty.

The Company has the option of fixing the interest rate under the Rabobank Credit Facility on any portion of outstanding borrowings using interest rate swaps. The fixed interest rate is calculated using the two, three or five year LIBOR swap rates plus a spread of 1.50%. At October 31, 2010, the Company has fixed the interest rate at 5.163 % based on the three year LIBOR swap rate utilizing interest rate swaps on \$42 million of the Rabobank Credit Facility. Additional information regarding the interest rate swaps can be found in Note 15 to the consolidated financial statements included elsewhere in this Form 10-K.

The Rabobank Credit Facility is secured by certain of the Company's agricultural properties and a portion of the equity interest in the San Cayetano Mutual Water Company, and subjects the Company to affirmative and restrictive covenants including, among other customary covenants, financial reporting requirements, requirements to maintain and repair any collateral, restrictions on the sale of assets, restrictions on the use of proceeds, prohibitions on the incurrence of additional debt and restrictions on the purchase or sale of major assets. We also are subject to a covenant that the Company will maintain a debt service coverage ratio, as defined in the Rabobank Credit Facility, of less than 1.25 to 1.0 measured annually at October 31st, with which we were in compliance at October 31, 2010.



### Farm Credit West Term Loans and Non-Revolving Credit Facility

As of October 31, 2010, we had an aggregate of \$29.0 million outstanding under the Farm Credit West Term Loans and Farm Credit West Line of Credit. The following provides further discussion on the term loans and non-revolving credit facility:

- **Term Loan Maturing November 2022.** As of October 31, 2010, we had \$6.7 million outstanding under the Farm Credit West term loan that matures in November 2022. This term loan bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% and is payable in quarterly installments through November 2022. The interest rate resets monthly and was 3.25% at October 31, 2010. This term loan is secured by certain of our agricultural properties.
- **Term Loan Maturing May 2032.** As of October 31, 2010, we had \$0.9 million outstanding under the Farm Credit West term loan that matures in May 2032. This term loan bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% and is payable in monthly installments through 2032. The interest rate resets monthly and was 3.25% at October 31, 2010. This term loan is secured by certain of our agricultural properties.
- **Term Loan Maturing October 2035.** As of October 31, 2035, our wholly-owned subsidiary, Windfall Investors, had \$9.1 million outstanding under the Farm Credit West term loan that matures in October 2035. The Company guaranteed payment of all indebtedness under this term loan and, in connection with our acquisition of Windfall Investors in November 2009, began to include the results of operations and all of the assets and liabilities of Windfall Investors (including the liabilities under this term loan) in the Company's consolidated financial statements. The interest rate on this term loan is fixed at 6.73% until November 2011, at which time the rate becomes variable at a rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% until the loan matures. This term loan is secured by the Windfall Farms Property.
- **Non-Revolving Line of Credit Maturing May 2013.** As of October 31, 2010, our wholly-owned subsidiary, Windfall Investors, had \$12.3 million outstanding under the Farm Credit West Line of Credit that matures May 2013. In connection with our acquisition of Windfall Investors in November 2009 we began to include the liability associated with a \$10.5 million line of credit involving Windfall Investors and Farm Credit West that matured in June 2010. In May 2010, Windfall Investors refinanced the outstanding line of credit balance of \$10.5 million plus accrued interest with a \$13 million non-revolving line of credit that matures in May 2013. The non-revolving line of credit bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% with interest payable on a monthly basis and the principal amount due in full in May 2013. The interest rate resets monthly and was 3.50% at October 31, 2010. The Company guaranteed the payment of all indebtedness under this term loan. The non-revolving line of credit is secured by all of Windfall Investor's owned stock or participation certificates required by Farm Credit West's bylaws, any funds or accounts of Windfall Investors maintained with Farm Credit West and Farm Credit West's allocated surplus, and certain of the Company's agricultural properties.

The Farm Credit West Term Loans and Non-Revolving Credit Facility contain various conditions, covenants and requirements with which the Company and Windfall Investors must comply. In addition, the Company and Windfall Investors are subject to limitations on, among other things, selling, abandoning or ceasing business operations;

merging or consolidating with a third party; disposing of a substantial portion of assets by sale, transfer, gifts or lease except for inventory sales in the ordinary course of business; obtaining credit or loans from other lenders other than trade credit customary in the business; becoming a guarantor or surety on or otherwise liable for the debts or obligations of a third party; and mortgaging, pledging, leasing for over a year, or otherwise making or allowing the filing of a lien on any collateral

## Interest Rate Swaps

We enter into interest rate swap agreements to manage the risks and costs associated with our financing activities. On April 29, 2010, we cancelled two interest rate swaps with notional amounts of \$10.0 million each and amended the remaining interest rate swap from a notional amount of \$22.0 million to a notional amount of \$42.0 million. At October 31, 2010, the Company had interest rate swap agreements which lock in the interest rate on \$42.0 million of its \$85.9 million in debt at approximately 5.163% until June 2013. Of the remaining \$43.9 million in debt, \$34.8 million bears interest at a variable rate, which was 3.25% or less at October 31, 2010 and \$9.1 million bears interest at a fixed rate of 6.73% which becomes variable in November 2011. These interest rate swaps previously qualified as cash flow hedges and the fair value adjustments to the swap agreements were deferred and included in accumulated other comprehensive income (loss). As a result of the re-negotiated terms, the remaining interest rate swap no longer qualifies for hedge accounting and accordingly, fair value adjustments from April 30, 2010 are included in interest expense. Additional information, regarding the interest rate swaps can be found in Note 15 to the consolidated financial statements included elsewhere in this Form 10-K.

## Real Estate Development Activities and Related Capital Resources

As noted above under “Transactions Affecting Liquidity and Capital Resources,” we have the ability to control the timing of our investing cash flows to the extent necessary based upon our liquidity demands. In order for our real estate development operations to reach their maximum potential benefit to the Company, however, we will need to be successful over time in identifying other third party sources of capital to partner with us to move those development projects forward. While we are in discussions with several external sources of capital in respect to all of our development projects (other than our Donna Circle project, which is a complete, single family, luxury home in Arizona under an operating lease expiring in 2011), current market conditions for California real estate projects, while improving, continue to be challenging and make it difficult to predict the timing and amounts of future capital that will be required to complete the development of our projects.

## Trend Information

### Agriculture

The worldwide fresh produce industry has historically enjoyed consistent underlying demand and favorable growth dynamics. In recent years, the market for fresh produce has increased faster than the rate of population growth, supported by ongoing trends including greater consumer demand for healthy, fresh and convenient foods, increased retailer square footage devoted to fresh produce, and greater emphasis on fresh produce as a differentiating factor in attracting customers. Health-conscious consumers are driving much of the growth in demand for fresh produce. Over the past several decades, the benefits of natural, preservative-free foods have become an increasingly significant element of the public dialogue on health and nutrition. As a result, consumption of fresh fruit and vegetables has markedly increased. According to the U.S. Department of Agriculture (“USDA”), Americans consumed an additional 37 pounds of fresh fruit and vegetables per capita in 2008 than they did in 1988.

The USDA reports that per capita fresh lemon consumption was 3.96 pounds in 2006 and since 2000 has averaged 3.3 pounds per capita versus 2.7 pounds in the 1990s. The USDA also estimates that U.S. lemon production will be approximately 10% greater in 2011 than in 2010 and, as a result, lemon prices may experience some downward pressure as a result of an increase in supply. California produces approximately 87% of the U.S. lemon crop with approximately 66% of the crop going to the fresh market, which is significantly more profitable than the processed market. The amount of production sold in the fresh market is referred to as utilization. Our utilization has historically been comparable to the California industry average. We expect that our utilization will increase to approximately 75%

to 80% due to increased flexibility to sell lemons directly to food service, wholesale and retail customers and increased customer interaction resulting from our direct lemon sales strategy, which became effective November 1, 2010.

Also, according to the USDA, the U.S. per capita consumption of avocados has increased in recent years from 2.3 pounds per capita in 2000 to 3.1 pounds per capita in 2005 and the California Avocado Commission estimates that over 4.0 pounds per capita were consumed in 2010. A growing Hispanic population, an increasing awareness of healthier foods and the acceptance of monounsaturated fats has helped to spur demand for avocados. California is the largest U.S. producer of avocados and the 2010 crop of 245,000 tons was the second largest in the last ten years and fourth largest in California avocado production history. The USDA estimates that U.S. avocado production will be lower in 2011 than 2010. We expect that, due to the alternate bearing nature of avocado trees where a large crop is typically followed by a smaller crop, our avocado production is likely to be lower in fiscal year 2011 than in fiscal year 2010. In addition, unfavorable weather conditions in Mexico and Chile may result in lower overall avocado production globally. Consequently, an estimated increase in U.S. consumer demand for avocados coupled with the expectations of lower supply is expected to result in higher prices for avocados in 2011.

## Real Estate Development

According to most accounts, the residential real estate market continues to be weak following the well known economic dramatic downturn in recent years. Persistent high unemployment is expected to keep home sales at historically low levels in terms of volume and price. The Company has incurred impairment charges on certain of its real estate development projects over the last three years and future impairment is possible. Due to these factors, we anticipate maintaining a cautious and patient perspective with respect to our real estate development activities. However, interest rates are also at historically low levels, which provide a favorable buying opportunity for potential home buyers. Additionally, we believe that our real estate development properties have certain unique characteristics and are located in desirable locations, in particular East Area I, and as economic or real estate market conditions improve or other factors arise, we will take advantage of such opportunities to develop our properties.

## Contractual Obligations and Off-Balance Sheet Arrangements

The following table presents the Company's contractual obligations at October 31, 2010 for which cash flows are fixed and determinable:

Contractual Obligations:	Total	Payments due by Period			
		< 1 year	1-3 years	3-5 years	5+ years
Fixed rate debt (principal)	\$ 51,149,000	\$ 146,000	\$ 42,323,000	\$ 369,000	\$ 8,311,000
Variable rate debt (principal)	34,789,000	480,000	28,217,000	1,075,000	5,017,000
Operating lease obligations	8,742,000	1,699,000	2,849,000	1,675,000	2,519,000
Total contractual obligations	\$ 94,680,000	\$ 2,325,000	\$ 73,389,000	\$ 3,119,000	\$ 15,847,000
Interest payments on fixed and variable rate debt	\$ 19,468,000	\$ 3,566,000	\$ 7,081,000	\$ 1,226,000	\$ 7,595,000

We believe that the cash flows from our agriculture and rental operations business segments as well as available borrowing capacity from our existing credit facilities will be sufficient to satisfy our future capital expenditure, debt service, working capital and other contractual obligations for fiscal year 2011. In addition, we have the ability to control the timing of our investing cash flows to the extent necessary based on our liquidity demands.

## Fixed Rate and Variable Rate Debt

Details of amounts included in long-term debt can be found above and in the accompanying notes to the consolidated financial statements and included elsewhere in this Form 10-K. The table above assumes that long-term debt is held to maturity.

## Interest Payments on Fixed and Variable Debt

The above table assumes that our fixed rate and long term debt is held to maturity and the interest rates on our variable rate debt remains unchanged for the remaining life of the debt from those in effect at October 31, 2010.

## Preferred Stock Dividends

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., the Company issued 30,000 shares of Series B Convertible Preferred Stock at \$100 par value (the "Series B Stock"). The holders of shares of Series B Stock are entitled to receive cumulative cash dividends at an annual rate of 8.75% of par value. Such dividends are payable quarterly on the first day of January, April, July, and October in each year commencing July 1, 1997 and totaled \$0.3 million in fiscal years 2010, 2009 and 2008.



## Operating Lease Obligations

The Company has numerous operating lease commitments with remaining terms ranging from less than one year to ten years. The Company has installed a one mega-watt photovoltaic solar array on one of its agricultural properties located in Ventura County that produces the majority of the power to run its lemon packinghouse. The construction of this array was financed by Farm Credit Leasing and the Company has a long-term lease with Farm Credit Leasing for this array. Annual payments for this lease are \$0.5 million, and at the end of ten years the Company has an option to purchase the array for \$1.1 million. The Company entered into a similar transaction with Farm Credit Leasing for a second photovoltaic array at one of its agricultural properties located in the San Joaquin Valley to supply the majority of the power to operate four deep-water well pumps located on Company property. Annual lease payments for this facility range from \$0.3 million to \$0.8 million, and at the end of ten years the Company has the option to purchase the array for \$1.3 million. The Company leases pollination equipment under a lease through 2013 with annual payments of \$0.1 million. The Company also leases machinery and equipment for its packing operations and land for its growing operations under leases with annual lease commitments that are individually immaterial.

## Significant Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of accounts receivable, cultural costs, long-lived assets including real estate development assets and property, plant and equipment, income taxes, retirement benefits, valuation of derivative instruments and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

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

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

**Accounts Receivable** - The Company grants credit in the course of its operations to cooperatives, companies and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company provides an allowance for doubtful accounts on its receivables as required based on accounts receivable aging and other factors. Historically, such allowances and credit losses have not been significant.

**Cultural Costs** - Costs of bringing crops to harvest are capitalized as incurred. Such costs are expensed when the crops are sold and are recorded in agriculture cost and expenses in the Company's consolidated statement of operations. Costs incurred during the current year related to the next year's crop are capitalized until the crop is harvested and sold.

**Long-lived Assets** - The Company evaluates long-lived assets, including its definite-life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated undiscounted future cash flows from the use of an asset are less than the carrying value

of that asset, a write-down is recorded to reduce the carrying value of the asset to its fair value. Assets held for sale are carried at the lower of cost or fair value less estimated cost to sell.

Income Taxes - Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.



**Derivative Instruments** - The Company uses derivative financial instruments to manage its exposure to interest rates as well as to maintain an appropriate mix of fixed and floating-rate debt. Contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will be either offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

**Retirement Benefits** – The Company has a defined benefit pension plan that, effective June 2004, was frozen to new participants and no additional benefits accrue to participants subsequent to that date. The accounting and reporting for the plan requires assumptions and estimates regarding fair value and estimated return of plan assets and estimated benefit obligations.

#### Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles requires us to develop critical accounting policies and make certain estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates and judgments on historical experience, available relevant data and other information that we believe to be reasonable under the circumstances. Actual results may materially differ from these estimates under different assumptions or conditions as new or additional information become available in future periods. We believe the following critical accounting policies reflect our more significant estimates and judgments used in the preparation of our consolidated financial statements.

**Revenue Recognition** – As a general policy, revenue and related costs are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) selling price is fixed or determinable and (iv) collectability is reasonably assured.

**Agriculture revenue** - Revenue from the sales of certain of the Company's agricultural products is recorded based on estimated proceeds provided by certain of the Company's sales and marketing partners (Calavo and other third-party packinghouses) due to the time between when the product is delivered by the Company and the closing of the pools for such fruits at the end of each month. Calavo and other third-party packinghouses are agricultural cooperatives or function in a similar manner as an agricultural cooperative. As such, the Company applies specific authoritative agriculture revenue recognition guidance related to transactions between patrons and agriculture marketing cooperatives to record revenue at time of delivery to the packinghouses relating to fruits that are in pools that have not yet closed at month end if (a) the related fruits have been delivered to and accepted by Calavo and other third-party packinghouses (i.e. title has transferred to Calavo and other third-party packinghouses) and (b) sales price information has been provided by Calavo and other third-party packinghouses (based on the marketplace activity for the related fruit) to estimate with reasonable certainty the final selling price for the fruit upon the closing of the pools. Historically, the revenue that is recorded based on the sales price information provided to the Company by Calavo and other third-party packinghouses at the time of delivery, have not materially differed from the actual amounts that are paid after the monthly pools are closed.

For citrus products processed through the Company's packinghouse and sold by Sunkist on the Company's behalf, the Company has (i) the general and physical inventory risk, (ii) the discretion in supplier selection and (iii) involvement in the determination of the product that is ultimately sold to the customer. In addition, Sunkist earns a fixed amount

per carton sold for its sales and marketing services. The sales and marketing services received from Sunkist are an identifiable benefit to the Company as these benefits enable the Company to effectively market and sell its citrus product and can be sufficiently separable from the purchase of the citrus products by the end-customer. In addition, the Company has the ability to enter similar sales and marketing services that are currently provided by Sunkist. Lastly, the Company is able to reasonably estimate that the fair value of the sales and marketing services received from Sunkist approximates the per carton fee charged by Sunkist since Sunkist charges standard per carton fees to all members within its cooperative and such fees are based on sales and marketing expenses incurred by Sunkist for which the Company has an adequate level of visibility as a cooperative member. As such, the Company records the revenues related to these citrus sales on a gross basis with the amounts paid to Sunkist for the sales and marketing services it renders being recorded in agriculture cost and expenses in the Company's consolidated statement of operations.

The Company's avocados, oranges, specialty citrus and other specialty crops are packed and sold through by Calavo and other third-party packinghouses. Specifically, the Company delivers all of its avocado production from its orchards to Calavo. These avocados are then packed by Calavo at its packinghouse, and sold and distributed under Calavo brands to its customers primarily in the United States and Canada. The Company's arrangements with other third-party packinghouses related to its oranges, specialty citrus and other specialty crops are similar to its arrangement with Calavo.

The Company's arrangements with its third-party packinghouses are such that the Company is the producer and supplier of the product and the third-party packinghouses are the Company's customers. The revenues the Company recognizes related to the fruits sold to the third-party packinghouses are based on the volume and quality of the fruits delivered, the market price for such fruit, less the packinghouses' charges to pack and market the fruit. Such packinghouse charges include the grading, sizing, packing, cooling, ripening and marketing of the related fruit. The Company bears inventory risk until the product is delivered to the third-party packinghouses at which time title and inventory risk to the product is transferred to the third-party packinghouses and revenue is recognized. Such third-party packinghouse charges are recorded as a reduction of revenue based on the application of specific authoritative revenue recognition guidance related to a "Vendor's Income Statement Characterization of Consideration Given to a Customer". The identifiable benefit the Company receives from the third-party packinghouses for packaging and marketing services cannot be sufficiently separated from the third-party packinghouses' purchase of the Company's products. In addition, the Company is not able to reasonably estimate the fair value of the benefit received from the third-party packinghouses for such services and as such, these costs are characterized as a reduction of revenue in the Company's consolidated statement of operations.

Rental revenue - Minimum rental revenues are generally recognized on a straight-line basis over the respective initial lease term. Contingent rental revenues are contractually defined as to the percentage of rent received by the Company and are based on fees collected by the lessee. The Company's rental arrangements generally require payment on a monthly or quarterly basis.

Real estate development revenue - The Company recognizes revenue on real estate development projects in accordance with FASB ASC 360-20, Real Estate Sales ( SFAS 66, Accounting for Sales of Real Estate), which provides for profit to be recognized in full when real estate is sold, provided that a sale has been consummated and profit is determinable, collection of sales proceeds is estimable with the seller's receivable not subject to subordination, risks and rewards of ownership have been transferred to the buyer and the earnings process is substantially complete with no significant seller activities or obligations required after the date of sale. To the extent the above conditions are not met, a portion or all of the profit is deferred.

Incidental operations may occur during the holding or development period of real estate development projects to reduce holding or development costs. Incremental revenue from incidental operations in excess of incremental costs from incidental operations is accounted for as a reduction of development costs. Incremental costs from incidental operations in excess of incremental revenue from incidental operations are charged to operations.

Real estate development costs - We capitalize the planning, entitlement, construction and development costs associated with our various real estate projects. Costs that are not capitalized are expensed as incurred. A real estate development project is considered substantially complete upon the cessation of construction and development activities. Once a project is substantially completed, future costs are expensed as incurred. For fiscal 2010, we capitalized approximately \$3.7 million of costs related to our real estate projects and expensed approximately \$4.4 million of costs.

Income taxes - Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount expected to be realized.

Tax benefits from an uncertain tax position are only recognized if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater

than 50% likelihood of being realized upon ultimate settlement.

Derivative financial instruments – We use derivative financial instruments for purposes other than trading to manage our exposure to interest rates as well as to maintain an appropriate mix of fixed and floating-rate debt. Contract terms of our hedge instruments closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will be either offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of an instrument’s change in fair value will be immediately recognized in earnings. Instruments that do not meet the criteria for hedge accounting, or contracts for which we have not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

Impairment of long-lived assets - We evaluate our long-lived assets including our real estate development projects for impairment when events or changes in circumstances indicate the carrying value of these assets may not be recoverable. As a result of the economic downturn, in recent years we recorded impairment charges of \$2.4 million, \$6.2 million and \$1.3 million in fiscal 2010, 2009 and 2008, respectively. These charges were based on independent, third-party appraisals provided to us and were developed using various facts, assumption and estimates. Future changes in these facts, assumptions and estimates could result in additional changes.

Defined benefit retirement plan - As discussed in Note 18 to our consolidated financial statements, we sponsor a defined benefit retirement plan that was frozen in June, 2004, and no future benefits accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715 provides guidance as to, among other things, future estimated pension expense, minimum pension liability and future minimum funding requirements. This information is provided to us by third-party actuarial consultants. In developing this data, certain estimates and assumptions are used, including among other things, discount rate, long term rates of return and mortality tables. Changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

#### Recent Accounting Pronouncements

Financial Accounting Standards Board - Accounting Standards Update (“FASB ASU”) 2009-17, “Consolidations (Topic 810).

This ASU replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, is the primary beneficiary and is required to consolidate a Variable Interest Entity (“VIE”) with a qualitative approach focused on identifying which enterprise has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the entity. In addition, ASU 2009-17 requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an enterprise’s involvement with a VIE. ASU 2009-17 will be effective for the Company’s fiscal year beginning November 1, 2010. The Company is currently evaluating the accounting and financial reporting requirements of this guidance and has not determined whether its adoption will have an impact on the Company’s financial condition, results of operations or its liquidity.

FASB ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”.

This ASU requires new disclosures and clarifies existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB’s objective is to improve these disclosures and, thus, increase the transparency in financial reporting, as well as clarify the requirements of existing disclosures. ASU 2010-06 was effective for the Company beginning January 1, 2010, except for certain disclosure requirements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a significant impact on the Company’s financial condition, results of operations, or liquidity.

At October 31, 2009, the Company adopted Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 105.

FASB ASC 105 established the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC 105

is effective for financial statements issued for interim and annual periods after September 15, 2009. The adoption of FASB ASC 105 had no effect on the Company's consolidated financial statements. References to U.S. GAAP in our financial statements have been updated, as appropriate, to cite the Codification of FASB ASC 105.

In April 2009, as amended in February 2010, the Company adopted FASB ASU No. 2010-09, “Subsequent Events”.

ASU No. 2010-09 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In particular, this accounting guidance sets forth:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
- The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

The adoption of this accounting guidance did not have a material impact on the Company’s financial position, results of operations or liquidity.

In August 2009, the FASB issued ASU 2009-5, “Measuring Liabilities at Fair Value”.

ASU No. 2009-05 amends ASC 820, Fair Value Measurements. Specifically, ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset, or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820. The Company’s adoption of the provisions of ASU No. 2009-05, effective the first quarter of fiscal 2010, did not have a material impact on the Company’s financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB ASC 810, “Consolidation”.

FASB ASC 810 changes the accounting and reporting for minority interests. Minority interests will be re-characterized as non-controlling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The Company’s adoption of the provisions of FASB ASC 810, effective the first quarter of fiscal 2010, did not have a material impact on the Company’s financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB ASC 805, “Business Combinations”.

FASB ASC 805 retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company adopted FASB ASC 805, effective the first quarter of fiscal 2010, and utilized provisions noted in the guidance to account for its business combination of Windfall Investors, LLC (See Note 3).

In April 2008, the FASB issued ASC 350, “Intangibles – Goodwill and Other”.

FASB ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC. This change is intended to improve the consistency between the useful life of a recognized intangible asset under FASB ASC 350 and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805 and other generally accepted accounting principles. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FASB ASC 350-30 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company's adoption of the provisions of FASB ASC 350-30, effective the first quarter of fiscal 2010, did not have a material impact on the Company's financial position, results of operations or liquidity.



In December 2008, the FASB amended certain provisions of ASC Topic 715, Compensation – Retirement Benefits.

This amendment requires objective disclosures about postretirement benefit plan assets including investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. Effective for financial statements issued after December 15, 2009, the Company's adoption of this guidance did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2009, the FASB issued the Accounting Standards Update No. 2009-16, revising the guidance for the accounting of transfers of financial assets.

This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. The Company does not believe that adoption of this guidance will have a material impact on its financial position and results of operations.

In June 2009, the FASB issued the Accounting Standards Update No. 2009-17, revising the guidance for the accounting of variable interest entities.

ASU No. 2009-17 replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. The Company does not believe that adoption of this guidance will have a material impact on its financial position and results of operations.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

## Interest Rate Risk

Borrowings under each of the Rabobank Revolving Credit Facility, Farm Credit West Term Loans and the Farm Credit West Line of Credit are or will be subject to variable interest rates. These variable interest rates subject us to the risk of increased interest costs associated with any upward movements in interest rates. Our borrowing interest rate for the Rabobank Revolving Line of Credit is a LIBOR-based rate plus a spread. Under the Farm Credit West Term Loans and the Farm Credit West Line of Credit, our borrowing interest rate is an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25%. At October 31, 2010, our total debt outstanding under the Rabobank Revolving Credit Facility and the Farm Credit West Term Loans was approximately \$57.0 million, \$6.7 million, \$0.9 million, and \$9.1 million, respectively. At October 31, 2010, our total debt outstanding under the Farm Credit West Line of Credit was \$12.3 million.

We manage our exposure to interest rate movements by utilizing interest rate swaps (derivatives). We fixed \$42.0 million of our outstanding borrowings with "fixed-to-floating" interest rate swaps as described in the following table:

	Notional Amount		Fair Value Net Liability	
	October 31, 2010	October 31, 2009	October 31, 2010	October 31, 2009
Pay fixed-rate, receive floating-rate interest rate swap, maturing 2013	\$ 42,000,000	\$ 22,000,000	\$ 3,450,000	\$ 1,678,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, cancelled April 2010	-	10,000,000	-	287,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, cancelled April 2010	-	10,000,000	-	206,000
Total	\$ 42,000,000	\$ 42,000,000	\$ 3,450,000	\$ 2,171,000

As of October 31, 2010 the fixed interest rate on our \$42.0 million swap was 5.163%. Based on our level of borrowings at October 31, 2010, after taking into consideration the effects of our interest rate swaps (derivatives), a 1% increase in interest rates would increase our interest expense \$0.3 million for fiscal year 2011 and an annual average of \$0.4 million for the three subsequent fiscal years. Additionally, a 1% increase in the interest rate would decrease our net income by \$0.2 million for fiscal year 2011 and an annual average of \$0.2 million for the three subsequent fiscal years.

Item 8. Financial Statements and Supplementary Data

Limoneira Company

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All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limoneira Company

We have audited the accompanying consolidated balance sheets of Limoneira Company (the "Company") as of October 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limoneira Company at October 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
January 26, 2011

## Limoneira Company

## Consolidated Balance Sheets

	October 31,	
	2010	2009
<b>Current assets:</b>		
Cash	\$ 258,000	\$ 603,000
Accounts receivable, net	3,390,000	3,735,000
Notes receivable - related parties	33,000	1,519,000
Cultural costs	1,059,000	858,000
Prepaid expenses and other current assets	1,244,000	894,000
Income taxes receivable	1,241,000	-
Current assets of discontinued operations	168,000	9,000
<b>Total current assets</b>	<b>7,393,000</b>	<b>7,618,000</b>
<b>Property, plant and equipment, net</b>	<b>53,283,000</b>	<b>53,817,000</b>
Real estate development	68,412,000	53,125,000
Assets held for sale	-	6,774,000
Equity in investments	9,057,000	1,635,000
Investment in Calavo Growers, Inc.	14,564,000	11,870,000
Notes receivable - related parties	60,000	284,000
Notes receivable	2,154,000	2,000,000
Other assets	4,515,000	4,307,000
Non-current assets of discontinued operations	253,000	438,000
<b>Total Assets</b>	<b>\$ 159,691,000</b>	<b>\$ 141,868,000</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,031,000	\$ 1,669,000
Growers payable	871,000	988,000
Accrued liabilities	2,776,000	2,065,000
Current portion of long-term debt	626,000	465,000
Current liabilities of discontinued operations	34,000	2,000
<b>Total current liabilities</b>	<b>6,338,000</b>	<b>5,189,000</b>
<b>Long-term liabilities:</b>		
Long-term debt, less current portion	85,312,000	69,251,000
Deferred income taxes	8,697,000	8,764,000
Other long-term liabilities	7,248,000	6,903,000
<b>Total long-term liabilities</b>	<b>101,257,000</b>	<b>84,918,000</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at October 31, 2010 and 2009) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – \$.01 par value (50,000 shares authorized: -0- issued or outstanding at October 31, 2010 and 2009)	-	-
Common Stock – \$.01 par value (19,900,000 shares authorized: 11,194,460 and 11,262,880 shares issued and outstanding at October 31, 2010 and 2009, respectively)	112,000	113,000
<b>Additional paid-in capital</b>	<b>34,735,000</b>	<b>34,718,000</b>

Retained earnings	15,044,000	16,386,000
Accumulated other comprehensive loss	(795,000)	(2,456,000)
Total stockholders' equity	52,096,000	51,761,000
Total Liabilities and Stockholders' Equity	\$ 159,691,000	\$ 141,868,000

See Notes to Consolidated Financial Statements.

## Limoneira Company

## Consolidated Statements of Operations

	Years Ended October 31,		
	2010	2009	2008
<b>Revenues:</b>			
Agriculture	\$ 47,034,000	\$ 31,033,000	\$ 49,794,000
Rental	3,976,000	3,766,000	3,718,000
Real estate development	3,274,000	39,000	-
<b>Total revenues</b>	<b>54,284,000</b>	<b>34,838,000</b>	<b>\$ 53,512,000</b>
<b>Costs and expenses:</b>			
Agriculture	31,457,000	27,281,000	34,805,000
Rental	2,173,000	2,061,000	2,236,000
Real estate development	4,416,000	318,000	991,000
Impairments of real estate development assets	2,422,000	6,203,000	1,341,000
Selling, general and administrative	10,694,000	6,469,000	8,292,000
(Gain) loss on disposals/sales of assets	(1,000)	10,000	11,000
<b>Total cost and expenses</b>	<b>51,161,000</b>	<b>42,342,000</b>	<b>47,676,000</b>
Operating income (loss)	3,123,000	(7,504,000)	5,836,000
<b>Other (expense) income:</b>			