

Limoneira CO  
Form 10-K  
January 10, 2017

**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, 2016**

**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**                      **77-0260692**  
(State of incorporation) (I.R.S. Employer Identification No.)

**1141 Cummings Road, Santa Paula, CA 93060**  
(Address of principal executive offices)      (Zip code)

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

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

| <b>Title of Each Class</b>     | <b>Name of Each Exchange<br/>On Which Registered</b> |
|--------------------------------|------------------------------------------------------|
| 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

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):

Edgar Filing: Limoneira CO - Form 10-K

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, 2016 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$210.8 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, 2016 was 14,217,888.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders, which we intend to hold on March 28, 2017, 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, 2016

TABLE OF CONTENTS

|                                                                                                                             |     |
|-----------------------------------------------------------------------------------------------------------------------------|-----|
| <u>PART I</u>                                                                                                               | 5   |
| <u>Item 1. Business</u>                                                                                                     | 5   |
| <u>Item 1A. Risk Factors</u>                                                                                                | 16  |
| <u>Item 1B. Unresolved Staff Comments</u>                                                                                   | 27  |
| <u>Item 2. Properties</u>                                                                                                   | 28  |
| <u>Item 3. Legal Proceedings</u>                                                                                            | 30  |
| <u>Item 4. Mine Safety Disclosures</u>                                                                                      | 30  |
| <u>PART II</u>                                                                                                              | 30  |
| <u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 30  |
| <u>Item 6. Selected Financial Data</u>                                                                                      | 32  |
| <u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 33  |
| <u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>                                                  | 57  |
| <u>Item 8. Financial Statements and Supplementary Data</u>                                                                  | 58  |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>                        | 101 |
| <u>Item 9A. Controls and Procedures</u>                                                                                     | 101 |
| <u>Item 9B. Other Information</u>                                                                                           | 101 |
| <u>PART III</u>                                                                                                             | 102 |
| <u>Item 10. Directors, Executive Officers, and Corporate Governance</u>                                                     | 102 |
| <u>Item 11. Executive Compensation</u>                                                                                      | 102 |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | 102 |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>                                   | 102 |
| <u>Item 14. Principal Accountant’s Fees and Services</u>                                                                    | 102 |
| <u>Part IV</u>                                                                                                              | 102 |
| <u>Item 15. Exhibits and Financial Statement Schedules</u>                                                                  | 102 |
| <u>SIGNATURES</u>                                                                                                           | 103 |

## CAUTIONARY STATEMENT

This annual report on Form 10-K (this “Annual Report”) 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, rains and drought, 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 development activities;

general economic conditions for residential and commercial real estate development;

political changes and economic crises;

international conflict;

acts of terrorism;

labor disruptions, strikes, shortages or work stoppages;

loss of important intellectual property rights; and

other factors disclosed in this Annual Report.

In addition, this Annual Report 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, particularly the section entitled "Risk Factors," for a complete discussion of the risks of an investment in our common stock.

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 or revise 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 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 Item 8 in this Annual Report. In addition, general information concerning our Company can be found on our website, the internet address of which is [www.limoneira.com](http://www.limoneira.com). All of our filings with the Securities and Exchange Commission (the “SEC”), including but not limited to, the annual reports 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 agribusiness and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 11,000 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production, sales and marketing, rental operations, real estate development and capital investment activities.

We are one of California’s oldest citrus growers. According to Sunkist Growers, Inc. (“Sunkist”), we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, one of the largest growers 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, Tulare, San Bernardino and San Luis Obispo Counties in California and in Yuma County in Arizona, which collectively consist of approximately 4,600 acres of lemons, 1,000 acres of avocados, 1,400 acres of oranges and 900 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, where we process, pack and sell 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 un-adjudicated Fillmore and Paso Robles Basins (aquifers). We use ground water from the San Joaquin Valley Basin and water from local water and irrigation districts in Tulare County, which is in California’s San Joaquin Valley. We



also use ground water from the Cadiz Valley Basin in California's San Bernardino County and surface water in Arizona from the Colorado River through the Yuma Mesa Irrigation and Drainage District ("YMIDD").

For more than 100 years, we have been making strategic investments in California agriculture and real estate development. We currently have three active real estate development projects in California. These projects include multi-family housing and single-family homes comprising approximately 260 completed rental units and another approximately 1,800 units in various stages of planning and development.

### **Fiscal Year 2016 Highlights and Recent Developments**

In December 2013, we began a construction project that included design, construction services and equipment for the expansion of our lemon packing facilities. The project is expected to double the capacity and increase the efficiency of our packing facilities. The project became operational in March 2016 with total construction services and equipment costs of approximately \$28.8 million in the aggregate.

In September 2015 and December 2015, we completed the acquisition of 914 acres of lemon, orange and specialty citrus orchards in California's San Joaquin Valley for approximately \$18.5 million. The orchards were acquired pursuant to purchase options contained in certain operating leases we have been party to since 2012 for approximately 1,000 acres of lemon, orange and specialty citrus and other crops, which we refer to as the Sheldon Ranch leases.

On November 10, 2015, we entered into a joint venture with The Lewis Group of Companies ("Lewis") for the residential development of our East Area I real estate development project. To consummate the transaction, we formed Limoneira Lewis Community Builders, LLC (the "Joint Venture") as the development entity, contributed our East Area I property to the Joint Venture and sold a 50% interest in the Joint Venture to Lewis for \$20.0 million, comprised of a \$2.0 million deposit received in September 2015 and \$18.0 million received on November 10, 2015. We expect to receive \$100.0 million from the Joint Venture over the estimated 7 to 10-year life of the project. The Joint Venture partners will share in capital contributions to fund project costs until loan proceeds and/or revenues are sufficient to fund the project. These funding requirements are currently estimated to total \$10.0 to \$15.0 million for each Joint Venture partner in the first two years of the project and we funded \$2.3 million in fiscal year 2016 and an additional \$1.2 million in November 2016. We also entered to a lease agreement with the Joint Venture to lease back a portion of the contributed property, which allows us to continue farming the property during the phased build-out of the project.

We are planning approximately 632 units in Phase 1 of the project. We are currently engaged in tree removal and other site preparation activities. Our current plans indicate that we should begin grading during the spring of 2017, Phase 1 site improvements during the summer of 2017 and initial lots sales are anticipated to begin near the end of 2017.

On January 20, 2016, we entered into a \$10.0 million term loan pursuant to a Master Loan and Security Agreement and a Loan Schedule with Wells Fargo, with a first priority security interest in certain lemon packinghouse equipment to Wells Fargo. The interest rate is 3.58% and the loan is payable in monthly installments through January 2023.

On February 16, 2016, we entered into a Promissory Note and Loan Agreement with Farm Credit West. The loan agreement provides for a \$10.0 million term loan and a \$7.5 million term loan. The term loans mature on March 1, 2036 and are secured by certain of our agricultural properties. The \$10.0 million term loan bears interest at a fixed rate of 4.70% for the life of the loan. The \$7.5 million term loan bears interest at a fixed rate of 3.62% for the first five years of the loan and at the end of such time, will convert to a variable interest rate. The term loans provide for monthly principal and interest payments and are pre-payable in whole or in part after September 1, 2016. The proceeds from the term loans were received February 19, 2016 and were used to pay off the Farm Credit West Line of Credit and pay down outstanding indebtedness under the revolving credit facility we have with Rabobank, N.A., which provides additional availability for acquisitions and real estate development.

In June and July 2016, we sold 60,000 shares of Calavo Growers, Inc. (“Calavo”) common stock at an average price of \$67 per share. Net proceeds from the sale were \$4.0 million and we recognized a gain of \$3.4 million. We continue to own 300,000 shares of Calavo common stock.

In October 2016, we sold a conservation easement on one of our Ventura County properties to The Nature Conservancy. The easement preserves 235 acres along the Santa Clara River in perpetuity from commercial and residential development and provides access to the river by certain groups for environmental study and observation. Net proceeds from the sale were \$1.0 million. We retain title to the property and the easement allows us to continue agriculture and related activities on the property.

We sell our lemons directly to our customers in Limoneira branded cartons. Historically, we have sold a portion of our oranges and specialty citrus to Sunkist affiliated and other packing houses for processing and sale to customers in Sunkist and other branded cartons. Beginning in fiscal year 2017, we plan to sell our oranges and most of our specialty citrus directly to our customers in Limoneira branded cartons, similar to our lemons. We utilize our own packing facilities to process lemons for sale and have contracted with Cecelia Packing Corporation located in Orange Cove, California to pack our oranges and specialty citrus.

On December 15, 2016, we increased our dividends to \$0.22 per year and declared a \$0.055 per share dividend which is to be paid on January 17, 2017 in the aggregate amount of approximately \$0.8 million to common shareholders of record as of December 27, 2016. This represents a 10% increase in our dividend compared to 2016.

## **Business Divisions**

We have three business divisions: agribusiness, rental operations, and real estate development. The agribusiness division is comprised of two reportable segments, lemon operations and other agribusiness, and includes our farming, harvesting, lemon packing and lemon sales operations. The rental operations division includes our residential and commercial rentals, leased land operations and organic recycling. The real estate development division includes our real estate projects and development. Financial information and discussion of our four reportable segments, lemon operations, other agribusiness, rental operations and real estate development, are contained in the notes to the accompanying consolidated financial statements of this Annual Report.

### **Agribusiness Division**

The agribusiness division is comprised of two of our reportable segments, lemon operations and other agribusiness, and represented approximately 95%, 95% and 95% of our fiscal year 2016, 2015 and 2014 consolidated revenues, respectively, of which lemon operations represented 76%, 79% and 77% of our fiscal year 2016, 2015 and 2014 consolidated revenues, respectively, and other agribusiness represented 19%, 16% and 18% of our fiscal year 2016, 2015 and 2014 consolidated revenues, respectively.

## *Farming*

We are one of California's oldest citrus growers and one of the largest growers of lemons and 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, San Bernardino and San Luis Obispo Counties in California and Yuma County in Arizona, which collectively consist of approximately 4,600 acres of lemons, 1,000 acres of avocados, 1,400 acres of oranges and 900 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, where we process, pack and sell lemons we grow as well as lemons grown by others.

*Lemons.* Our lemon farming is included in our "lemon operations" reportable segment within our financial statements. We market and sell lemons directly to food service, wholesale and retail customers throughout the United States, Canada, Asia, Australia and certain other international markets. We are one of the largest lemon growers in the United States with approximately 4,600 acres of lemons planted primarily in Ventura and Tulare Counties in California and in Yuma County, Arizona. 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 40% of our lemons are grown in Ventura County, 25% are grown in Tulare County, 20% are grown in Yuma County, Arizona and 15% are grown in San Bernardino County, California.

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 throughout the year, with peak production periods occurring from January through August. Approximately 90% of our lemon plantings are of the Lisbon and Eureka varieties and approximately 10% are of other varieties such as sweet Meyer lemons, proprietary seedless lemons and pink variegated lemons. The storage life of fresh lemons generally ranges from 1 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 90% of the United States lemon crop, with Arizona producing a vast majority of the rest. Between 50% and 70% 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 carbonated beverages or other 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.

*Avocados.* Our avocado farming is included in our "other agribusiness" reportable segment within our financial statements. We are one of the largest avocado growers in the United States with approximately 1,000 acres of avocados planted throughout Ventura County. In California, the avocado 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 75 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 generally ranges from 1 to 4 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. ("Calavo"), a packing and marketing company listed on the NASDAQ Global Select Market 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, California. Calavo's proximity to our agricultural operations enables us to keep transportation and handling costs to a minimum. Our avocados are packed by Calavo and 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 75-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.* Our orange farming is included in our "other agribusiness" reportable segment within our financial statements. While we are primarily known for our high-quality lemons, we also grow oranges. We have approximately 1,400 acres of oranges planted throughout Tulare County, California. In California, the growing area for oranges 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. California grown Navel oranges are available from October to June, with peak production periods occurring between January and April. California-grown Valencia oranges are available from March to October, with peak production periods occurring between June and September. Approximately 95% of our orange plantings are of the Navel variety and approximately 5% are of the Valencia 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 25% 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.

Beginning in fiscal year 2017, we will utilize Cecelia Packing Corporation to process and pack our oranges which we sell in Limoneira branded cartons. We estimate approximately 70% of our oranges are sold to retail customers and approximately 30% are sold to wholesale customers.

*Specialty Citrus and Other Crops.* Our specialty citrus and other crop farming is included in our "other agribusiness" reportable segment within our financial statements. A few decades ago 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 900 acres of specialty citrus and other crops planted such as Moro blood oranges, Cara Cara oranges, Minneola tangelos, Star Ruby grapefruit, pummelos, pistachios, olives and wine grapes.

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. Similar to our oranges, we utilize Cecilia Packing Corporation to process and pack our specialty citrus. A portion of our specialty citrus is marketed and sold under the Sunkist brand by Sunkist and orders are processed by Sunkist-member packinghouses. As an agricultural cooperative, Sunkist coordinates the sales and marketing of the specialty citrus and orders are processed by Sunkist-member packinghouses for direct shipment to customers.

We currently market our other crops, such as pistachios, olives and wine grapes, utilizing processors which are not members of agricultural cooperatives. Our pistachios are harvested and sold to a roaster, packager and marketer of nuts, our olives are harvested and sold to a processor and marketer of olives and our wine grapes are sold to various wine producers.

### ***Plantings***

We have agricultural plantings on properties located in Ventura, Tulare, San Bernardino and San Luis Obispo Counties in California and in Yuma, Arizona. The following is a description of our agriculture properties:

Edgar Filing: Limoneira CO - Form 10-K

| Ranch Name                | County / State       | Total Acres | Lemons | Avocados | Oranges | Specialty Crops | Other |
|---------------------------|----------------------|-------------|--------|----------|---------|-----------------|-------|
| Limoneira/Olivelands      | Ventura, CA          | 1,700       | 600    | 500      | -       | -               | 600   |
| Orchard Farm              | Ventura, CA          | 1,100       | 500    | -        | -       | -               | 600   |
| Teague McKeveatt          | Ventura, CA          | 500         | 200    | 200      | -       | -               | 100   |
| La Campana                | Ventura, CA          | 300         | 100    | 200      | -       | -               | -     |
| Rancho La Cuesta          | Ventura, CA          | 200         | 100    | -        | -       | -               | 100   |
| Limco Del Mar             | Ventura, CA          | 200         | 100    | 100      | -       | -               | -     |
| Porterville Ranches       | Tulare, CA           | 1,200       | 400    | -        | 400     | 200             | 200   |
| Ducor Ranches             | Tulare, CA           | 1,000       | 300    | -        | 400     | 200             | 100   |
| Windfall Farms            | San Luis Obispo, CA  | 700         | -      | -        | -       | 200             | 500   |
| Sheldon Ranches           | Tulare, CA           | 1,000       | 200    | -        | 600     | 200             | -     |
| Lemons 400                | Tulare, CA           | 800         | 400    | -        | -       | -               | 400   |
| Cadiz                     | San Bernardino, CA   | 800         | 700    | -        | -       | -               | 100   |
| Associated Citrus Packers | Yuma, AZ             | 1,300       | 1,000  | -        | -       | -               | 300   |
| Other agribusiness land   | Various counties, CA | 200         | -      | -        | -       | 100             | 100   |
| Total                     |                      | 11,000      | 4,600  | 1,000    | 1,400   | 900             | 3,100 |
| Percentage of Total       |                      | 100         | % 42   | % 9      | % 13    | % 8             | % 28  |

The *Limoneira/Olivelands Ranch* is the original site of our Company. Our headquarters, lemon packing operations and storage facilities are located on this property.

The *Teague McKeveatt Ranch* is the site of our real estate development project known as East Area I and described below under the heading "Real Estate Development."

*Windfall Farms - Creston, California.* Windfall Farms is an approximately 700-acre former thoroughbred breeding farm and equestrian facility located in Creston, California, near Paso Robles, California. During fiscal years 2014 and 2015, we planted approximately 200 acres of vineyards and we intend to plant an additional 100 acres in 2017. Vineyards are generally productive after four years. During the fourth quarter of 2016, the vineyards produced their first harvest from the 2014 planting, generating approximately 200 tons of grapes and \$0.3 million of revenue. We generally expect to sell vineyard production by the ton to various wineries with current per ton prices of approximately \$1,500 depending on the grape variety and other factors. Based on management's reassessment of the strategic and operational plans for the Windfall property and concurrent with the first harvest in October 2016, we re-purposed Windfall Farms from a real estate development project to an agricultural ranch and reclassified \$26.8 million of real estate development assets to property, plant and equipment. Accordingly, Windfall was reclassified to the other agribusiness reportable segment from the real estate development segment during October 2016.

Windfall Farms has had limited real estate development activities in recent years, with operating costs consisting primarily of property maintenance and taxes being the main components of its operating results. Operating losses of approximately \$0.7 million, \$1.1 million and \$1.0 million are included in the real estate development segment operating losses for fiscal years 2016, 2015 and 2014, respectively.

*Limco Del Mar* is owned by a limited partnership of which we are the general partner and own an interest of 28.1%, which is comprised of a 1.3% general partner interest and a 26.8% limited partner interest.

We manage the *Cadiz Ranches* under operating lease arrangements. We purchased substantially all of the *Sheldon Ranches* property in two separate transactions, which closed in September and December 2015. We previously managed the *Sheldon Ranches* under operating lease arrangements.

The other agribusiness land in the table above includes corporate and lemon packing facilities, land leased to other agricultural businesses, rental units, roads, creeks, hillsides and other open land.

Our orchards can maintain production for many years. For financial reporting purposes, we depreciate our orchards from 20 to 40 years depending on the fruit variety with the majority of our orchards depreciated over 20 to 30 years. We regularly evaluate our orchards' production and growing costs, and based on these and other factors we may decide to redevelop certain orchards. In addition, we may acquire agricultural property with existing productive orchards or without productive orchards, which would require new orchard plantings. The fruit varieties that we grow are typically non-producing for approximately the first four years after planting. Currently, we have 1,400 acres of lemons, 100 acres of oranges and 300 acres of specialty citrus and other crops that are under development and non-producing. Orchards may continue producing fruit longer than their depreciable lives. The following table presents the number of acres planted by fruit variety and approximate age of our orchards:



| County, State, Fruit Variety      | Age of Orchards |            |               | Total |
|-----------------------------------|-----------------|------------|---------------|-------|
|                                   | 0-4<br>Years    | 5-25 Years | Over 25 Years |       |
| Ventura, CA                       |                 |            |               |       |
| Lemons                            | 200             | 600        | 900           | 1,700 |
| Avocados                          | -               | 600        | 400           | 1,000 |
| Total Ventura, CA                 | 200             | 1,200      | 1,300         | 2,700 |
| Tulare, CA                        |                 |            |               |       |
| Lemons                            | 500             | 200        | 500           | 1,200 |
| Oranges                           | 100             | 600        | 700           | 1,400 |
| Specialty citrus and other        | 100             | 400        | 200           | 700   |
| Total Tulare, CA                  | 700             | 1,200      | 1,400         | 3,300 |
| San Bernardino, CA - Lemons       | 500             | 200        | -             | 700   |
| San Luis Obispo, CA – Wine Grapes | 200             | -          | -             | 200   |
| Yuma, AZ - Lemons                 | 200             | 800        | -             | 1,000 |
| Total                             | 1,800           | 3,400      | 2,700         | 7,900 |
| Percentage of Total               | 23 %            | 43 %       | 34 %          | 100 % |

### *Lemon Packing and Sales*

We are the oldest continuous lemon packing operation in North America. We pack and sell lemons grown by us as well as lemons grown by others, which operations are included in our financial statements under the reportable segment “lemon operations.” Lemons delivered to our packinghouses in Santa Paula, California and Yuma, Arizona are sized, graded, cooled, ripened and packed 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 is 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 and Arizona 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. In the second quarter of fiscal year 2016, our new lemon packing facility became operational, which is expected to double our lemon packing capacity and increase the efficiency of these operations.

### **Rental Operations Division**

Our rental operations division is provided for in our financial statements as its own reportable segment and includes our residential and commercial rentals, leased land operations and organic recycling. The rental operations division represented approximately 5%, 5% and 4% of our fiscal year 2016, 2015 and 2014 consolidated revenues, respectively.

#### ***Residential***

We own and maintain approximately 260 residential housing units located in Ventura and Tulare Counties that we lease to employees, former employees and non-employees. In fiscal year 2015, we added 65 new agriculture workforce housing units in Santa Paula, California. 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***

We own 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 residential 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, 2016, we lease approximately 500 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 provides us with a profitable method to diversify the use of our land.

### ***Organic Recycling***

With the help of one of our tenants, Agromin, a processor of premium soil products and a green waste recycler located in Oxnard, California, we have implemented an organic recycling program. Agromin provides green waste recycling for cities in Santa Barbara, Los Angeles and Ventura Counties. We worked with Agromin to develop an organic recycling facility on our land in Ventura County, to receive green materials (lawn clipping, leaves, bark and other 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 Agromin collects from regional waste haulers and enjoy the benefits of the organic material.

### **Real Estate Development Division**

Our real estate development division is provided for in our financial statements as its own reportable segment and includes our real estate development operations. The real estate development division had no significant revenues in fiscal year 2016 and represented approximately 1% of our consolidated revenues in fiscal years 2015 and 2014.

For more than 100 years, we have been making strategic real estate investments in California agricultural and developable real estate. Our current real estate developments include developable land parcels, multi-family housing and single-family homes with approximately 1,800 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.* East Area I consists of 523 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 McKeveitt 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.



On November 10, 2015, we entered into a joint venture with The Lewis Group of Companies (“Lewis”) for the residential development of our East Area I real estate development project. To consummate the transaction, we formed Limoneira Lewis Community Builders, LLC (the “Joint Venture”) as the development entity, contributed our East Area I property to the Joint Venture and sold a 50% interest in the Joint Venture to Lewis for \$20.0 million, comprised of a \$2.0 million deposit received in September 2015 and \$18.0 million received on November 10, 2015. We expect to receive \$100.0 million from the Joint Venture over the estimated 7 to 10-year life of the project. The Joint Venture partners will share in capital contributions to fund project costs until loan proceeds and/or revenues are sufficient to fund the project. These funding requirements are currently estimated to total \$10.0 to \$15.0 million for each Joint Venture partner in the first two years of the project and we funded \$2.3 million in fiscal year 2016 and an additional \$1.2 million in November 2016. We also entered into a lease agreement with the Joint Venture to lease back a portion of the contributed property, which allows us to continue farming the property during the phased build-out of the project. We are planning approximately 632 units in Phase 1 of the project. We are currently engaged in tree removal and other site preparation activities. Our current plans indicate that we should begin grading during the spring of 2017, Phase 1 site improvements during the summer of 2017 and initial lots sales are anticipated to begin near the end of 2017.

*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 land in or become future tenants in East Area II and expect that development will closely follow the build-out of East Area I.

*Santa Maria - Santa Barbara County, California.* As of October 31, 2016 we were invested in three 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 follows:

Centennial Square has been approved for 138 apartments on 6 acres and is close to medical facilities, shopping and transportation.

- The Terraces at Pacific Crest is an approximately 8-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 3 acres zoned for commercial use.

## **Competitive Strengths**

### ***Agribusiness Division***

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 avocados in the United States. Consequently, we have developed significant experience with a variety of crops, mainly lemons, avocados and oranges. The following is a brief list of what we believe are our significant competitive strengths with respect to our agribusiness division, which includes our lemon operations and other agribusiness reportable segments unless otherwise noted:

Our agricultural properties in Ventura County are located near the Pacific Ocean, which provides an ideal environment for growing lemons, avocados and row crops. Our agricultural properties in Tulare County, which is in the San Joaquin Valley in Central California, and in Yuma, Arizona, 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 that of 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 agribusiness or real estate development operations.

- We own approximately 90% of our agricultural land and take a long view on our fruit production practices.

A significant amount of our agribusiness property was acquired many years ago, which results in a low cost basis and associated expenses.

- We have a well-trained and retentive labor force with many employees remaining with us for more than 30 years.

In our lemon operations segment, our integrated business model with respect to growing, packing, marketing and selling lemons allows us to better serve our customers.

Our lemon packing operations provide marketing opportunities with other citrus companies and their respective products.

Since 2010, we have achieved and maintained 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 and 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 significant portion of the electricity required to operate our packinghouse and cold storage facilities located in Santa Paula, California and provides a significant portion 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 and mutual water companies. We own shares in the following mutual water companies: Farmers Irrigation Co., Canyon Irrigation Co., San Cayetano Mutual Water Co., Middle Road Mutual Water Co. and Pioneer Water Company, Inc. In 2007, we acquired additional water rights in the adjudicated Santa Paula Basin (aquifer) and in September 2013 we acquired water rights in the YMIDD with our acquisition of Associated Citrus Packers, Inc. (“Associated”).

### ***Rental Operations Division***

With respect to our rental operations division, 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 leased land business allows us to partner with other agricultural producers that can serve as a profitable alternative to under-producing tree crop acreage.

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

#### ***Real Estate Development Division***

With respect to our real estate development division, 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 Maria, which we believe have desirable climates for lifestyle families, retirees and athletic and sports enthusiasts.



We have entitlements to build approximately 1,500 residential units in our East Area I (Santa Paula Gateway) development and approximately 300 residential units in our Santa Maria properties.

We have partnered with an experienced and financially strong land developer for our East Area I residential master plan development.

Several of our agricultural and real estate investment properties are unique and carry longer term development potential.

Our East Area II property has approximately 30 acres of land commercially zoned, which is adjacent to our East Area I property. Our Santa Maria properties have approximately 3 acres zoned for mixed use retail, commercial and light manufacturing.

## **Business Strategy**

While each of our business divisions has a separate business strategy, we are an agribusiness 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 agribusiness into new regions and markets and invest in cash-producing residential, commercial and industrial rental assets.

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

### ***Agribusiness Division***

With respect to our agribusiness division, key elements of our strategy are:

*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.

*Expand our Sources of Lemon Supply.* Peak lemon production occurs at different times of the year depending on geographic region. In addition to our lemon production in California and Arizona and lemons we acquire from third-party growers, we plan to expand our lemon supply sources to international markets such as Mexico, Chile and Argentina. Increases in lemons procured from third-party growers and international sources improve our ability to provide our customers with fresh lemons throughout the year.

*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. Third-party growers are only added if we determine their fruit is of good quality and can be cost effective for both us and the grower. Of most importance is the overall fresh utilization rate for our fruit, which is directly related to quality.

*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.

*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 facility. As described above in “Overview – Fiscal Year 2016 Highlights and Recent Developments,” a project to double the capacity and increase the efficiency of our lemon packing facilities became operational in fiscal year 2016. We expect that this project will ultimately increase fresh lemon processing capacity and lower our packing costs by reducing labor and handling inputs.

*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 oranges, 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.

*Opportunistically Expand our Plantings of Avocados.* We may opportunistically expand our plantings of avocados primarily because our profitability and cash flow realized from our avocados frequently offset occasional losses in other crops we grow and help 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.

*Sell oranges and specialty citrus in Limoneira branded cartons.* Historically, we have sold a portion of our oranges and specialty citrus to Sunkist affiliated and other packing houses for processing and sale to customers in Sunkist and other branded cartons. Beginning in fiscal year 2017, we plan to sell our oranges and most of our specialty citrus directly to our customers in Limoneira branded cartons, similar to our lemons. We utilize our own packing facilities to process lemons for sale and have contracted with Cecelia Packing Corporation located in Orange Cove, California to pack our oranges and specialty citrus.

*Diversify our Agribusiness Portfolio with the Development of a Vineyard at Windfall Farms.* Our Windfall Farms property has approximately 500 acres suitable for vineyard development. During fiscal years 2014 and 2015, we planted approximately 200 acres of wine grapes. We intend to continue to plant vineyards at the property up to the 500 suitable acres. We believe the vineyards are consistent with our agribusiness strategy and provide diversification to our crop production and operating results.

### ***Rental Operations Division***

With respect to our rental operations division, 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. We have built and leased 65 out of a total of 71 approved 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 third-party row crop tenants.

*Opportunistically Expand our Income-Producing Commercial and Industrial Rental Assets.* We intend to redeploy our future financial gains to acquire additional income-producing real estate investments and agricultural properties.

***Real Estate Development Division***

With respect to our real estate development division, 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**

Since November 2010, we have marketed and sold our lemons directly to our food service, wholesale and retail customers in the United States, Canada, Asia, Australia and certain other international markets. Previously, Sunkist marketed and sold the majority of our lemons. We sold lemons to approximately 170 U.S. and international customers during fiscal year 2016. In our other agribusiness segment, our oranges, specialty citrus and other crops are sold through Sunkist and other packinghouses. We sell all of our avocados to Calavo.

## **Raw Materials**

In our lemons operations segment, paper is considered to be a material raw product for our business because most of our products are packed in cardboard cartons for shipment. Paper is readily available and we have numerous suppliers for such material.

## **Information about Geographic Areas**

During fiscal year 2016, lemon sales were comprised of 77% domestic sales, 20% sales to domestic exporters and 3% international sales. During fiscal year 2015, lemon sales were comprised of 75% domestic sales, 21% sales to domestic exporters and 4% international sales. During fiscal year 2014, lemon sales were comprised of 74% domestic sales, 25% sales to domestic exporters and 1% international sales. All of our avocados, oranges and specialty citrus and other crops are sold to packinghouses and processors located in the United States. All of our long-lived assets are located within the United States and we have an investment in a citrus packing, marketing and sales business in La Serena, Chile.

## **Seasonal Nature of Business**

As with any agribusiness enterprise, our agribusiness division 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 third quarter. With respect to our lemon operations segment, our lemons are generally grown and marketed throughout the year. In terms of our other agribusiness segment, our avocados are sold generally throughout the year with the peak months being February through September. Our Navel oranges are primarily sold from January through April and our Valencia oranges are primarily sold from June through September. Our specialty citrus is sold from November through June and our specialty crops, such as pistachios, olives and wine

grapes, are sold in September and/or October.

## **Competition**

The agribusiness division crop markets, including those in which our lemon operations and other agribusiness segments operate, 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. 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 in our agribusiness division 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. We also compete with other fruits and vegetables for the share of consumer expenditures devoted to fresh fruit and vegetables: apples, pears, melons, pineapples and other tropical fruit. In our other agribusiness segment specifically, avocado products compete in the supermarket with hummus products and other dips and salsas. U.S. producers of fruit and tree nuts generate approximately \$19 billion of fruit and tree nuts each year, about 15% of which is exported. For our specific crops, the size of the U.S. market is approximately \$375 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 our agribusiness division operates 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. Our greatest direct competition for each of our current real estate development properties in Ventura and Santa Barbara Counties comes from other residential and commercial developments in nearby areas.

## **Intellectual Property**

We have numerous trademarks and brands under which we market and sell our fruits, particularly lemons, domestically and internationally, many of which have been owned for decades. In our lemon operations segment, the brands of Limoneira lemons which are of importance to the segment, including Santa®, Paula®, Bridal Veil®, Fountain®, Golden Bowl® and Level®, are examples of such trademarks owned by us and registered with the United States Patent and Trademark Office. We also acquired certain lemon brands with the acquisition of Associated including Kiva® and Kachina®.

## **Employees**

At October 31, 2016, we had 276 employees, 79 of which were salaried and 197 of which were hourly. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

## **Research and Development**

For our agribusiness division, 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 throughout our growing areas. 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 such year.

## **Environmental and Regulatory Matters**

Our agribusiness and real estate development operations are subject to a broad range of evolving federal, state and local environmental laws and regulations. For example, the growing, packing, storing and distributing of our products is extensively regulated by various federal and state agencies. The California State Department of Food and Agriculture oversees our packing and processing of lemons and conducts tests for fruit quality and packaging standards. We are also subject to laws and regulations which govern the use of pesticides and other potentially hazardous substances and the treatment, handling, storage and disposal of materials and waste and the remediation of contaminated properties. 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.

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.

#### 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 Agribusiness Division**

*Adverse weather conditions, natural disasters and other natural conditions, including the effects of climate change, could 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 and may occur with higher frequency or be less predictable in the future due to the effects of climate change. 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 damaged or ruined; in the case of extended periods of cold, the trees can also be damaged or killed.



*Our agricultural plantings are potentially subject to damage from disease and pests, which could impose losses on our business and the prevention of which could impose significant additional costs on us.*

Fresh produce is also vulnerable to crop disease and to pests, *e.g.* 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.

One such pest is ACP, 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 one of the most devastating diseases of citrus in the world. Trees infected with HLB decline in health, produce inedible fruit and eventually die, usually in 3 to 5 years after becoming infected. Currently, there is no cure for the disease and infected trees must be removed and destroyed to prevent further spreading.

ACP is a federal action quarantine pest subject to interstate and international quarantine restrictions by the United States Department of Agriculture (“USDA”), including a prohibition on the movement of nursery stock out of quarantine areas and a requirement that all citrus fruit be cleaned of leaves and stems prior to movement out of the quarantine area. ACP and HLB exist domestically in Florida, Louisiana, Georgia, South Carolina and Texas and internationally in countries such as Mexico. ACP exists in California, including in our orchards, however, to date, only a few instances of HLB have been detected in Los Angeles County, California. Yet, there can be no assurance that HLB will not be further detected in the future. Due to the discovery of ACP in our orchards, we have experienced costs related to the quarantine and treatment of ACP and incurred approximately \$0.9 million of costs in fiscal year 2016 related to pest control efforts targeted against ACP.

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 our lemons can be sold and lower demand for our lemons. Additional government regulations and other quarantine requirements or customer handling and inspection requirements could increase agribusiness costs to us. Our citrus orchards could be at risk if ACP starts to transmit the HLB disease to our trees. Agribusiness 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 oranges and specialty citrus directly to our food service, wholesale and retail customers may not be successful.***

Historically, we have sold a portion of our oranges and specialty citrus to Sunkist affiliated and other packing houses for processing and sale to customers in Sunkist and other branded cartons. Beginning in fiscal year 2017, we plan to sell our oranges and most of our specialty citrus directly to our customers in Limoneira branded cartons, similar to our lemons. We utilize our own packing facilities to process lemons for sale and have contracted with Cecelia Packing Corporation located in Orange Cove, California to pack our oranges and specialty citrus.

Obtaining and retaining customers, particularly chain stores and other large customers, is highly competitive, and the prices or other terms of our sales arrangements may not be sufficient to retain existing business, maintain current levels of profitability or obtain new business. Industry consolidation (horizontally and vertically) and other factors have increased the buying leverage of the major grocery retailers in our markets, which may put further downward pressure on our pricing and volume and could adversely affect our results of operations.

***We depend on our relationship with Calavo and their ability to sell our avocados. Any disruption in this relationship could harm our sales.***

We sell 100% of the avocados we grow to Calavo and depend on their willingness and ability to market and sell our avocados to consumers. Calavo sources its avocados from many growers and we cannot control who they will purchase from and how large their orders may be. Should there be any change in our current relationship structure, whereby they buy our entire avocado crop, we would need to find replacement buyers to purchase our remaining crop, which could take time and expense and may result in less favorable terms of sale. Any loss of Calavo as a customer on a whole may cause a material loss in our profits, as they currently purchase 100% of our avocado crop and it may take time to fill any such void.

***Our earnings are sensitive to fluctuations in market supply and 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, such as lemons, 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 may be 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 generally from January through April and our Valencia oranges are sold generally from June through September. Our avocados are sold generally throughout the year with the peak months being February through September. Our specialty citrus is sold generally from November through June and our pistachios, olives and wine grapes are sold generally in September and October.

***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 have led international customers, particularly in Asia, to find alternative sources of fruit.

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

Many factors may affect the cost and supply of fresh produce, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for purchased fruit have negatively impacted our operating results in the past, 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. The cost of petroleum-based products is volatile and there can be no assurance that there will not be further increases in such costs in the future. If the price of oil rises, the costs of our herbicides and pesticides can be significantly impacted.

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.

***Increases in labor, personnel and benefits costs could adversely affect our operating results.***

We primarily utilize labor contractors to grow, harvest and deliver our fruit to our lemon packing house or outside packing facilities. We utilize a combination of employees and labor contractors to process our lemons in our lemon packing facility. Our employees and contractors are in demand by other agribusinesses and other industries. Shortages of labor could delay our harvesting or lemon processing activities or could result in increases in labor costs.

We and our labor contractors are subject to government mandated wage and benefit laws and regulations. For example, the State of California passed regulations which increased minimum wage rates from \$10.00 per hour to \$10.50 per hour, effective January 1, 2017, gradually increasing to \$15.00 per hour in 2022. Arizona minimum wage rates will increase from \$8.05 per hour to \$10.00 per hour effective January 1, 2017, gradually increasing to \$12.00 per hour in 2020. In addition, current or future federal or state healthcare legislation and regulation, including the Affordable Care Act, may increase our medical costs or the medical costs of our labor contractors that could be passed on to us.

***Changes in immigration laws could impact the ability of Limoneira to harvest its crops.***

We engage third parties to provide personnel for our harvesting operations. The availability and number of such workers is subject to decrease if there are changes in U.S. immigration laws. The scarcity of available personnel to harvest our agricultural products could cause harvesting costs to increase or could lead to the loss of product that is not timely harvested, which could have a material adverse effect to our citrus grove operations, financial position, results of operations and cash flows.

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

The average rainfall in Ventura, Tulare, San Luis Obispo and San Bernardino Counties in California is 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.

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 un-adjudicated Fillmore and Paso Robles Basins (aquifers). We use ground water and water from local water districts in Tulare County and we use ground water in San Bernardino County. Following our acquisition of Associated, we began using federal project water in Arizona from the Colorado River through the YMIDD.

California has historically experienced periods of below average precipitation. Currently, it is experiencing one of its most severe droughts on record. This year's precipitation has brought relief to California's drought conditions, although the last few years have been among the most severe droughts on record. Rainfall, snow levels and water content of snow pack have been significantly below historical averages. These conditions have resulted in reduced water levels in streams, rivers, lakes, aquifers and reservoirs and the governor of California declared a drought State of Emergency in February 2014. Federal officials oversee the Central Valley Project, California's largest water delivery system, and 75% of the contracted amount of water was provided to San Joaquin farmers in 2016 compared to zero in 2015 and 2014.

For fiscal year 2016, irrigation costs for our agricultural operations were similar to fiscal year 2015. However, costs may increase as we pump more water than our historical averages and federal, state and local water delivery infrastructure costs may increase to access these limited water supplies. In response to the drought, we have an ongoing plan for irrigation improvements in fiscal year 2017 that includes drilling new wells and upgrading existing wells and irrigation systems.

We believe we have access to adequate supplies of water for our agricultural operations as well as our real estate development and rental operations segments of our business and currently do not anticipate that the California drought will have a material impact on our operating results. However, if the current drought conditions persist or worsen or if regulatory responses to such conditions limit our access to water, our business could be negatively impacted by these conditions and responses in terms of access to water and/or cost of water.

***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 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.

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

Our business depends on the use of fertilizers, pesticides and other agricultural products. The use and disposal of these products in some jurisdictions are subject to regulation by various agencies. A decision by a regulatory agency to significantly restrict the use of such products that have traditionally been used in the cultivation of one of our principal products could have an adverse impact on us. Under the Federal Insecticide, Fungicide and Rodenticide Act, the Federal Food, Drug and Cosmetic Act and the Food Quality Protection Act of 1996, the EPA is undertaking a series of regulatory actions relating to the evaluation and use of pesticides in the food industry. Similarly, in the EU, regulation (EC) No. 1107/2009 which became effective on June 14, 2011, fundamentally changed the pesticide approval process from the current risk base to hazard criteria based on the intrinsic properties of the substance. These actions and future actions regarding the availability and use of pesticides could have an adverse effect on us. In addition, if a regulatory agency were to determine that we are not in compliance with a regulation in that agency's jurisdiction, this could result in substantial penalties and a ban on the sale of part or all of our products in that jurisdiction.

There has been a broad range of proposed and promulgated state, national and international regulation aimed at reducing the effects of climate change. Such regulations apply or could apply in countries where we have interests or could have interests in the future. In the United States, there is a significant possibility that some form of regulation will be enacted at the federal level to address the effects of climate change. Such regulation could take several forms that could result in additional costs in the form of taxes, the restriction of output, investments of capital to maintain compliance with laws and regulations, or required acquisition or trading of emission allowances. Climate change



regulation continues to evolve, and while it is not possible to accurately estimate either a timetable for implementation or our future compliance costs relating to implementation, we do not believe that such regulation is reasonably likely to have a material effect in the foreseeable future on our business, results of operations, capital expenditures or financial position.

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

The global capital and credit markets have experienced increased volatility and disruption over the past several years, 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.

***A global economic downturn may have an adverse impact on participants in our industry, which cannot be fully predicted.***

The full impact of a 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.

***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 LIMONEIRA or our other trademarks and related brands could significantly impact our business.***

Consumer and institutional recognition of the LIMONEIRA, Santa®, Paula®, Bridal Veil®, Fountain®, Golden Bowl®, Level®, Kiva® and Kachina® 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 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.

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

Computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, packing, distribution or other critical functions.

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

***Government regulation could increase our costs of production and increase legal and regulatory expenses.***

Growing, packaging, storing and distributing food products are activities subject to extensive federal, state and local regulation, as well as foreign regulation. These aspects of our operations are regulated by the U.S. Food and Drug Administration (the “FDA”), the USDA and various state and local public health and agricultural agencies. On January 4, 2011, the FDA Food Safety Modernization Act, which is intended to ensure food safety, was enacted. This Act provides direct recall authority to the FDA and includes a number of other provisions designed to enhance food safety, including increased inspections by the FDA of food facilities. Our business is also affected by import and export controls and similar laws and regulations, both in the United States and elsewhere. Issues such as health and safety, which may slow or otherwise restrict imports and exports, could adversely affect our business. In addition, the modification of existing laws or regulations or the introduction of new laws or regulations could require us to make material expenditures or otherwise adversely affect the way that we have historically operated our business.

***Our strategy to expand international production and marketing may not be successful and may subject us to risks associated with doing business in corrupt environments.***

While we intend to expand our lemon supply sources to international markets and explore opportunities to expand our international production and marketing of lemons, we may not be successful in implementing this strategy. Additionally, in many countries outside of the United States, particularly in those with developing economies, it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act or similar local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our financial condition and results of operations.

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

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

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

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

### **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, or 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 ability to take certain actions. In particular, these agreements limit our 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 (the “Rabobank Credit Facility”) with Rabobank and our Wells Fargo Term Loan contain a financial covenant that requires us to maintain compliance with a specified debt service coverage ratio on an annual basis. At October 31, 2016 and 2015, 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 Rabobank Credit Facility and Wells Fargo Term Loan.

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. If new debt is added to our current debt levels, 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 Rabobank Credit Facility and certain of our term loans that we have with Farm Credit West and its affiliates 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 Rabobank Credit Facility, or our Farm Credit West Term Loans or our Wells Fargo Term Loan, 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 our operation if prevailing interest rates remain below fixed rates established in such instruments.

## **Risks Related to Our Real Estate Development Division**

*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;
- supply of similar product, whether residential or industrial; and

local, state and federal government regulation, including eminent domain laws, which may result in taking for less compensation than the owner believes the property is worth.

The process of project development and the commitment of financial and other resources occur 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 recession in the global economy, or a downturn in national or regional economic conditions, could adversely impact our real estate development business.*



Future economic instability or tightening in the credit markets could lead to another housing market collapse, which could adversely affect our real estate development operations. 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.

***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. Since the most recent recession, the U.S. Federal Reserve has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. In December 2016, the U.S. Federal Reserve raised its benchmark interest rate by a quarter of a percentage point. Market interest rates may continue to increase and the increase may materially and negatively affect us. 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.

If unforeseen regulatory challenges with East Areas I and II occur, we may not be able to develop these projects as planned and the approximately \$66.1 million investment we have in the projects could be impaired in the future.

***Third-party litigation could increase the time and cost of our real estate 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 real estate 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, the 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 and Arizona.***

All of our developable land is located in California and Arizona, and our business is especially sensitive to the economic conditions within California. Any adverse change in the economic climate of California, Arizona, or our regions of those states, and any adverse change in the political or regulatory climate of California or Arizona, or the counties where our land is located in such states, could adversely affect our real estate development activities. Ultimately, our ability to sell or lease lots may decline as a result of weak economic conditions or restrictive regulations.

***If the real estate industry weakens or instability of the mortgage industry and commercial real estate financing exists, 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 downturn in the housing market or the mortgage lending crisis. Recent trends in the housing market have been improving; however, if the residential real estate market weakens or instability of the mortgage industry and commercial real estate financing exists, our residential real estate 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 rely on contractual arrangements with third party advisors to assist us in carrying out our real estate development projects and are subject to risks associated with such arrangements.***

We utilize third party contractor and consultant arrangements to assist us in operating our real estate development segment. These contractual arrangements may not be as effective in providing direct control over this business segment. For example, our third party advisors could fail to take actions required for our real estate development businesses despite its contractual obligation to do so. If the third party advisors fail to perform under their agreements with us, we may have to rely on legal remedies under the law, which may not be effective. In addition, we cannot assure you that our third party advisors would always act in our best interests.

***If we are unable to complete land development projects within forecasted time and budget expectations, if at all, our financial results may be negatively affected.***

We intend to develop land and real estate properties as suitable opportunities arise, taking into consideration the general economic climate. New real estate development projects have a number of risks, including the following:

- Construction delays or cost overruns that may increase project costs;
- Receipt of zoning, occupancy and other required governmental permits and authorizations;
- Development costs incurred for projects that are not pursued to completion;

- Earthquakes, hurricanes, floods, fires or other natural disasters that could adversely affect a project;
- Defects in design or construction that may result in additional costs to remedy or require all or a portion of a property to be closed during the period required to rectify the situation;
- Our ability to raise capital;
- The impact of governmental assessments such as park fees or affordable housing requirements;
- Governmental restrictions on the nature and size of a project or timing of completion; and
- The potential lack of adequate building/construction capacity for large development projects.

If any development project is not completed on time or within budget, our financial results may be negatively affected.

***If we are unable to obtain required land use entitlements at reasonable costs, or at all, our operating results would be adversely affected.***

The financial performance of our real estate development segment is closely related to our success in obtaining land use entitlements for proposed development projects. Obtaining all of the necessary entitlements to develop a parcel of land is often difficult, costly and may take several years, or more, to complete. In some situations, we may be unable to obtain the necessary entitlements to proceed with a real estate development or may be required to alter our plans for the development. Delays or failures to obtain these entitlements may have a material adverse effect on our financial results.

***We could experience a reduction in revenues or reduced cash flows if we are unable to obtain reasonably priced financing to support our real estate development projects and land development activities.***

The real estate development industry is capital intensive, and development requires significant up-front expenditures to develop land and begin real estate construction. Accordingly, we have and may continue to incur substantial indebtedness to finance our real estate development and land development activities. Although we believe that internally generated funds and current and available borrowing capacity will be sufficient to fund our capital and other

expenditures, including additional land acquisition, development and construction activities, and the amounts available from such sources may not be adequate to meet our needs. If such sources were insufficient, we would seek additional capital in the form of debt from a variety of potential sources, including bank financing. The availability of borrowed funds to be used for additional land acquisition, development and construction may be greatly reduced, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with new loans. The failure to obtain sufficient capital to fund our planned expenditures could have a material adverse effect on our business and operations and our results of operations in future periods.

***We may encounter risks associated with the real estate joint venture we entered into on November 10, 2015 with the Lewis Group of Companies including:***

- the joint venture may not perform financially or operationally as expected;
  - land values, project costs, sales absorption or other assumptions included in the development plans may cause the joint venture's operating results to be less than expected;
- the joint venture may not be able to obtain project loans on acceptable terms;
- the joint venture partners may not be able to provide capital to the joint venture in the event external financing or project cash flows are not sufficient to finance the joint venture's operations;
- the joint venture partners may not manage the project properly; and
  - disagreements could occur between the joint venture partners that could affect the operating results of the joint venture or could result in a sale of a partner's interest or the joint venture at undesirable values.

***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, 2016, directors and members of our executive management team beneficially owned or controlled approximately 3.6% 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 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, as well as rules promulgated by the SEC and 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.

Item 1B. Unresolved Staff Comments

None.

27



## Item 2. Properties

**Real Estate**

We own our corporate headquarters in Santa Paula, California. We own approximately 8,700 acres of farm land in California, with approximately 4,100 acres located in Ventura County, approximately 3,900 acres located in Tulare County in the San Joaquin Valley and approximately 700 acres in San Luis Obispo County, and we own approximately 1,300 acres located in Yuma, Arizona. We lease approximately 30 acres of land located in Ventura County, approximately 80 acres in Tulare County and approximately 800 acres in San Bernardino County. We also have an interest in a partnership that owns approximately 200 acres of land in Ventura County. The land used for agricultural plantings consists of approximately 4,600 acres of lemons, approximately 1,000 acres of avocados, approximately 1,400 acres of oranges and approximately 900 acres of specialty citrus and other crops. Our agribusiness land holdings are summarized below as of October 31, 2016:

| Ranch Name                      | Acres  | Book Value   | Acquisition Date | Book Value per Acre |
|---------------------------------|--------|--------------|------------------|---------------------|
| Limoneira/Olivelands Ranch      | 1,700  | \$767,000    | 1907, 1913, 1920 | \$ 451              |
| La Campana Ranch                | 300    | 758,000      | 1964             | \$ 2,526            |
| Orchard Farm Ranch              | 1,100  | 3,240,000    | 1990             | \$ 2,945            |
| Teague McKeveitt Ranch          | 500    | 8,253,000    | 1994             | \$ 16,506           |
| Rancho La Cuesta Ranch          | 200    | 2,899,000    | 1994             | \$ 14,495           |
| Porterville Ranch               | 700    | 6,427,000    | 1997             | \$ 9,181            |
| Ducor Ranch                     | 900    | 6,064,000    | 1997             | \$ 6,738            |
| Jencks Ranch                    | 100    | 846,000      | 2007             | \$ 8,460            |
| Windfall Farms                  | 700    | 16,162,000   | 2009             | \$ 23,089           |
| Stage Coach Ranch               | 100    | 603,000      | 2012             | \$ 6,030            |
| Martinez Ranch                  | 200    | 1,363,000    | 2012             | \$ 6,815            |
| Associated Citrus Packers, Inc. | 1,300  | 15,035,000   | 2013             | \$ 11,565           |
| Lemons 400                      | 800    | 5,180,000    | 2013             | \$ 6,475            |
| Sheldon Ranches                 | 900    | 14,110,000   | 2016             | \$ 15,678           |
| Other agribusiness land         | 500    | 4,685,000    | various          | \$ 9,370            |
|                                 | 10,000 | \$86,392,000 |                  |                     |

The book value of our agribusiness land holdings of \$86,392,000 differs from the land balance of \$76,418,000 included in property plant and equipment in the notes to the consolidated financial statements in Item 8 of this Form 10-K. The table above presents our current land holdings in agribusiness operations and, therefore, excludes leased farm land, rental and real estate development 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 Areas I and II.



We own our packing facilities located in Santa Paula, California and Yuma, Arizona, where we process and pack our lemons as well as lemons for other growers. In 2013, we began upgrading our Santa Paula packing facility for additional capacity and completed the upgrade in the second quarter of fiscal year 2016. 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 approximately 260 residential units in Santa Paula, California that we lease as part of our rental operations segment to our employees, former employees and outside tenants and we own several commercial office buildings and properties that are leased to various tenants. We have built 65 out of a total approved 71 additional residential rental units in Ventura County, California which we began renting in May 2015.

We own real estate development property in the California counties of Santa Barbara and Ventura. These properties are in various stages of development for up to approximately 1,800 residential units and approximately 811,000 square feet of commercial space.

## **Water and Mineral 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. We believe we have adequate supplies of water for our agricultural operations as well as our rental and real estate development segments of our business and currently do not anticipate that the California drought will have a material impact on our operating results. Water for our farming operations located in Ventura County, California is sourced from the existing water resources associated with our land, which includes approximately 8,600 acre feet of adjudicated water rights in the Santa Paula Basin (aquifer) and the un-adjudicated Fillmore Basin. We use a combination of ground water provided by wells which derive water from the San Joaquin Valley Basin and water from various water districts and irrigation districts in Tulare County, California, which is in the agriculturally productive San Joaquin Valley. We use ground water provided by wells which derive water from the Cadiz Valley Basin at the Cadiz Ranch in San Bernardino County, California. Our Windfall Farms property located in San Luis Obispo County, California obtains water from wells which derive water from the Paso Robles Basin. Our Associated Citrus Packers farming operations in Yuma, Arizona source water from the Colorado River through the YMIDD, where we have access to approximately 11,700 acre feet of Class 3 Colorado River water rights.

Our rights to extract groundwater from the Santa Paula Basin are governed by the Santa Paula Basin Judgment (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 (the “Association”). The Association is

a 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 (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.

Our California water resources include approximately 17,000 acre feet of water affiliated with our owned properties, of which approximately 8,600 acre feet are adjudicated. In connection with our September 6, 2013 acquisition of Associated and its property ownership in Yuma, Arizona and its related membership in the YMIDD, we have been allocated approximately 11,000 acre feet of water sourced from the Colorado River. In December 2013, and revised in December 2014 and 2015, Associated entered into an agreement with the YMIDD to participate in a Pilot Fallowing Program in which Associated has agreed to forego its water allocation for approximately 300 acres of land in exchange for \$750 per acre through December 31, 2016. Additionally, we own shares in five not-for-profit mutual benefit water companies. Our investments in these water companies provide us with the right to receive a proportionate share of water from each of the water companies.

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 our 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.

We own oil, gas and mineral rights related to our Ventura County, California properties and in fiscal year 2013 we signed a five-year lease with Vintage Petroleum, LLC to allow seismic testing on approximately 1,500 acres. In August of 2015, Vintage released its interest in a portion of the lease, reducing its leased acreage to approximately 30 acres. We will receive a 20% royalty if any oil and gas is extracted.

### 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. Mine Safety Disclosures

Not applicable.

## PART II

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

#### **Market Information**

Our common stock is traded on the NASDAQ Stock Market, LLC (“NASDAQ”) under the symbol “LMNR.” There is no assurance that our common stock will continue to be traded on NASDAQ or that any liquidity will exist 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 NASDAQ.

|                                       | High    | Low     |
|---------------------------------------|---------|---------|
| 2016                                  |         |         |
| Fourth Quarter Ended October 31, 2016 | \$19.69 | \$16.33 |
| Third Quarter Ended July 31, 2016     | \$19.08 | \$14.81 |
| Second Quarter Ended April 30, 2016   | \$17.89 | \$11.50 |
| First Quarter Ended January 31, 2016  | \$17.57 | \$11.94 |
| 2015                                  |         |         |
| Fourth Quarter Ended October 31, 2015 | \$20.72 | \$15.86 |
| Third Quarter Ended July 31, 2015     | \$23.10 | \$19.92 |
| Second Quarter Ended April 30, 2015   | \$23.96 | \$19.88 |
| First Quarter Ended January 31, 2015  | \$25.80 | \$20.02 |

## Holdings

On December 31, 2016, there were 250 registered 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.

|                                       | Dividend |
|---------------------------------------|----------|
| 2016                                  |          |
| Fourth Quarter Ended October 31, 2016 | \$0.0500 |
| Third Quarter Ended July 31, 2016     | \$0.0500 |
| Second Quarter Ended April 30, 2016   | \$0.0500 |
| First Quarter Ended January 31, 2016  | \$0.0500 |
| 2015                                  |          |
| Fourth Quarter Ended October 31, 2015 | \$0.0450 |
| Third Quarter Ended July 31, 2015     | \$0.0450 |
| Second Quarter Ended April 30, 2015   | \$0.0450 |
| First Quarter Ended January 31, 2015  | \$0.0450 |

In December 2016, we increased our quarterly dividend to \$0.055 per common share and we expect to continue to pay quarterly dividends at a similar rate to the extent permitted by the financial results of our business and other factors beyond management's control.

## Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item is incorporated by reference herein from our Proxy Statement (as defined in Part III of this Annual Report on Form 10-K).

## Performance Graph

The line graph above compares the percentage change in cumulative total stockholder return of our common stock registered under section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") with (i) the cumulative total return of the Russell 2000 Index, assuming reinvestment of dividends, and (ii) the cumulative total return of Dow Jones U.S. Food Producers Index, assuming reinvestment of dividends.





**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 our audited consolidated financial statements. 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.

|                                                   | Years Ended October 31, |               |               |               |               |
|---------------------------------------------------|-------------------------|---------------|---------------|---------------|---------------|
|                                                   | 2016                    | 2015          | 2014          | 2013          | 2012          |
| Total net revenues                                | \$111,789,000           | \$100,311,000 | \$103,462,000 | \$84,884,000  | \$65,828,000  |
| Operating income                                  | \$9,188,000             | \$4,583,000   | \$9,893,000   | \$5,398,000   | \$4,556,000   |
| Net income                                        | \$8,058,000             | \$7,082,000   | \$6,991,000   | \$4,906,000   | \$3,150,000   |
| Basic and diluted net income per common share     | \$0.52                  | \$0.46        | \$0.46        | \$0.36        | \$0.26        |
| Total assets                                      | \$305,448,000           | \$269,370,000 | \$246,683,000 | \$209,264,000 | \$172,052,000 |
| Current and long-term debt                        | \$90,672,000            | \$89,668,000  | \$68,150,000  | \$61,990,000  | \$89,460,000  |
| Convertible preferred stock                       | \$12,231,000            | \$12,281,000  | \$12,331,000  | \$3,000,000   | \$3,000,000   |
| Cash dividends declared per share of common stock | \$0.20                  | \$0.18        | \$0.17        | \$0.15        | \$0.13        |

In fiscal year 2016, we capitalized approximately \$3.7 million of costs for the expansion of our lemon packing facility, which became operational in March 2016. We purchased the Sheldon Ranch for approximately \$15.1 million and capitalized approximately \$6.9 million of costs related to our East Areas I & II real estate development projects. Additionally, we capitalized approximately \$5.5 million of costs related to orchard development and \$1.0 million of costs related to vineyard development.

In fiscal year 2015, we capitalized approximately \$15.6 million of costs for the expansion of our lemon packing facility and capitalized approximately \$8.0 million of costs related to our East Areas I & II and Windfall Farms real estate development projects. We capitalized approximately \$2.7 million of costs in fiscal year 2015 for our agriculture workforce housing project, which was substantially completed in May 2015. Additionally, in February 2015, we purchased \$1.2 million of existing lemon trees and irrigation systems on 200 acres of land we lease from Cadiz.

As further described in notes to the consolidated financial statements, during March and April of 2014, pursuant to a Series B-2 Stock Purchase Agreement dated March 21, 2014, we issued an aggregate of 9,300 shares of Series B-2, 4% voting preferred stock with a par value of \$100 per share (“Series B-2 Preferred Stock”) to WPI-ACP Holdings, LLC (“WPI”), which is affiliated with Water Asset Management, LLC (“WAM”) for total proceeds of \$9.3 million.

On September 6, 2013, we completed the acquisition of all of the outstanding stock of Associated Citrus Packers, Inc. (“Associated”), a privately owned Arizona corporation, for \$18.6 million. The purchase price consisted of the issuance of 705,000 unregistered shares of our Company’s common stock with an aggregate value of \$16.0 million based on our Company’s stock price on the acquisition date, \$1.0 million in cash and the repayment of \$1.6 million in Associated’s long-term debt. The acquisition was structured as a tax-free reorganization under section 368 of the Internal Revenue Code.

On October 11, 2013, we completed the acquisition of Lemons 400 for \$8.8 million in cash. This property, located in the town of Porterville in Tulare County, California, consists of approximately 400 acres of productive lemon orchards and 360 acres primarily leased for cattle grazing. The acquisition also included water assets and agricultural equipment and supplies.

In February 2013, we completed the sale of 2,070,000 shares of common stock, at a price of \$18.50 per share, to institutional and other investors in a registered offering under our shelf registration statement. The offering represented 16% of our outstanding common stock on an after-issued basis. Upon completion of the offering and issuance of common stock, we had 13,307,085 shares of common stock outstanding. The gross proceeds of the offering totaled \$38.3 million and after an underwriting discount of \$2.1 million and other offering expenses of \$0.3 million, the net proceeds were \$35.9 million. During February 2013, we used the net offering proceeds to repay long-term debt.

Certain reclassifications have been made to the Selected Financial Data above to conform to the October 31, 2016 presentation. The Company has reclassified debt issuance costs of \$204,000, \$142,000 and \$175,000 as of October 31, 2014, 2013, and 2012, respectively, from other assets to long-term debt. The Company has reclassified net current deferred income tax assets of \$508,000 and \$395,000 as of October 31, 2013 and 2012, respectively, from prepaid expenses and other current assets to deferred income taxes.

## 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 "Risk Factors" 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 agribusiness and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 11,000 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production, sales 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, one of the largest growers 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, Tulare, San Bernardino and San Luis Obispo Counties in California, and Yuma, Arizona, which plantings consist of approximately 4,600 acres of lemons, 1,000 acres of avocados, 1,400 acres of oranges and 900 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, 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 un-adjudicated Fillmore and Paso Robles Basins (aquifers). We use ground water from the San Joaquin Valley Basin and water from water districts and irrigation districts in Tulare County, which is in California's San Joaquin Valley and we use ground water from the Cadiz Valley Basin in San Bernardino County. We also use surface water in Arizona from the Colorado River through the Yuma Mesa Irrigation and Drainage District.

For more than 100 years, we have been making strategic investments in California agribusiness and real estate development. We currently have three active real estate development projects in California. These projects include multi-family housing and single-family homes comprised of approximately 260 completed units and another approximately 1,800 units in various stages of development.

We have three business divisions: agribusiness, rental operations and real estate development. Our agribusiness division is comprised of two reportable segments, lemon operations and other agribusiness, and currently generates the majority of our revenue from its farming, harvesting and lemon packing and sales operations; our rental operations division generates revenue from our housing, organic recycling and commercial and leased land operations; and our real estate development division 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 – refer to Part I, Item 1 “Fiscal Year 2016 Highlights and Recent Developments”****Results of Operations**

The following table shows the results of operations for:

|                                               | Years Ended October 31, |      |               |      | 2014          |      |
|-----------------------------------------------|-------------------------|------|---------------|------|---------------|------|
|                                               | 2016                    |      | 2015          |      |               |      |
| Net revenues:                                 |                         |      |               |      |               |      |
| Agribusiness                                  | \$106,130,000           | 95%  | \$95,124,000  | 95%  | \$98,522,000  | 95%  |
| Rental operations                             | 5,603,000               | 5%   | 5,104,000     | 5%   | 4,640,000     | 4%   |
| Real estate development                       | 56,000                  | -    | 83,000        | -    | 300,000       | 1%   |
| Total net revenues                            | 111,789,000             | 100% | 100,311,000   | 100% | 103,462,000   | 100% |
| Costs and expenses:                           |                         |      |               |      |               |      |
| Agribusiness                                  | 83,604,000              | 81%  | 77,186,000    | 81%  | 74,325,000    | 79%  |
| Rental operations                             | 3,617,000               | 4%   | 3,440,000     | 4%   | 3,073,000     | 3%   |
| Real estate development                       | 2,061,000               | 2%   | 1,330,000     | 1%   | 1,400,000     | 2%   |
| Impairments of real estate development assets | -                       | -    | -             | -    | 435,000       | 1%   |
| Selling, general and administrative           | 13,319,000              | 13%  | 13,772,000    | 14%  | 14,336,000    | 15%  |
| Total costs and expenses                      | 102,601,000             | 100% | 95,728,000    | 100% | 93,569,000    | 100% |
| Operating income (loss):                      |                         |      |               |      |               |      |
| Agribusiness                                  | 22,526,000              |      | 17,938,000    |      | 24,197,000    |      |
| Rental operations                             | 1,986,000               |      | 1,664,000     |      | 1,567,000     |      |
| Real estate development                       | (2,005,000 )            |      | (1,247,000 )  |      | (1,535,000 )  |      |
| Selling, general and administrative           | (13,319,000 )           |      | (13,772,000 ) |      | (14,336,000 ) |      |
| Operating income                              | 9,188,000               |      | 4,583,000     |      | 9,893,000     |      |
| Other income (expense):                       |                         |      |               |      |               |      |
| Interest (expense) income, net                | (1,409,000 )            |      | (148,000 )    |      | 60,000        |      |
| Equity in earnings of investments             | 634,000                 |      | 243,000       |      | 263,000       |      |
| Gain on sale of stock in Calavo Growers, Inc. | 3,419,000               |      | 5,033,000     |      | -             |      |
| Gain on sale of conservation easement         | 995,000                 |      | -             |      | -             |      |
| Gain on sale of Wilson Ranch                  | -                       |      | 935,000       |      | -             |      |
| Other income, net                             | 498,000                 |      | 410,000       |      | 348,000       |      |
| Total other income                            | 4,137,000               |      | 6,473,000     |      | 671,000       |      |
| Income before income taxes                    | 13,325,000              |      | 11,056,000    |      | 10,564,000    |      |
| Income tax provision                          | (5,267,000 )            |      | (3,974,000 )  |      | (3,573,000 )  |      |

Edgar Filing: Limoneira CO - Form 10-K

|            |             |             |             |
|------------|-------------|-------------|-------------|
| Net income | \$8,058,000 | \$7,082,000 | \$6,991,000 |
|------------|-------------|-------------|-------------|

**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, income taxes, depreciation and amortization (“EBITDA”) and adjusted EBITDA, which excludes impairments on real estate development assets when applicable, is an important measure to evaluate our 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 us and may not be consistent with methodologies used by other companies. EBITDA and adjusted EBITDA are summarized and reconciled to net income which management considers to be the most directly comparable financial measure calculated and presented in accordance with GAAP as follows:

|                                               | Years Ended October 31, |              |              |
|-----------------------------------------------|-------------------------|--------------|--------------|
|                                               | 2016                    | 2015         | 2014         |
| Net income                                    |                         |              |              |
|                                               | \$8,058,000             | \$7,082,000  | \$6,991,000  |
| Interest expense, net                         | 1,409,000               | 148,000      | (60,000 )    |
| Income taxes                                  | 5,267,000               | 3,974,000    | 3,573,000    |
| Depreciation and amortization                 | 5,339,000               | 4,184,000    | 3,516,000    |
| EBITDA                                        | 20,073,000              | 15,388,000   | 14,020,000   |
| Impairments of real estate development assets | -                       | -            | 435,000      |
| Adjusted EBITDA                               | \$20,073,000            | \$15,388,000 | \$14,455,000 |

**Fiscal Year 2016 Compared to Fiscal Year 2015*****Revenues***

Total revenue for fiscal year 2016 was \$111.8 million compared to \$100.3 million for fiscal year 2015. The 11% increase of \$11.5 million was primarily the result of increased agribusiness revenues, as detailed below:

|                                  | Agribusiness Revenues for the Years Ended October 31, |               |              |     |
|----------------------------------|-------------------------------------------------------|---------------|--------------|-----|
|                                  | 2016                                                  | 2015          | Change       |     |
| Lemons                           | \$ 85,267,000                                         | \$ 78,978,000 | \$ 6,289,000 | 8%  |
| Avocados                         | 10,767,000                                            | 7,132,000     | 3,635,000    | 51% |
| Navel and Valencia oranges       | 6,143,000                                             | 5,626,000     | 517,000      | 9%  |
| Specialty citrus and other crops | 3,953,000                                             | 3,388,000     | 565,000      | 17% |

Edgar Filing: Limoneira CO - Form 10-K

|                       |                |               |               |     |
|-----------------------|----------------|---------------|---------------|-----|
| Agribusiness revenues | \$ 106,130,000 | \$ 95,124,000 | \$ 11,006,000 | 12% |
|-----------------------|----------------|---------------|---------------|-----|

35



**Lemons:** The increase in fiscal year 2016 was primarily the result of increased volume of fresh lemons sold and increased lemon by-product and other lemon sales partially offset by lower prices. During fiscal years 2016 and 2015, fresh lemon sales were \$71.7 million and \$67.0 million, respectively, on 2.9 million and 2.7 million cartons of fresh lemons sold at average per carton prices of \$24.72 and \$24.81, respectively. The lower average per carton price in fiscal year 2016 compared to fiscal year 2015 was primarily due to less favorable overall market conditions. Additionally, lemon by-products, shipping and handling, commissions and other lemon sales were \$13.6 million in fiscal year 2016 compared to \$12.0 million in fiscal year 2015.

**Avocados:** The increase in fiscal year 2016 was primarily due to increased production partially offset by lower prices. The California avocado crop typically experiences alternating years of high and low production due to plant physiology. During fiscal years 2016 and 2015, 11.4 million and 7.0 million pounds of avocados were sold at average per pound prices of \$0.95 and \$1.02, respectively. Lower prices in fiscal year 2016 were primarily due to increased supply in the marketplace.

**Navel and Valencia oranges:** The increase in fiscal year 2016 was primarily due to higher volume of oranges sold partially offset by lower prices. During fiscal years 2016 and 2015, orange sales were \$6.1 million and \$5.6 million, respectively, on 1,049,000 and 744,000 40-pound carton equivalents of oranges sold at average per carton prices of \$5.86 and \$7.56, respectively.

**Specialty citrus and other crops:** The increase in fiscal year 2016 was primarily due to higher volume of specialty citrus sold partially offset by lower prices. In fiscal years 2016 and 2015, we sold 349,000 and 253,000 40-pound carton equivalents of specialty citrus at average per carton prices of \$8.33 and \$10.79, respectively. Additionally, we sold approximately 200 tons of wine grapes for \$0.3 million in fiscal year 2016 compared to zero in fiscal year 2015.

Rental operations revenue was \$5.6 million in fiscal year 2016 compared to \$5.1 million in fiscal year 2015. The increase in fiscal year 2016 was primarily due to a full year of rental revenue from 65 newly completed agricultural workforce housing units that we began renting in May 2015.

Real estate development revenue was \$0.1 million in fiscal years 2016 and 2015, comprised primarily of incidental alfalfa sales at our Windfall Farms property.

### ***Costs and Expenses***

Total costs and expenses for fiscal year 2016 were \$102.6 million compared to \$95.7 million for fiscal year 2015. This 7% increase of \$6.9 million was primarily attributable to increases in our agribusiness costs. Costs associated with our agribusiness division include packing costs, harvest costs, growing costs, costs related to the lemons we procure from third-party growers and depreciation expense. These costs are discussed further below:

|                                 | Agribusiness Costs and Expenses for the Years Ended October 31, |               |              |      |
|---------------------------------|-----------------------------------------------------------------|---------------|--------------|------|
|                                 | 2016                                                            | 2015          | Change       |      |
| Packing costs                   | \$ 21,939,000                                                   | \$ 20,644,000 | \$ 1,295,000 | 6%   |
| Harvest costs                   | 13,263,000                                                      | 11,742,000    | 1,521,000    | 13%  |
| Growing costs                   | 18,774,000                                                      | 20,131,000    | (1,357,000)  | (7)% |
| Third-party grower costs        | 25,307,000                                                      | 21,328,000    | 3,979,000    | 19%  |
| Depreciation                    | 4,321,000                                                       | 3,341,000     | 980,000      | 29%  |
| Agribusiness costs and expenses | \$ 83,604,000                                                   | \$ 77,186,000 | \$ 6,418,000 | 8%   |

Packing costs: Packing costs consist of the costs to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. The increase in fiscal year 2016 was primarily due to higher volume of cartons packed, partially offset by lower average per carton costs compared to fiscal year 2015. In fiscal years 2016 and 2015, we packed and sold 2.9 million and 2.7 million cartons of lemons at average per carton costs of \$7.22 and \$7.31, respectively. Additionally, packing costs include \$1.0 million of shipping costs in fiscal year 2016 compared to \$0.9 million in fiscal year 2015.

Harvest costs: The increase in fiscal year 2016 was primarily attributable to higher lemon, avocado, orange and specialty citrus harvest volumes compared to fiscal year 2015.

**Growing costs:** Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. The decrease in fiscal year 2016 is primarily due to decreased lease expense and fertilization and soil amendments of \$0.8 million and \$0.6 million, respectively, compared to fiscal year 2015.

**Third-party grower costs:** We sell lemons that we grow and lemons that we procure from other growers. The cost of procuring lemons from other growers is referred to as third-party grower costs. The increase is primarily due to higher volume of third-party grower lemons sold, partially offset by lower prices. Of the 2.9 million and 2.7 million cartons sold during fiscal years 2016 and 2015, respectively, 1.2 million (42%) and 0.9 million (36%) were procured from third-party growers at average per carton prices of \$20.59 and \$22.36, respectively. Additionally, we incurred \$0.6 million of costs for purchased, packed fruit for resale compared to \$1.2 million in fiscal year 2015.

Depreciation expense in fiscal year 2016 was \$1.0 million higher than fiscal year 2015 primarily due to the acquisition of Sheldon Ranches in December 2015 and placement of our new, expanded lemon packing facility into service in March 2016.

Real estate development expenses for fiscal year 2016 were \$2.1 million compared to \$1.3 million in fiscal year 2015. The increase was primarily due to \$1.2 million of transaction costs paid upon entering into a joint venture with Lewis Group of Companies for the residential development of our East Area I project.

Selling, general and administrative expenses for fiscal year 2016 were \$13.3 million compared to \$13.8 million for fiscal year 2015. This 3% decrease of \$0.5 million was primarily attributable to the following:

\$1.2 million decrease in legal and consulting expenses associated with our East Area I real estate development project, which resulted in entering into a real estate development joint venture with the Lewis Group of Companies on November 10, 2015; and

\$1.0 million net increase in salaries, benefits and incentive compensation primarily due to incentive compensation increases as a result of an increase in operating results in fiscal year 2016.

\$0.3 million net decrease in other selling, general and administrative expenses, including certain corporate overhead expenses.

***Other Income (Expense)***

Edgar Filing: Limoneira CO - Form 10-K

Other income for fiscal year 2016 was \$4.1 million compared to \$6.5 million for fiscal year 2015. The \$2.3 million decrease in income is primarily the result of:

\$1.3 million increase in net interest expense;

\$0.4 million increase in earnings from equity investments;

\$1.6 million decrease in gain on the sales of stock in Calavo Growers, Inc.;

\$1.0 million sale of a conservation easement in fiscal year 2016; and

\$0.9 million sale of Wilson Ranch in fiscal year 2015.

***Income Taxes***

We recorded an income tax provision of \$5.3 million for fiscal year 2016 on pre-tax income of \$13.3 million compared to an income tax provision of \$4.0 million for fiscal year 2015 on pre-tax income of \$11.1 million. Our effective tax rate is 39.5% for fiscal year 2016 compared to an effective rate of 35.9% for fiscal year 2015. The increase in our effective tax rate in fiscal year 2016 is primarily attributable to decreased Domestic Production Activities Deduction resulting from the current year federal net operating loss. The federal net operating loss was primarily generated by accelerated federal tax depreciation related to new lemon packinghouse assets.

**Fiscal Year 2015 Compared to Fiscal Year 2014****Revenues**

Total revenue for fiscal year 2015 was \$100.3 million compared to \$103.5 million for fiscal year 2014. The 3% decrease of \$3.2 million was primarily the result of decreased agribusiness revenues, as detailed below:

|                                  | Agribusiness Revenues for the Years Ended October 31, |               |                      |
|----------------------------------|-------------------------------------------------------|---------------|----------------------|
|                                  | 2015                                                  | 2014          | Change               |
| Lemons                           | \$ 78,978,000                                         | \$ 79,726,000 | \$ (748,000 ) (1)%   |
| Avocados                         | 7,132,000                                             | 7,374,000     | (242,000 ) (3)%      |
| Navel and Valencia oranges       | 5,626,000                                             | 7,616,000     | (1,990,000 ) (26)%   |
| Specialty citrus and other crops | 3,388,000                                             | 3,806,000     | (418,000 ) (11)%     |
| Agribusiness revenues            | \$ 95,124,000                                         | \$ 98,522,000 | \$ (3,398,000 ) (3)% |

**Lemons:** The decrease in fiscal year 2015 was primarily the result of decreased volume of fresh lemons sold partially offset by higher prices and increased lemon by-product and other lemon sales. During fiscal years 2015 and 2014, fresh lemon sales were \$67.0 million and \$69.8 million, respectively, on 2.7 million and 2.9 million cartons of lemons sold at average per carton prices of \$24.81 and \$24.07, respectively. The higher average per carton price in fiscal year 2015 compared to fiscal year 2014 was primarily due to more favorable overall market conditions. Additionally, lemon by-products, shipping and handling, commissions and other lemon sales were \$12.0 million in fiscal year 2015 compared to \$9.9 million in fiscal year 2014.

**Avocados:** The decrease in fiscal year 2015 was primarily due to lower prices partially offset by increased production. The California avocado crop typically experiences alternating years of high and low production due to plant physiology. During fiscal years 2015 and 2014, 7.0 million and 6.7 million pounds of avocados were sold at average per pound prices of \$1.02 and \$1.10, respectively. Lower prices in fiscal year 2015 were primarily due to increased supply in the marketplace. Additionally, fiscal year 2014 revenue included a \$0.1 million avocado crop insurance claim settlement.

**Navel and Valencia oranges:** The decrease in fiscal year 2015 was primarily due to lower prices and decreased volume of oranges sold. During fiscal years 2015 and 2014, orange sales were \$5.6 million and \$7.6 million, respectively, on 744,000 and 754,000 40-pound carton equivalents of oranges sold at average per carton prices of \$7.56 and \$10.08, respectively. The higher prices in fiscal year 2014 were primarily due to decreased market supply resulting from a period of freezing temperatures in California's San Joaquin Valley during December 2013.

Specialty citrus and other crops: The decrease in fiscal year 2015 was primarily due to lower price and volume of pistachios sold. In fiscal years 2015 and 2014, we sold 70,000 and 111,000 pounds of pistachios at average per pound prices of \$4.33 and \$6.15, respectively.

Rental operations revenue was \$5.1 million in fiscal year 2015 compared to \$4.6 million in fiscal year 2014. The increase in fiscal year 2015 was primarily due to additional rental revenue from 65 newly completed agricultural workforce housing units that we began renting in May 2015 and increased organic recycling and other revenue.

Real estate development revenue was \$0.1 million in fiscal year 2015 compared to \$0.3 million in fiscal year 2014. The decrease in fiscal year 2015 revenue compared to fiscal year 2014 was primarily due to lower alfalfa production at our Windfall Farms development property. In fiscal years 2015 and 2014, we removed approximately 200 acres of alfalfa and planted vineyards.

### *Costs and Expenses*

Total costs and expenses for fiscal year 2015 were \$95.7 million compared to \$93.6 million for fiscal year 2014. This 2% increase of \$2.1 million was primarily attributable to increases in our agribusiness costs of \$2.9 million partially offset by decreases in our real estate development costs and selling, general and administrative expenses of, in aggregate, \$1.1 million. Costs associated with our agribusiness division include packing costs, harvest costs, growing costs, costs related to the lemons we procure from third-party growers and depreciation expense. These costs are discussed further below:

|                                 | Agribusiness Costs and Expenses for the Years Ended October 31, |               |              |      |
|---------------------------------|-----------------------------------------------------------------|---------------|--------------|------|
|                                 | 2015                                                            | 2014          | Change       |      |
| Packing costs                   | \$ 20,644,000                                                   | \$ 17,925,000 | \$ 2,719,000 | 15%  |
| Harvest costs                   | 11,742,000                                                      | 11,110,000    | 632,000      | 6%   |
| Growing costs                   | 20,131,000                                                      | 19,814,000    | 317,000      | 2%   |
| Third-party grower costs        | 21,328,000                                                      | 22,649,000    | (1,321,000)  | (6)% |
| Depreciation                    | 3,341,000                                                       | 2,827,000     | 514,000      | 18%  |
| Agribusiness costs and expenses | \$ 77,186,000                                                   | \$ 74,325,000 | \$ 2,861,000 | 4%   |

**Packing costs:** Packing costs consist of the costs to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. The increase in fiscal year 2015 was primarily due to \$2.5 million of costs at our Yuma, Arizona packinghouse which was acquired in June 2014 and higher per carton packing costs. In fiscal years 2015 and 2014, we packed and sold 2.7 million and 2.9 million cartons of lemons at average per carton costs of \$7.31 and \$6.11, respectively. The increase in average per carton costs is primarily the result of decreased volume of fresh lemons packed and sold. Additionally, packing costs include \$0.9 million of shipping costs in fiscal year 2015 compared to \$0.2 million in fiscal year 2014.

**Harvest costs:** The increase in fiscal year 2015 was primarily attributable to higher lemon harvest costs and higher avocado and olive harvest volumes compared to fiscal year 2014.

**Growing costs:** Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. The increase in fiscal year 2015 was primarily due to increased fertilization and soil amendments and pest control costs of \$0.7 million and \$0.3 million, respectively, partially offset by decreased lease expense and pruning costs of \$0.6 million and \$0.1 million, respectively, compared to fiscal year 2014.

**Third-party grower costs:** We sell lemons that we grow and lemons that we procure from other growers. The cost of procuring lemons from other growers is referred to as third-party grower costs. Of the 2.7 million and 2.9 million cartons sold during fiscal years 2015 and 2014, respectively, 0.9 million (36%) and 1.0 million (36%) were procured from third-party growers at average per carton prices of \$22.36 and \$21.00, respectively. Additionally, we incurred \$1.2 million of costs for purchased, packed fruit for resale compared to \$1.6 million in fiscal year 2014.

Depreciation expense in fiscal year 2015 was \$0.5 million higher than fiscal year 2014 primarily due to a net increase in assets placed into service and the acquisition of our Yuma, Arizona packinghouse in June 2014.

Real estate development expenses for fiscal year 2015 were \$1.3 million compared to \$1.8 million in fiscal year 2014. In July 2014, we recognized an impairment charge of \$0.4 million on our Centennial real estate development project. There were no impairment charges recognized in fiscal year 2015.

Selling, general and administrative expenses for fiscal year 2015 were \$13.8 million compared to \$14.3 million for fiscal year 2014. This 4% decrease of \$0.5 million was primarily attributable to the following:

\$1.3 million net decrease in salaries, benefits and incentive compensation primarily due to incentive compensation decreases as a result of a decrease in operating income in fiscal year 2015 compared to fiscal year 2014; and

- \$0.9 million increase in legal and consulting expenses associated with our East Area I real estate development project, which resulted in entering into a real estate development joint venture with the Lewis

Group of Companies on November 10, 2015.

***Other Income (Expense)***

Other income for fiscal year 2015 was \$6.5 million compared to \$0.7 million for fiscal year 2014. The \$5.8 million increase in income was primarily the result of:

\$0.2 million increase in net interest expense;

\$5.0 million gain on the sale of stock in Calavo Growers, Inc.; and

\$0.9 million gain on the sale of Wilson Ranch.

***Income Taxes***

We recorded an income tax provision of \$4.0 million for fiscal year 2015 on pre-tax income of \$11.1 million compared to an income tax provision of \$3.6 million for fiscal year 2014 on pre-tax income of \$10.6 million. Our effective tax rate is 35.9% for fiscal year 2015 compared to an effective rate of 33.8% for fiscal year 2014.



## Segment Results of Operations

We operate in four reportable operating segments; lemon operations, other agribusiness, rental operations and real estate development. Our reportable operating segments are strategic business units with different products and services, distribution processes and customer bases. We evaluate the performance of our operating 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. See Note 24, Segment Information, to the consolidated financial statements included in this Annual Report for additional information regarding our operating segments.

The following table provides segment information for fiscal years 2016, 2015 and 2014:

|                                                            | Years Ended October 31, |              |              |
|------------------------------------------------------------|-------------------------|--------------|--------------|
|                                                            | 2016                    | 2015         | 2014         |
| Lemon operations:                                          |                         |              |              |
| Revenues                                                   | \$85,267,000            | \$78,978,000 | \$79,726,000 |
| Costs and expenses                                         | 66,558,000              | 61,766,000   | 59,412,000   |
| Operating income                                           | 18,709,000              | 17,212,000   | 20,314,000   |
| Other agribusiness:                                        |                         |              |              |
| Revenues                                                   | 20,863,000              | 16,146,000   | 18,796,000   |
| Costs and expenses                                         | 12,725,000              | 12,079,000   | 12,086,000   |
| Operating income                                           | 8,138,000               | 4,067,000    | 6,710,000    |
| Lemon and other agribusiness depreciation and amortization | 4,321,000               | 3,341,000    | 2,827,000    |
| Total agribusiness operating income                        | 22,526,000              | 17,938,000   | 24,197,000   |
| Rental operations:                                         |                         |              |              |
| Revenues                                                   | 5,603,000               | 5,104,000    | 4,640,000    |
| Costs and expenses                                         | 2,885,000               | 2,859,000    | 2,651,000    |
| Depreciation and amortization                              | 732,000                 | 581,000      | 422,000      |
| Operating income                                           | 1,986,000               | 1,664,000    | 1,567,000    |
| Real estate development:                                   |                         |              |              |
| Revenues                                                   | 56,000                  | 83,000       | 300,000      |
| Costs and expenses                                         | 2,006,000               | 1,284,000    | 1,756,000    |
| Depreciation and amortization                              | 55,000                  | 46,000       | 79,000       |
| Operating loss                                             | (2,005,000 )            | (1,247,000 ) | (1,535,000 ) |
| Selling, general and administrative expenses               | (13,319,000)            | (13,772,000) | (14,336,000) |
| Total operating income                                     | \$9,188,000             | \$4,583,000  | \$9,893,000  |



## **Fiscal Year 2016 Compared to Fiscal Year 2015**

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

### ***Lemon operations***

For fiscal year 2016 our lemon operations segment revenue was \$85.3 million compared to \$79.0 million for fiscal year 2015, an 8% increase of \$6.3 million.

Costs and expenses associated with our lemon operations segment include packing costs, harvest costs, growing costs and costs related to the fruit we procure from third-party growers. For fiscal year 2016, our lemon operations costs were \$66.6 million compared to \$61.8 million for fiscal year 2015. The 8% increase of \$4.8 million primarily consists of the following:

- Packing costs for fiscal year 2016 were \$1.3 million higher than fiscal year 2015.
- Harvest costs for fiscal year 2016 were \$0.1 million higher than fiscal year 2015.
- Growing costs for fiscal year 2016 were \$0.6 million lower than fiscal year 2015.
- Third-party grower costs for fiscal year 2016 were \$4.0 million higher than fiscal year 2015.

### ***Other agribusiness***

For fiscal year 2016, our other agribusiness segment revenue was \$20.9 million compared to \$16.1 million for fiscal year 2015. The 29% increase of \$4.8 million primarily consists of the following:

- Avocado revenue for fiscal year 2016 was \$3.7 million higher than fiscal year 2015.

- Navel and Valencia orange revenue in fiscal year 2016 was \$0.5 million higher than in fiscal year 2015.
- Specialty citrus and other crop revenue for fiscal year 2016 was \$0.6 million higher than fiscal year 2015.

Costs and expenses associated with our other agribusiness segment include harvest and growing costs. Our other agribusiness costs and expenses for fiscal year 2016 were \$12.7 million compared to \$12.1 million for fiscal year 2015. The 5% increase of \$0.6 million primarily consists of the following:

- Harvest costs for fiscal year 2016 were \$1.3 million higher than fiscal year 2015.
- Growing costs for fiscal year 2016 were \$0.7 million lower than fiscal year 2015.

Lemon and other agribusiness depreciation and amortization for fiscal year 2016 were \$4.3 million compared to \$3.3 million for fiscal year 2015. The 29% increase of \$1.0 million was primarily due to the acquisition of Sheldon Ranches in December 2015 and placement of our new, expanded lemon packing facility into service in March 2016.

### ***Rental Operations***

Our rental operations segment had revenues of approximately \$5.6 million and \$5.1 million in fiscal years 2016 and 2015, respectively. The \$0.5 million increase in fiscal year 2016 was primarily due to a full year of rental revenue from 65 additional agriculture workforce housing units that we began renting in May 2015.

Costs and expenses in our rental operations segment were approximately \$3.6 million and \$3.4 million in fiscal years 2016 and 2015, respectively. Depreciation expense was \$0.7 million and \$0.6 million in fiscal years 2016 and 2015, respectively.

### ***Real Estate Development***

Our real estate development segment had revenues of approximately \$0.1 million in fiscal years 2016 and 2015, respectively.

Costs and expenses in our real estate development segment were approximately \$2.1 million and \$1.3 million in fiscal years 2016 and 2015, respectively.

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses include corporate and other costs and expenses not allocated to the operating segments. Selling, general and administrative expenses for fiscal year 2016 were \$0.5 million lower than fiscal year 2015.

### **Fiscal Year 2015 Compared to Fiscal Year 2014**

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

#### ***Lemon operations***

For fiscal year 2015 our lemon operations segment revenue was \$79.0 million compared to \$79.7 million for fiscal year 2014, a 1% decrease of \$0.7 million.

Costs and expenses associated with our lemon operations segment include packing costs, harvest costs, growing costs and costs related to the fruit we procure from third-party growers. For fiscal year 2015, our lemon operations costs were \$61.8 million compared to \$59.4 million for fiscal year 2014. The 4% increase of \$2.4 million primarily consists of the following:

- Packing costs for fiscal year 2015 were \$2.7 million higher than fiscal year 2014.
- Harvest costs for fiscal year 2015 were \$0.3 million higher than fiscal year 2014.
- Growing costs for fiscal year 2015 were \$0.7 million higher than fiscal year 2014.
- Third-party grower costs for fiscal year 2015 were \$1.3 million lower than fiscal year 2014.

#### ***Other agribusiness***

For fiscal year 2015, our other agribusiness segment revenue was \$16.1 million compared to \$18.8 million for fiscal year 2014. The 14% decrease of \$2.7 million primarily consists of the following:

Edgar Filing: Limoneira CO - Form 10-K

- Avocado revenue for fiscal year 2015 was \$0.3 million lower than fiscal year 2014.
- Navel and Valencia orange revenue in fiscal year 2015 was \$2.0 million lower than in fiscal year 2014.
- Specialty citrus and other crop revenue for fiscal year 2015 was \$0.4 million lower than fiscal year 2014.

Costs and expenses associated with our other agribusiness segment include harvest and growing costs. Our other agribusiness costs and expenses for fiscal year 2015 were similar to fiscal year 2014 at \$12.1 million:

- Harvest costs for fiscal year 2015 were \$0.4 million higher than fiscal year 2014.
- Growing costs for fiscal year 2015 were \$0.4 million lower than fiscal year 2014.

Lemon and other agribusiness depreciation and amortization for fiscal year 2015 were \$3.3 million compared to \$2.8 million for fiscal year 2014. The 18% increase of \$0.5 million was primarily due to a net increase in assets placed into service and the acquisition of our Yuma, Arizona packinghouse in June 2014.

### ***Rental Operations***

Our rental operations segment had revenues of approximately \$5.1 million and \$4.6 million in fiscal years 2015 and 2014, respectively. The \$0.5 million increase in fiscal year 2015 was primarily due to rental revenue from 65 additional agriculture workforce housing units that we began renting in May 2015 and increased organic recycling and other revenue.

Costs and expenses in our rental operations segment were approximately \$3.4 million and \$3.1 million in fiscal years 2015 and 2014, respectively. Depreciation expense was \$0.6 million and \$0.4 million in fiscal years 2015 and 2014, respectively.

### ***Real Estate Development***

Our real estate development segment had revenues of approximately \$0.1 million and \$0.3 million in fiscal years 2015 and 2014, respectively.

Costs and expenses in our real estate development segment were approximately \$1.3 million and \$1.8 million in fiscal years 2015 and 2014, respectively.



***Selling, general and administrative expenses***

Selling, general and administrative expenses include corporate and other costs and expenses not allocated to the operating segments. Selling, general and administrative expenses for fiscal year 2015 were \$0.5 million lower than fiscal year 2014.

**Quarterly Results of Operations**

The following table presents our operating results for each of the fiscal quarters in the periods ended October 31, 2016 and October 31, 2015, respectively. 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. All necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. As with any agribusiness enterprise, our agribusiness 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 third quarter.

Edgar Filing: Limoneira CO - Form 10-K

(in thousands, except per common share amounts)

| Statement of Operations Data:                           | Three Months Ended 2016 |          |          |            |
|---------------------------------------------------------|-------------------------|----------|----------|------------|
|                                                         | Oct. 31,                | July 31, | Apr. 30, | Jan. 31,   |
| Revenues                                                | \$19,534                | \$39,903 | \$27,365 | \$24,987   |
| Costs and expenses                                      | 20,421                  | 25,709   | 25,150   | 31,321     |
| Operating income (loss)                                 | (887 )                  | 14,194   | 2,215    | (6,334 )   |
| Other income (loss), net                                | 1,085                   | 3,228    | (431 )   | 255        |
| Income (loss) before income taxes                       | 198                     | 17,422   | 1,784    | (6,079 )   |
| Income tax (provision) benefit                          | (179 )                  | (6,693 ) | (562 )   | 2,167      |
| Net income (loss)                                       | \$19                    | \$10,729 | \$1,222  | \$(3,912 ) |
| Net income (loss) per common share:                     |                         |          |          |            |
| Basic                                                   | \$(0.01 )               | \$0.75   | \$0.08   | \$(0.29 )  |
| Diluted                                                 | \$(0.01 )               | \$0.71   | \$0.08   | \$(0.29 )  |
| Number of shares used in per common share computations: |                         |          |          |            |
| Basic                                                   | 14,178                  | 14,178   | 14,174   | 14,148     |
| Diluted                                                 | 14,178                  | 15,066   | 14,174   | 14,148     |

| Statement of Operations Data:                           | Three Months Ended 2015 |          |          |            |
|---------------------------------------------------------|-------------------------|----------|----------|------------|
|                                                         | Oct. 31,                | July 31, | Apr. 30, | Jan. 31,   |
| Revenues                                                | \$14,212                | \$29,811 | \$28,277 | \$28,011   |
| Costs and expenses                                      | 19,090                  | 21,973   | 24,137   | 30,528     |
| Operating income (loss)                                 | (4,878 )                | 7,838    | 4,140    | (2,517 )   |
| Other income, net                                       | 6,029                   | 251      | (121 )   | 314        |
| Income (loss) before income taxes                       | 1,151                   | 8,089    | 4,019    | (2,203 )   |
| Income tax (provision) benefit                          | (497 )                  | (2,776 ) | (1,456 ) | 755        |
| Net income (loss)                                       | \$654                   | \$5,313  | \$2,563  | \$(1,448 ) |
| Net income (loss) per common share:                     |                         |          |          |            |
| Basic                                                   | \$0.04                  | \$0.36   | \$0.17   | \$(0.11 )  |
| Diluted                                                 | \$0.04                  | \$0.36   | \$0.17   | \$(0.11 )  |
| Number of shares used in per common share computations: |                         |          |          |            |
| Basic                                                   | 14,132                  | 14,127   | 14,124   | 14,098     |
| Diluted                                                 | 14,132                  | 14,953   | 14,124   | 14,098     |

The following information compares our fourth quarter ended October 31, 2016 to the fourth quarter ended October 31, 2015. Information concerning comparisons of our first, second and third quarters can be found in our quarterly reports on Form 10-Q.

· Total revenues increased \$5.3 million in the three months ended October 31, 2016 compared to the three months ended October 31, 2015 primarily due to increased lemon revenues of \$4.8 million. During the fourth quarter of fiscal year 2016, we sold 521,000 cartons of fresh lemons, including 249,000 cartons procured from third party

growers, at an average per carton price of \$25.91, compared to 388,000 cartons of fresh lemons, including 125,000 cartons procured from third party growers, at an average per carton price of \$25.00 in the fourth quarter of fiscal year 2015.

Total costs and expenses increased \$1.3 million in the three months ended October 31, 2016 compared to the three months ended October 31, 2015 primarily due to increases in agribusiness costs of \$1.9 million primarily associated with third-party grower costs partially offset by decreases in real estate development costs of \$0.3 million and selling, general and administrative expenses of \$0.1 million. In the fourth quarter of fiscal year 2016, we sold 249,000 cartons of lemons procured from third-party growers at an average per carton cost of \$18.92 compared to 125,000 cartons procured from third-party growers at an average per carton cost of \$21.36 in the fourth quarter of fiscal year 2015.

Total other income decreased \$4.9 million in the three months ended October 31, 2016 compared to the three months ended October 31, 2015 primarily due to the fourth quarter fiscal year 2015 gains of \$0.9 million recognized on the sale of Wilson Ranch and \$5.0 million recognized on the sale of stock in Calavo Growers, Inc., partially offset by the fourth quarter fiscal year 2016 \$1.0 million sale of a conservation easement.

Income tax provision decreased \$0.3 million in the three months ended October 31, 2016 compared to the three months ended October 31, 2015 primarily due to the decrease in pre-tax income of \$1.0 million.

## **Liquidity and Capital Resources**

### *Overview*

Our 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, which are our second and third quarters. To meet working capital demand and investment requirements of our agribusiness and real estate development divisions 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, which are readily available from local sources.

### *Cash Flows from Operating Activities*

For the fiscal years ended October 31, 2016, 2015 and 2014, net cash provided by operating activities was \$14.3 million, \$7.7 million and \$16.1 million, respectively. The significant components of our cash flows provided by operating activities are as follows:

Net income was \$8.1 million, \$7.1 million and \$7.0 million for fiscal years 2016, 2015 and 2014, respectively. The components of net income in fiscal year 2016 compared to fiscal year 2015 consist of an increase in operating income of \$4.6 million, a decrease in other income of \$2.3 million and an increase in income tax provision of \$1.3 million. The increase of \$0.1 million in fiscal year 2015 compared to fiscal year 2014 was primarily attributable to a decrease in operating income of \$5.3 million, an increase in other income of \$5.8 million and an increase in income tax provision of \$0.4 million.

Depreciation and amortization was \$5.3 million, \$4.2 million and \$3.5 million for fiscal years 2016, 2015 and 2014, respectively. The increase in fiscal year 2016 compared to fiscal year 2015 was primarily the result of the acquisition of Sheldon Ranches in December 2015 and placement of our new, expanded lemon packing facility into service in March 2016. The increase in fiscal year 2015 compared to fiscal year 2014 was primarily the result of an increase in assets placed into service; including 65 agriculture workforce housing units which we began renting in May 2015.

Non-cash impairments of real estate development assets were zero, zero and \$0.4 million for fiscal years 2016, 2015 and 2014, respectively.

Loss on disposals of fixed assets of \$0.1 million, \$0.4 million and \$0.5 million in fiscal years 2016, 2015 and 2014, respectively, were primarily the result of expenses incurred from orchard removals related to the Pilot Fallowing Program with YMIDD and our on-going orchard redevelopment plans.

Non-cash stock compensation expense was \$1.3 million, \$1.1 million and \$1.1 million for fiscal years 2016, 2015 and 2014, respectively, which is primarily comprised of expense recognition and vesting of 2013, 2014, 2015 and 2016 grants to management under our stock grant performance bonus program plus the directors' stock incentive compensation.

Equity in earnings of investments of \$0.6 million, \$0.2 million and \$0.3 million for fiscal years 2016, 2015 and 2014, respectively, is primarily comprised of earnings from our investment in Limco Del Mar, Ltd.

Cash distributions from equity investments of \$0.6 million, \$0.8 million and \$0.2 million in fiscal years 2016, 2015 and 2014, respectively, were primarily from our investment in Limco Del Mar, Ltd.

We sold 60,000 and 140,000 shares of common stock in Calavo Growers, Inc. in fiscal years 2016 and 2015, respectively, which resulted in gains of \$3.4 million and \$5.0 million, respectively. No such transactions occurred in fiscal year 2014.

We sold a conservation easement for \$1.0 million in fiscal year 2016 and we sold our Wilson Ranch in fiscal year 2015 which resulted in a gain of \$0.9 million. No such transactions occurred in fiscal year 2014.

Accounts receivable, net balance at October 31, 2016 was \$9.3 million compared to \$7.4 million at October 31, 2015, resulting in a corresponding decrease in operating cash flows of \$1.9 million for fiscal year 2016. Accounts receivable, net balance was \$7.4 million at October 31, 2015 compared to \$7.2 million at October 31, 2014, resulting in a corresponding decrease in operating cash flows of \$0.2 million for fiscal year 2015. Accounts receivable, net balance at October 31, 2014 was \$7.2 million compared to \$6.4 million at October 31, 2013, resulting in a corresponding decrease in operating cash flows of \$0.8 million for fiscal year 2014. The decreases in operating cash flows for fiscal years 2016, 2015 and 2014 are primarily due to fluctuations in price and volume related to agribusiness revenues.

Cultural costs provided \$0.1 million of operating cash flows in fiscal year 2016 compared to using \$0.2 million of operating cash flows in fiscal year 2015, primarily due to an initial higher amount of inventory carried at the beginning of fiscal year 2016. Cultural costs used \$0.2 million of operating cash flows in fiscal year 2015 compared to providing \$0.4 million of operating cash flows in fiscal year 2014, primarily due to an initial lower amount of inventory carried at the beginning of fiscal year 2015.

Prepaid expenses and other current assets provided \$0.1 million of operating cash flows in fiscal year 2016 compared to providing \$0.2 million in fiscal year 2015. Prepaid expenses and other current assets provided \$0.2 million of operating cash flows in fiscal year 2015 compared to using \$0.4 million in fiscal year 2014. The \$0.6 million increase in operating cash flows in fiscal year 2015 compared to fiscal year 2014 is primarily due to a \$0.4 million decrease in advances paid to lemon suppliers in fiscal year 2015.

Income taxes receivable balance was \$2.8 million at October 31, 2016 compared to zero at October 31, 2015 resulting in a corresponding decrease in operating cash flows of \$2.8 million for fiscal year 2016. Income taxes receivable balance was zero at October 31, 2015 compared to \$1.1 million at October 31, 2014 resulting in a corresponding increase in operating cash flows of \$1.1 million for fiscal year 2015. Income taxes receivable balance at October 31, 2014 was \$1.1 compared to zero at October 31, 2013, resulting in a corresponding decrease in operating cash flows of \$1.1 million for fiscal year 2014.

Accounts payable and growers payable provided \$0.8 million of operating cash flows in fiscal year 2016, used \$0.9 million of operating cash flows in fiscal year 2015 and provided \$4.1 million of operating cash flows in fiscal year 2014. The \$0.8 million of cash provided in fiscal year 2016 was primarily the result of a \$1.7 million increase in accounts payable and growers payable partially offset by \$0.5 million of capital expenditures accrued but not paid at year-end and \$0.3 million accrued equity investment contribution. The \$0.9 million of cash used in fiscal year 2015 was primarily the result of a \$0.3 million increase in accounts payable and growers payable offset by \$1.1 million of capital expenditures accrued but not paid at year-end. The \$4.1 million of cash provided in fiscal year 2014 was primarily the result of a \$5.1 million increase in accounts payable and growers payable partially offset by \$1.0 million of capital expenditures accrued but not paid at year-end. The increases in accounts payable and growers payable in fiscal years 2016, 2015 and 2014 were primarily due to higher operating expenses, resulting in corresponding higher levels of payables at year-end.

Accrued liabilities provided operating cash flows of \$1.3 million in fiscal year 2016, used operating cash flows of \$1.7 million in fiscal year 2015 and provided operating cash flows of \$0.9 million in fiscal year 2014. The \$1.3 million of cash provided in fiscal year 2016 is primarily the result of \$0.7 million increase in accrued compensation and \$0.5 increase in accrued payments to lemon suppliers. The \$1.7 million of cash flows used in fiscal year 2015 is primarily the result of a \$1.6 million decrease in accrued compensation related to incentive compensation payments. The \$0.9 million of cash from operating activities in fiscal year 2014 is primarily the result of a \$1.3 million increase in accrued compensation and \$1.0 million increase in Sheldon Ranch accrued lease expenses offset by \$1.7 million decrease in accrued income taxes payable compared to fiscal year 2013.

Other long-term liabilities provided operating cash flows of \$0.1 million in fiscal year 2016 and consisted of \$0.6 million of non-cash pension expense offset by \$0.5 million of pension contributions. Other long-term liabilities

provided operating cash flows of \$2.5 million in fiscal year 2015 and consisted primarily of \$2.0 million contribution deposit received for joint venture interest and \$0.9 million of non-cash pension expense offset by \$0.4 million of pension contributions. The \$0.2 million of operating cash flows provided in fiscal year 2014 represented \$0.7 million of non-cash pension expense offset by \$0.5 million of pension contributions.

### *Cash Flows from Investing Activities*

For the years ended October 31, 2016, 2015 and 2014, net cash used in investing activities was \$11.5 million, \$25.8 million and \$28.6 million, respectively, and is primarily comprised of capital expenditures, business acquisitions, sales of assets and investments. Capital expenditures for fiscal years 2015 and 2014 include amounts incurred on two significant projects to expand and modernize our lemon packing operations and add 65 additional farm worker housing units.

Capital expenditures for fiscal year 2016 were comprised of \$12.9 million for property, plant and equipment primarily related to orchard development and construction and equipment purchased for our lemon packing facilities and \$3.4 million for real estate development projects. In November 2015, we received \$18.0 million for 50% interest in a joint venture that will develop our East Area I real estate development project. We contributed \$2.3 million to this joint venture in fiscal year 2016 and purchased \$0.6 million of additional limited partnership units in Limco Del Mar, Ltd. In December 2015, we purchased 757 acres of agriculture property for \$15.1 million. We received \$4.0 million net proceeds from sale of stock in Calavo Growers, Inc. and \$1.0 million net proceeds from the sale of a conservation easement.

Capital expenditures for fiscal year 2015 were comprised of \$24.7 million for property, plant and equipment, \$6.5 million for real estate development projects and \$3.4 million for an agriculture property acquisition. These investment activities were partially offset by \$2.7 million net proceeds from sale of Wilson Ranch and \$6.4 million net proceeds from sale of stock in Calavo Growers, Inc.

Capital expenditures for fiscal year 2014 were comprised of \$21.1 million for property, plant and equipment, \$4.8 million for real estate development projects and \$0.7 million for a business acquisition. Additionally, we invested \$1.8 million in Rosales, S.A., a citrus packing, marketing and selling business located in La Serena, Chile.

### ***Cash Flows from Financing Activities***

For the year ended October 31, 2016, net cash used in financing activities was \$2.8 million. For the years ended October 31, 2015 and 2014, net cash provided by financial activities was \$18.1 million, and \$12.5 million, respectively.

The \$2.8 million of cash used by financing activities for fiscal year 2016 is primarily comprised of net borrowings of long-term debt in the amount of \$1.0 million offset by common and preferred dividends, in aggregate, of \$3.5 million in fiscal year 2016.

The \$18.1 million of cash provided by financing activities for fiscal year 2015 is primarily comprised of net borrowings of long-term debt in the amount of \$21.5 million. Additionally, we paid common and preferred dividends, in aggregate, of \$3.2 million in fiscal year 2015.

The \$12.5 million of cash provided by financing activities for fiscal year 2014 is primarily comprised of net borrowings of long-term debt in the amount of \$6.3 million and net proceeds from our issuance of Series B-2 Preferred Stock in the amount of \$9.3 million. Additionally, we paid common and preferred dividends, in aggregate, of \$2.8 million in fiscal year 2014.

### ***Transactions Affecting Liquidity and Capital Resources***

We finance our working capital and other liquidity requirements primarily through cash from operations and our Rabobank Credit Facility. In addition, we have the Farm Credit West Term Loans and the Wells Fargo Term Loan. Additional information regarding the Rabobank Credit Facility, the Farm Credit West Term Loans and the Wells Fargo Term Loan can be found in the notes to the consolidated financial statements included in this Annual Report.



We believe that the cash flows from operations and borrowing capacity from existing and available credit facilities will be sufficient to satisfy our capital expenditures, debt service, working capital needs and other contractual obligations for fiscal 2017. In addition, we have the ability to control a portion of our investing cash flows to the extent necessary based on our liquidity demands.

#### *Rabobank Credit Facility*

As of October 31, 2016, our outstanding borrowings under the Rabobank Credit Facility were \$59.6 million and we had \$40.4 million of availability. The Rabobank Credit Facility currently bears interest at a variable rate equal to the one month LIBOR plus 1.80%. The interest rate resets on the first of each month and was 2.32% at October 31, 2016. We have the ability to prepay any amounts outstanding under the Rabobank Credit Facility without penalty. In March 2014, we entered into a Third Amendment to Amended and Restated Line of Credit Agreement dated December 15, 2008 in order to, among other things, release Rabobank's security interest in Teague McKevee Ranch, which is also known as East Area I real estate development project, in Ventura County, California, and grant Rabobank a secured interest in certain of our agriculture properties in Ventura and Tulare Counties. The line of credit provides for maximum borrowings of \$100.0 million and the borrowing capacity based on collateral value was \$100.0 million at October 31, 2016.

We have the option of fixing the interest rate under the Rabobank Credit Facility on any portion of outstanding borrowings using interest rate swaps. Effective July 2013, we fixed the interest rate at 4.30% utilizing an interest rate swap on \$40.0 million of Rabobank Credit facility. Additional information regarding the interest rate swap can be found in the notes to the consolidated financial statements included in this Annual Report.

The Rabobank Credit Facility is secured by certain of our agricultural properties and a portion of the equity interest in the San Cayetano Mutual Water Company, and subjects us 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 are also subject to a covenant that we 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 31, with which we were in compliance at October 31, 2016 and 2015.

*Farm Credit West Term Loans*

As of October 31, 2016, we had an aggregate of \$22.0 million outstanding under the Farm Credit West Term Loans. The following provides further discussion on the term loans and non-revolving credit facility:

*Term Loan Maturing November 2022.* As of October 31, 2016, we had \$3.7 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 2.95% at October 31, 2016. This term loan is secured by certain of our agricultural properties.

*Term Loan Maturing October 2035.* As of October 31, 2016, our wholly owned subsidiary, Windfall Investors, LLC, had \$1.2 million outstanding under the Farm Credit West Term Loan that matures in October 2035. 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 October 2035. The interest rate resets monthly and was 2.95% at October 31, 2016. This term loan is secured by the Windfall Farms property.

*Term Loan Maturing March 2036.* As of October 31, 2016, we had \$9.8 million outstanding under the Farm Credit West Term Loan that matures in March 2036. This loan bears interest at a fixed rate of 4.70% and is payable in monthly installments through March 2036. This term loan is secured by certain of our agricultural properties.

*Term Loan Maturing March 2036.* As of October 31, 2016, we had \$7.3 million outstanding under the Farm Credit West Term Loan that matures in March 2036. This loan bears interest at a fixed rate of 3.62% until March 2021, becoming variable for the remainder of the loan 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%. This term loan is payable in monthly installments through November 2036 and is secured by certain of our agricultural properties.

The Farm Credit West Term Loans contain various conditions, covenants and requirements with which our Company and Windfall Investors must comply. In addition, our 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.

*Wells Fargo Equipment Financing*

As of October 31, 2016, we had \$9.2 million outstanding under the Wells Fargo Term Loan that matures in January 2023. This term loan bears interest at a fixed rate of 3.58% and is payable in monthly installments through January 2023. The loan is secured by certain equipment associated with our new lemon packing facilities. The loan contains 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 are also subject to a covenant that our Company will maintain a debt service coverage ratio, as defined in the loan agreement, of less than 1.25 to 1.0 measured annually at October 31, with which we were in compliance at October 31, 2016.

*Interest Rate Swap*

We enter into interest rate swap agreements to manage the risks and costs associated with our financing activities. At October 31, 2016, we had an interest rate swap agreement which locks in the interest rate on \$40.0 million of our \$90.8 million in debt at 4.30% until June 2018.

In November 2011, we entered into a forward interest swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on \$40.0 million of our outstanding borrowings under the Rabobank Credit Facility beginning on July 1, 2013 until June 30, 2018. This interest rate swap qualifies as a cash flow hedge and the fair value adjustments to the underlying debt are deferred and included in accumulated other comprehensive income and the liability is being recorded in fair value of derivative instrument and other long-term liabilities in the Company's consolidated balance sheet at October 31, 2016. Additional information regarding the interest rate swap can be found in the notes to the consolidated financial statements included in this Annual Report.

The remaining \$50.8 million in debt bears interest at fixed and variable rates, ranging from 2.32% to 4.70% at October 31, 2016.

### ***Real Estate Development Activities and Related Capital Resources***

As noted under “Transactions Affecting Liquidity and Capital Resources,” we have the ability to control a portion 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 us, 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 frequently in discussions with potential external sources of capital in respect to all of our development projects, 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.

On November 10, 2015, we entered into a joint venture with The Lewis Group of Companies (“Lewis”) for the residential development of our East Area I real estate development project. To consummate the transaction, we formed Limoneira Lewis Community Builders, LLC (the “Joint Venture”) as the development entity, contributed our East Area I property to the Joint Venture and sold a 50% interest in the Joint Venture to Lewis for \$20.0 million, comprised of a \$2.0 million deposit received in September 2015 and \$18.0 million received on November 10, 2015. We expect to receive \$100.0 million from the Joint Venture over the estimated 7 to 10-year life of the project. The Joint Venture partners will share in capital contributions to fund project costs until loan proceeds and or revenues are sufficient to fund the project. These funding requirements are currently estimated to total \$10.0 to \$15.0 million for each Joint Venture partner in the first two years of the project and we funded \$2.3 million in fiscal year 2016 and an additional \$1.2 million in November 2016. We also entered into a lease agreement with the Joint Venture to lease back a portion of the contributed property, which allows us to continue farming the property during the phased build-out of the project. We are planning approximately 632 units in Phase 1 of the project. We are currently engaged in tree removal and other site preparation activities. Our current plans indicate that we should begin grading during the spring of 2017, Phase 1 site improvements during the summer of 2017 and initial lots sales are anticipated to begin near the end of 2017.

### **Trend Information**

#### ***Agribusiness Division***

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 USDA, Americans consumed 37 more 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 3.8 pounds in 2012, and since 2004, has averaged 3.1 pounds per capita versus 2.7 pounds in the 1990s. Approximately 64% of the California crop has gone into the fresh market in the past decade. The fresh market is significantly more profitable than the processed market and the amount of production sold in the fresh market is referred to as fresh utilization. Our fresh utilization has historically been comparable to the California industry average and we expect that our fresh utilization will increase 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.

According to the USDA, the U.S. per capita consumption of avocados has increased in recent years from 3.1 pounds per capita in 2004 to 5.3 pounds per capita in 2012. A growing Hispanic population, an increasing awareness of healthier foods and the acceptance of mono-unsaturated fats has helped to spur demand for avocados. California is the largest U.S. producer of avocados and the 2011 crop of 550 million pounds was the second largest in the last ten years and fourth largest in California avocado production history. According to the California Avocado Commission, the 2016 crop produced approximately 393 million pounds compared to 279 million pounds in 2015 and 298 million pounds in 2014.

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 25% 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.

***Real Estate Development Division***

We believe the residential real estate market is recovering in the locations that we own real estate development property following the well-known economic downturn of the recent past. We incurred impairment charges on one of our real estate development projects in fiscal year 2014 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, particularly 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 our contractual obligations at October 31, 2016 for which cash flows are fixed and determinable:

|                                                   | Payments due by Period |             |              |             |              |
|---------------------------------------------------|------------------------|-------------|--------------|-------------|--------------|
|                                                   | Total                  | < 1 year    | 1-3 years    | 3-5 years   | 5+ years     |
| Fixed rate debt (principal)                       | \$66,323,000           | \$1,898,000 | \$44,018,000 | \$4,332,000 | \$16,075,000 |
| Variable rate debt (principal)                    | 24,520,000             | 610,000     | 20,877,000   | 1,343,000   | 1,690,000    |
| Operating lease obligations                       | 6,336,000              | 1,317,000   | 1,782,000    | 943,000     | 2,294,000    |
| Total contractual obligations                     | \$97,179,000           | \$3,825,000 | \$66,677,000 | \$6,618,000 | \$20,059,000 |
| Interest payments on fixed and variable rate debt | \$16,020,000           | \$3,198,000 | \$6,219,000  | \$1,650,000 | \$4,953,000  |

We believe that the cash flows from operations and borrowing capacity from existing and available and credit facilities will be sufficient to satisfy our future capital expenditure, debt service, working capital and other contractual obligations for fiscal year 2017. In addition, we have the ability to control a portion 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 included in this Annual Report. 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, 2016.

*Preferred Stock Dividends*

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., we issued 30,000 shares of Series B Convertible Preferred Stock at \$100 par value (the "Series B Stock"), of which 29,000 shares are currently outstanding. The holders of the 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 approximately \$0.3 million in each of the fiscal years 2016, 2015 and 2014.

During March and April 2014, we issued, in aggregate, 9,300 shares of Series B-2 Preferred Stock at \$100 par value (the "Series B-2 Preferred Stock"). The holders of the Series B-2 Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of 4% of the liquidation value of \$1,000 per share. Such dividends are payable quarterly on the first day of January, April, July and October in each year commencing July 1, 2014 and totaled \$0.4 million in each of the fiscal years 2016 and 2015, respectively.

### *Defined Benefit Pension Plan*

We have a noncontributory, defined benefit, single employer pension plan (the “Plan”), which provides retirement benefits for all eligible employees of the Company. Effective June 2004, the Company froze the Plan and no additional benefits accrued to participants subsequent to that date. We may make discretionary contributions to the Plan and we may be required to make contributions to adhere to applicable regulatory funding provisions, based in part on the Plan’s asset valuations and underlying actuarial assumptions. We made funding contributions of \$0.5 million, \$0.4 million and \$0.5 million in fiscal years 2016, 2015 and 2014, respectively and we plan to contribute approximately \$0.7 million to the Plan in fiscal year 2017.

### *Operating Lease Obligations*

We have numerous operating lease commitments with remaining terms ranging from less than one year to ten years. In fiscal year 2008, we installed a one mega-watt photovoltaic solar array on one of our agricultural properties located in Ventura County that produces a significant portion of the power to run our lemon packinghouse. The construction of this array was financed by Farm Credit Leasing and we have 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 we have an option to purchase the array for \$1.1 million. In fiscal year 2009, we entered into a similar transaction with Farm Credit Leasing for a second photovoltaic array at one of our agricultural properties located in the San Joaquin Valley to supply a significant portion of the power to operate four deep water well pumps located our property. Annual lease payments for this facility range from \$0.3 million to \$0.8 million, and at the end of ten years we have the option to purchase the array for \$1.3 million.

In January 2012, we entered into a series of operating leases for approximately 1,000 acres of lemon, orange, specialty citrus and other crop orchards in Lindsay, California. Each of the leases is for ten-year terms and provides for four five-year renewal options with an aggregate base rent of approximately \$500,000 per year. The leases also contain profit share arrangements with the landowners as additional rent on each of the properties and a provision for the potential purchase of the properties by us in the future. We incurred \$0.2 million, \$1.0 million and \$1.6 million of lease expense in fiscal years 2016, 2015 and 2014, respectively. We purchased substantially all of the Sheldon Ranch leased acreage in September 2015 and December 2015 and incurred lease expense on the remaining 80 leased acres in fiscal year 2016.

On July 1, 2013, we entered into a lease agreement with Cadiz, Inc. (“Cadiz”) to develop new lemon orchards on Cadiz’s agricultural property in eastern San Bernardino County, California (the “Cadiz Ranch”). Under the terms of the Lease Agreement, we have the right to lease and plant up to 1,280 acres of lemons over the next five years at the Cadiz Ranch operations in the Cadiz Valley and have leased 320 acres initially, subject to a mutually agreed upon planting schedule. The Lease Agreement provides options to plant up to 960 additional acres (320 acres in Option 1 and 640



acres in Option 2) by 2019. The annual rental payment includes a base rent of \$200 per planted acre and a lease payment equal to 20% of net cash flow from the harvested crops grown on Cadiz property. Pursuant to the terms of the Lease Agreement, the annual rental payment will not exceed a total of \$1,200 per acre. We incurred approximately \$0.1 million, \$0.1 million and \$15,000 of lease expense in fiscal years 2016, 2015 and 2014, respectively.

On February 3, 2015, we amended our lease agreement with Cadiz. The amendment, among other things; increased by 200 acres the amount of property leased by us under the lease agreement dated July 1, 2013. In connection with the amendment, we paid a total of \$1.2 million to acquire existing lemon trees and irrigations systems from Cadiz and a Cadiz tenant. In February 2016, Cadiz assigned this lease to Fenner Valley Farms, LLC, a subsidiary of Water Asset Management, LLC (“WAM”). An entity affiliated with WAM is the holder of 9,300 shares of our Series B-2 convertible preferred stock.

We lease pollination equipment under a lease renewed through fiscal year 2022 with annual payments of \$0.3 million. We also lease machinery and equipment for our packing operations and other land for our agricultural operations under leases with annual lease commitments that are individually immaterial.

*Real Estate Development Activities, Capital Expenditures and Related Capital Resources*

On November 10, 2015 (the “Transaction Date”), we entered into a joint venture with The Lewis Group of Companies (“Lewis”) for the residential development of our East Area I real estate development project. To consummate the transaction, we formed Limoneira Lewis Community Builders, LLC (the “Joint Venture”) as the development entity, contributed our East Area I property to the Joint Venture and sold a 50% interest in the Joint Venture to Lewis for \$20.0 million, comprised of a \$2.0 million deposit received in September 2015 and \$18.0 million received on the Transaction Date. We received net cash of approximately \$18.8 million after transaction costs of approximately \$1.2 million, which were expensed in the first quarter of fiscal year 2016. In addition, on the Transaction Date, we incurred a Success Fee with Parkstone Companies, Inc., in the amount of \$2.1 million, which was capitalized as a component of our investment in the Joint Venture.

The Joint Venture agreement provides that Lewis will serve as the manager of the Joint Venture with the right to manage, control and conduct its day-to-day business and development activities. Certain major decisions, which are enumerated in the Joint Venture agreement, require approval by an executive committee comprised of two representatives appointed by Lewis and two representatives appointed by Limoneira.

Pursuant to the Joint Venture agreement, the Joint Venture will own, develop, subdivide, entitle, maintain, improve, hold for investment, market and dispose of the Joint Venture's property in accordance with the business plan and budget approved by the executive committee.

Further, on the Transaction Date, the Joint Venture and Limoneira entered into a lease agreement (the "Lease Agreement"), pursuant to which the Joint Venture will lease certain of the contributed East Area I property back to Limoneira for continuation of agricultural operations, and certain other permitted uses, on the property until the Joint Venture requires the property for development. The Lease Agreement will terminate in stages corresponding to the Joint Venture's development of the property, which is to occur in stages pursuant to a phased master development plan. The Joint Venture is required to provide Limoneira with written notice 180 days prior to the termination of any portion of the Lease Agreement. In any event, the Lease Agreement will terminate five years from the Transaction Date.

Limoneira and the Joint Venture entity also entered into a Retained Property Development Agreement on the Transaction Date (the "Retained Property Agreement"). Under the terms of the Retained Property Agreement, the Joint Venture will transfer certain contributed East Area I property, which is entitled for commercial development, back to Limoneira (the "Retained Property") and arrange for the design and construction of certain improvements to the Retained Property, subject to certain reimbursements by Limoneira.

We expect to receive approximately \$100.0 million from the Joint Venture over the estimated 7 to 10-year life of the project. The Joint Venture partners will share in capital contributions to fund project costs until project loan proceeds and or revenues are sufficient to fund the project. These funding requirements are currently estimated to total \$10.0 to \$15.0 million for each Joint Venture partner in the first two years of the project and we funded \$2.3 million in fiscal year 2016 and an additional \$1.2 million in November 2016. The Joint Venture partners may be required to provide loans guarantees for project loans.

In December 2013, we began a construction project that includes design, construction services and equipment for the expansion of our lemon packing facilities. The project is expected to double the capacity and increase the efficiency of our packing facilities. The project became operational in March 2016 with total construction services and equipment costs estimated to be approximately \$28.8 million.

In September 2015 and December 2015, we completed the acquisition of 914 acres of lemon, orange and specialty citrus orchards in California's San Joaquin Valley for approximately \$18.5 million. The orchards were acquired pursuant to purchase options contained in certain operating leases we have been party to since 2012 for approximately 1,000 acres of lemon, orange and specialty citrus and other crops, which we refer to as the Sheldon Ranch leases.

As noted above under "Transactions Affecting Liquidity and Capital Resources," we have the ability to control the timing of a portion 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 our 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 frequently engaged in discussions with several external sources of capital in respect of all of our development projects, 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.

#### *Off-Balance Sheet Arrangements*

As discussed in Note 7 – Real Estate Development and Note 8 – Equity Investments in the Notes to Consolidated Financial Statements in this report, we have investments in joint ventures and partnerships that are accounted for using the equity method of accounting.

#### *Inflation*

Historically, inflation has not had a material effect on our results of operations. However, significant increases in inflation could have an adverse impact on our business, financial condition and results of operations.

## Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with GAAP 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. We record a sales allowance in the period revenue is recognized as a provision for estimated customer discounts and concessions.

*Agribusiness revenue* - Revenue from lemon sales is generally recognized FOB shipping point when the customer takes possession of the fruit from our packing house. Revenue from the sales of certain of our agricultural products is recorded based on estimated proceeds provided by certain of our sales and marketing partners (Calavo and other third-party packinghouses) due to the time between when the product is delivered by us 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, we apply 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 (i) 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 (ii) 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 us 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. We also earn commissions on certain brokered fruit sales, which totaled \$263,000, \$114,000 and \$115,000 in fiscal years 2016, 2015 and 2014, respectively.

Our avocados, oranges, specialty citrus and other specialty crops are packed and sold by Calavo and other third-party packinghouses. Specifically, we deliver all of our avocado production from our 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. Our arrangements with other third-party packinghouses related to our oranges, specialty citrus and other specialty crops are similar to our arrangement with Calavo.

Our arrangements with third-party packinghouses are such that we are the producer and supplier of the product and the third-party packinghouses are our customers. The revenues we recognize related to the fruits sold to the third-party packinghouses are based on the volume and quality of the fruits delivered, and 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. We bear 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 we receive from the third-party packinghouses for packaging and marketing services cannot be sufficiently separated from the third-party packinghouses' purchase of our products. In addition, we are 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 our consolidated statement of operations.

Revenue from crop insurance proceeds is recorded when the amount of and the right to receive the payment can be reasonably determined. We recorded agribusiness revenues from crop insurance proceeds of \$83,000, \$9,000 and \$184,000 in fiscal years 2016, 2015 and 2014, respectively.

*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 us and are based on fees collected by the lessee. Our rental arrangements generally require payment on a monthly or quarterly basis.

*Real estate development revenue* - We recognize revenue on real estate development projects in accordance with FASB ASC 360-20, *Real Estate Sales*, 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, which include property maintenance and repairs, general and administrative and marketing expenses, 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 year 2016, we capitalized approximately \$6.9 million of costs related to our real estate projects and expensed approximately \$2.1 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 various factors, in recent years we recorded impairment charges of zero, zero and \$0.4 million in fiscal years 2016, 2015 and 2014, respectively.

*Defined benefit retirement plan* - As discussed in the notes 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, pension liability and 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. During 2016, the Society of Actuaries (“SOA”) released a new mortality improvement scale table, referred to as MP2016, which is believed to better reflect mortality improvements and is to be used in calculating defined benefit pension obligations. In addition, during fiscal year 2016, the assumed discount rate used to measure the pension obligation decreased from 4.1% to 3.6% as a result of changes in market interest rates. The Company used the latest mortality tables released by the SOA through October 31, 2016 to measure its pension obligation as of October 31, 2016 and combined with the decrease in the assumed discount rate and other demographic assumptions, its pension obligation increased by approximately \$1.3 million as of October 31, 2016 with a corresponding decrease in other comprehensive income recognized net of tax. Further 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”) 2014-09, Revenue from Contracts with Customers (Topic 606).*

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and tangible assets within the scope of Topic 350, Intangibles – Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 is effective for the Company in the first quarter of its fiscal year ending October 31, 2019.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

In March 2016, the FASB issued ASU 2016-08 (ASU 2016-08), Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations.



In April 2016, the FASB issued ASU 2016-10 (ASU 2016-10), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services.

The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards.

In May 2016, the FASB issued, ASU 2016-12 (ASU 2016-12) FASB Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 provides clarifying guidance in certain narrow areas and adds some practical expedients.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We currently anticipate adopting the standard using the modified retrospective method. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

*Financial Accounting Standards Board – Accounting Standards Update (“FASB ASU”) 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*

ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes.

This ASU is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect this ASU to have a material impact on its consolidated financial statements.



*FASB Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis*

ASU 2015-02 amends the consolidation guidance for variable interest entities and voting interest entities, among other items, by eliminating the consolidation model previously applied to limited partnerships, emphasizing the risk of loss when determining a controlling financial interest and reducing the frequency of the application of related-party guidance when determining a controlling financial interest. ASU 2015-02 is effective for periods beginning after December 15, 2015, for public companies. The adoption of ASU 2015-02 did not have a material impact on our consolidated financial statements.

*FASB Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*

The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU.

The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Retrospective adoption is required. The Company has adopted this guidance as of January 31, 2016 and has reclassified debt issuance costs \$156,000 from other long-term assets to long-term debt as of October 31, 2015, respectively.

*FASB Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory*

The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost.

An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method.

The amendments in this ASU more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards.

The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

*FASB Accounting Standards Update No. 2016-02, Leases (Topic 832)*

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

· A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

· A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any

transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

*FASB Accounting Standards Update No. 2016-09, Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows.

The amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

***Interest Rate Risk***

Borrowings under the Rabobank Credit Facility and the Farm Credit West Term Loans 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 Credit Facility is a LIBOR-based rate plus a spread. Under the Farm Credit West Term Loans, 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, 2016, our total debt outstanding under the Rabobank Credit Facility and the Farm Credit West Term Loans was \$59.6 million and \$22.0 million, respectively.

We manage our exposure to interest rate movements by utilizing interest rate swaps (derivatives). We fixed \$40.0 million of our outstanding borrowings with a “fixed-to-floating” interest rate swap as described in the following table:

|                                                                              | Notional Amount     |                     | Fair Value Net Liability |                     |
|------------------------------------------------------------------------------|---------------------|---------------------|--------------------------|---------------------|
|                                                                              | October 31,<br>2016 | October 31,<br>2015 | October 31,<br>2016      | October 31,<br>2015 |
| Pay fixed-rate, receive floating-rate interest rate swap, maturing June 2018 | \$40,000,000        | \$40,000,000        | \$1,151,000              | \$1,702,000         |

As of October 31, 2016, the fixed interest rate on our \$40.0 million swap was 4.30%. Based on our level of borrowings at October 31, 2016, after taking into consideration the effects of our interest rate swap (derivative), a 1% increase in interest rates would increase our interest expense \$0.2 million for fiscal year 2017 and an annual average of \$0.7 million for the three subsequent fiscal years. Additionally, a 1% increase in the interest rate would decrease our net income by \$0.1 million for fiscal year 2017 and an annual average of \$0.4 million for the three subsequent fiscal years. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

Item 8. Financial Statements and Supplementary Data

**Limoneira Company**

**Index to Consolidated Financial Statements**

|                                                                                                                                 |    |
|---------------------------------------------------------------------------------------------------------------------------------|----|
| <u>Management's Report on Internal Control over Financial Reporting</u>                                                         | 59 |
| <u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>                     | 60 |
| <u>Report of Independent Registered Public Accounting Firm</u>                                                                  | 61 |
| Consolidated Financial Statements of Limoneira Company                                                                          |    |
| <u>Consolidated Balance Sheets at October 31, 2016 and 2015</u>                                                                 | 62 |
| <u>Consolidated Statements of Operations for the years ended October 31, 2016, 2015 and 2014</u>                                | 63 |
| <u>Consolidated Statements of Comprehensive Income for the years ended October 31, 2016, 2015 and 2014</u>                      | 64 |
| <u>Consolidated Statements of Stockholders' Equity and Temporary Equity for the years ended October 31, 2016, 2015 and 2014</u> | 65 |
| <u>Consolidated Statements of Cash Flows for the years ended October 31, 2016, 2015 and 2014</u>                                | 66 |
| <u>Notes to Consolidated Financial Statements</u>                                                                               | 68 |

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



## **Management’s Report on Internal Control over Financial Reporting**

Management of Limoneira Company (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Exchange Act Rule 13a-15(f). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

The Company’s management, including the principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of Limoneira Company’s internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, management concluded that internal control over financial reporting was effective as of October 31, 2016. Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of the Company’s internal control over financial reporting and has issued a report on internal control over financial reporting, which is included herein.

Harold S. Edwards

President and Chief Executive Officer

Joseph D. Rumley

Chief Financial Officer and Corporate Secretary

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limoneira Company

We have audited Limoneira Company's internal control over financial reporting as of October 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Limoneira Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

Edgar Filing: Limoneira CO - Form 10-K

In our opinion, Limoneira Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Limoneira Company as of October 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity and temporary equity, and cash flows for each of the three years in the period ended October 31, 2016 of Limoneira Company and our report dated January 10, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
January 10, 2017

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 as of October 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity and temporary equity, and cash flows for each of the three years in the period ended October 31, 2016. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Limoneira Company's internal control over financial reporting as of October 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 10, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
January 10, 2017

**Limoneira Company**

## Consolidated Balance Sheets

|                                                                                                                                                                                                                             | October 31,<br>2016 | 2015           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
| Assets                                                                                                                                                                                                                      |                     |                |
| Current assets:                                                                                                                                                                                                             |                     |                |
| Cash                                                                                                                                                                                                                        | \$ 38,000           | \$ 39,000      |
| Accounts receivable, net                                                                                                                                                                                                    | 9,298,000           | 7,420,000      |
| Cultural costs                                                                                                                                                                                                              | 3,844,000           | 3,916,000      |
| Prepaid expenses and other current assets                                                                                                                                                                                   | 2,509,000           | 2,387,000      |
| Income taxes receivable                                                                                                                                                                                                     | 2,810,000           | -              |
| Total current assets                                                                                                                                                                                                        | 18,499,000          | 13,762,000     |
| Property, plant and equipment, net                                                                                                                                                                                          | 177,096,000         | 128,951,000    |
| Real estate development                                                                                                                                                                                                     | 77,136,000          | 96,067,000     |
| Equity in investments                                                                                                                                                                                                       | 6,254,000           | 3,047,000      |
| Investment in Calavo Growers, Inc.                                                                                                                                                                                          | 17,745,000          | 18,508,000     |
| Other assets                                                                                                                                                                                                                | 8,718,000           | 9,035,000      |
| Total Assets                                                                                                                                                                                                                | \$ 305,448,000      | \$ 269,370,000 |
| Liabilities and Stockholders' Equity                                                                                                                                                                                        |                     |                |
| Current liabilities:                                                                                                                                                                                                        |                     |                |
| Accounts payable                                                                                                                                                                                                            | \$ 5,555,000        | \$ 6,611,000   |
| Growers payable                                                                                                                                                                                                             | 8,577,000           | 5,841,000      |
| Accrued liabilities                                                                                                                                                                                                         | 6,421,000           | 5,864,000      |
| Fair value of derivative instrument                                                                                                                                                                                         | 690,000             | 767,000        |
| Current portion of long-term debt                                                                                                                                                                                           | 2,508,000           | 589,000        |
| Total current liabilities                                                                                                                                                                                                   | 23,751,000          | 19,672,000     |
| Long-term liabilities:                                                                                                                                                                                                      |                     |                |
| Long-term debt, less current portion                                                                                                                                                                                        | 88,164,000          | 89,079,000     |
| Deferred income taxes                                                                                                                                                                                                       | 25,328,000          | 19,425,000     |
| Other long-term liabilities                                                                                                                                                                                                 | 6,127,000           | 7,641,000      |
| Sale-leaseback deferral                                                                                                                                                                                                     | 23,349,000          | -              |
| Total liabilities                                                                                                                                                                                                           | 166,719,000         | 135,817,000    |
| Commitments and contingencies                                                                                                                                                                                               | -                   | -              |
| Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized:<br>29,000 and 29,500 shares issued and outstanding at October 31, 2016 and 2015)<br>(8.75% coupon rate)                                | 2,900,000           | 2,950,000      |
| Series B-2 Convertible Preferred Stock – \$100.00 par value (10,000 shares authorized:<br>9,300 shares issued and outstanding at October 31, 2016 and 2015) (4% dividend rate<br>on liquidation value of \$1,000 per share) | 9,331,000           | 9,331,000      |

Edgar Filing: Limoneira CO - Form 10-K

Stockholders' equity:

|                                                                                                                                                                   |                |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Series A Junior Participating Preferred Stock – \$.01 par value (20,000 shares authorized: zero issued or outstanding at October 31, 2016 and 2015)               | -              | -              |
| Common Stock – \$.01 par value (19,900,000 shares authorized: 14,178,226 and 14,135,080 shares issued and outstanding at October 31, 2016 and 2015, respectively) | 142,000        | 141,000        |
| Additional paid-in capital                                                                                                                                        | 91,841,000     | 90,759,000     |
| Retained earnings                                                                                                                                                 | 31,812,000     | 27,216,000     |
| Accumulated other comprehensive income                                                                                                                            | 2,703,000      | 3,156,000      |
| Total stockholders' equity                                                                                                                                        | 126,498,000    | 121,272,000    |
| Total Liabilities and Stockholders' Equity                                                                                                                        | \$ 305,448,000 | \$ 269,370,000 |

*See Notes to Consolidated Financial Statements.*

**Limoneira Company**

## Consolidated Statements of Operations

|                                                  | Years Ended October 31, |              |              |
|--------------------------------------------------|-------------------------|--------------|--------------|
|                                                  | 2016                    | 2015         | 2014         |
| Net revenues:                                    |                         |              |              |
| Agribusiness                                     | \$106,130,000           | \$95,124,000 | \$98,522,000 |
| Rental operations                                | 5,603,000               | 5,104,000    | 4,640,000    |
| Real estate development                          | 56,000                  | 83,000       | 300,000      |
| Total net revenues                               | 111,789,000             | 100,311,000  | 103,462,000  |
| Costs and expenses:                              |                         |              |              |
| Agribusiness                                     | 83,604,000              | 77,186,000   | 74,325,000   |
| Rental operations                                | 3,617,000               | 3,440,000    | 3,073,000    |
| Real estate development                          | 2,061,000               | 1,330,000    | 1,400,000    |
| Impairments of real estate development assets    | -                       | -            | 435,000      |
| Selling, general and administrative              | 13,319,000              | 13,772,000   | 14,336,000   |
| Total cost and expenses                          | 102,601,000             | 95,728,000   | 93,569,000   |
| Operating income                                 | 9,188,000               | 4,583,000    | 9,893,000    |
| Other income (expense):                          |                         |              |              |
| Interest expense                                 | (1,432,000 )            | (188,000 )   | -            |
| Interest income                                  | 23,000                  | 40,000       | 60,000       |
| Equity in earnings of investments                | 634,000                 | 243,000      | 263,000      |
| Gain on sale of stock in Calavo Growers, Inc.    | 3,419,000               | 5,033,000    | -            |
| Gain on sale of conservation easement            | 995,000                 | -            | -            |
| Gain on sale of Wilson Ranch                     | -                       | 935,000      | -            |
| Other income, net                                | 498,000                 | 410,000      | 348,000      |
| Total other income                               | 4,137,000               | 6,473,000    | 671,000      |
| Income before income taxes                       | 13,325,000              | 11,056,000   | 10,564,000   |
| Income tax provision                             | (5,267,000 )            | (3,974,000 ) | (3,573,000 ) |
| Net income                                       | 8,058,000               | 7,082,000    | 6,991,000    |
| Preferred dividends                              | (628,000 )              | (635,000 )   | (460,000 )   |
| Net income applicable to common stock            | \$7,430,000             | \$6,447,000  | \$6,531,000  |
| Basic net income per common share                | \$0.52                  | \$0.46       | \$0.46       |
| Diluted net income per common share              | \$0.52                  | \$0.46       | \$0.46       |
| Dividends per common share                       | \$0.20                  | \$0.18       | \$0.17       |
| Weighted-average common shares outstanding-basic | 14,168,000              | 14,119,000   | 14,055,000   |

Edgar Filing: Limoneira CO - Form 10-K

|                                                    |            |            |            |
|----------------------------------------------------|------------|------------|------------|
| Weighted-average common shares outstanding-diluted | 14,168,000 | 14,119,000 | 14,055,000 |
|----------------------------------------------------|------------|------------|------------|

*See Notes to Consolidated Financial Statements.*



**Limoneira Company**

## Consolidated Statements of Comprehensive Income

|                                                         | Years Ended October 31, |             |              |
|---------------------------------------------------------|-------------------------|-------------|--------------|
|                                                         | 2016                    | 2015        | 2014         |
| Net income                                              | \$8,058,000             | \$7,082,000 | \$6,991,000  |
| Other comprehensive (loss) income, net of tax:          |                         |             |              |
| Minimum pension liability adjustments                   | (688,000 )              | 654,000     | (1,199,000 ) |
| Unrealized holding gains on security available for sale | 1,619,000               | 273,000     | 5,790,000    |
| Reclassification of unrealized gain on security sold    | (1,719,000)             | (2,932,000) | -            |
| Unrealized gains from derivative instruments            | 335,000                 | 50,000      | 265,000      |
| Total other comprehensive (loss) income, net of tax     | (453,000 )              | (1,955,000) | 4,856,000    |
| Comprehensive income                                    | \$7,605,000             | \$5,127,000 | \$11,847,000 |

*See Notes to Consolidated Financial Statements.*

## Limoneira Company

## Consolidated Statements of Stockholders' Equity and Temporary Equity

|                                                 | Stockholders' Equity   |            |                                   |                      |                                                           |                                | Temporary Equity                 |           |
|-------------------------------------------------|------------------------|------------|-----------------------------------|----------------------|-----------------------------------------------------------|--------------------------------|----------------------------------|-----------|
|                                                 | Common Stock<br>Shares | Amount     | Additional Paid-<br>In<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) Total | Series B<br>Preferred<br>Stock | Series B-2<br>Preferred<br>Stock |           |
| Balance at<br>October 31,<br>2013               | 14,016,011             | \$ 140,000 | \$ 88,160,000                     | \$ 19,098,000        | \$ 255,000                                                | \$ 107,653,000                 | \$ 3,000,000                     | \$-       |
| Dividends -<br>common                           | -                      | -          | -                                 | (2,321,000 )         | -                                                         | (2,321,000 )                   | -                                | -         |
| Dividends -<br>Series B                         | -                      | -          | -                                 | (262,000 )           | -                                                         | (262,000 )                     | -                                | -         |
| Dividends -<br>Series B-2                       | -                      | -          | -                                 | (198,000 )           | -                                                         | (198,000 )                     | -                                | 31,000    |
| Stock<br>compensation                           | 40,678                 | -          | 1,116,000                         | -                    | -                                                         | 1,116,000                      | -                                | -         |
| Exchange of<br>common stock                     | (6,619 )               | -          | (176,000 )                        | -                    | -                                                         | (176,000 )                     | -                                | -         |
| Donation of<br>common stock                     | 4,552                  | -          | 100,000                           | -                    | -                                                         | 100,000                        | -                                | -         |
| Issuance of<br>common stock                     | 23,455                 | -          | 518,000                           | -                    | -                                                         | 518,000                        | -                                | -         |
| Issuance of<br>Series B-2<br>preferred stock    | -                      | -          | -                                 | -                    | -                                                         | -                              | -                                | 9,300,000 |
| Tax benefit of<br>stock grant<br>vesting        | -                      | -          | 52,000                            | -                    | -                                                         | 52,000                         | -                                | -         |
| Net income                                      | -                      | -          | -                                 | 6,991,000            | -                                                         | 6,991,000                      | -                                | -         |
| Other<br>comprehensive<br>income, net of<br>tax | -                      | -          | -                                 | -                    | 4,856,000                                                 | 4,856,000                      | -                                | -         |
| Balance at<br>October 31,<br>2014               | 14,078,077             | 140,000    | 89,770,000                        | 23,308,000           | 5,111,000                                                 | 118,329,000                    | 3,000,000                        | 9,331,000 |
| Dividends -<br>common                           | -                      | -          | -                                 | (2,539,000 )         | -                                                         | (2,539,000 )                   | -                                | -         |
| Dividends -<br>Series B                         | -                      | -          | -                                 | (263,000 )           | -                                                         | (263,000 )                     | -                                | -         |

Edgar Filing: Limoneira CO - Form 10-K

|                                        |            |           |              |              |             |               |             |             |
|----------------------------------------|------------|-----------|--------------|--------------|-------------|---------------|-------------|-------------|
| Dividends - Series B-2                 | -          | -         | -            | (372,000 )   | -           | (372,000 )    | -           | -           |
| Stock compensation                     | 57,162     | 1,000     | 1,076,000    | -            | -           | 1,077,000     | -           | -           |
| Exchange of common stock               | (10,907 )  | -         | (275,000 )   | -            | -           | (275,000 )    | -           | -           |
| Donation of common stock               | 4,498      | -         | 100,000      | -            | -           | 100,000       | -           | -           |
| Conversion of Series B preferred stock | 6,250      | -         | 50,000       | -            | -           | 50,000        | (50,000 )   | -           |
| Tax benefit of stock grant vesting     | -          | -         | 38,000       | -            | -           | 38,000        | -           | -           |
| Net income                             | -          | -         | -            | 7,082,000    | -           | 7,082,000     | -           | -           |
| Other comprehensive loss, net of tax   | -          | -         | -            | -            | (1,955,000) | (1,955,000 )  | -           | -           |
| Balance at October 31, 2015            | 14,135,080 | 141,000   | 90,759,000   | 27,216,000   | 3,156,000   | 121,272,000   | 2,950,000   | 9,331,000   |
| Dividends - common                     | -          | -         | -            | (2,834,000 ) | -           | (2,834,000 )  | -           | -           |
| Dividends - Series B                   | -          | -         | -            | (256,000 )   | -           | (256,000 )    | -           | -           |
| Dividends - Series B-2                 | -          | -         | -            | (372,000 )   | -           | (372,000 )    | -           | -           |
| Stock compensation                     | 49,329     | 1,000     | 1,308,000    | -            | -           | 1,309,000     | -           | -           |
| Exchange of common stock               | (12,433 )  | -         | (190,000 )   | -            | -           | (190,000 )    | -           | -           |
| Conversion of Series B preferred stock | 6,250      | -         | 50,000       | -            | -           | 50,000        | (50,000 )   | -           |
| Tax provision of stock grant vesting   | -          | -         | (86,000 )    | -            | -           | (86,000 )     | -           | -           |
| Net income                             | -          | -         | -            | 8,058,000    | -           | 8,058,000     | -           | -           |
| Other comprehensive loss, net of tax   | -          | -         | -            | -            | (453,000 )  | (453,000 )    | -           | -           |
| Balance at October 31, 2016            | 14,178,226 | \$142,000 | \$91,841,000 | \$31,812,000 | \$2,703,000 | \$126,498,000 | \$2,900,000 | \$9,331,000 |

See Notes to Consolidated Financial Statement

**Limoneira Company**

## Consolidated Statements of Cash Flows

|                                                                                   | Years Ended October 31, |              |              |
|-----------------------------------------------------------------------------------|-------------------------|--------------|--------------|
|                                                                                   | 2016                    | 2015         | 2014         |
| Operating activities                                                              |                         |              |              |
| Net income                                                                        | \$8,058,000             | \$7,082,000  | \$6,991,000  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |              |              |
| Depreciation and amortization                                                     | 5,339,000               | 4,184,000    | 3,516,000    |
| Impairments of real estate development assets                                     | -                       | -            | 435,000      |
| Loss on disposals/sales of assets                                                 | 125,000                 | 365,000      | 505,000      |
| Stock compensation expense                                                        | 1,309,000               | 1,077,000    | 1,116,000    |
| Equity in earnings of investments                                                 | (634,000 )              | (243,000 )   | (263,000 )   |
| Cash distributions from equity investments                                        | 642,000                 | 843,000      | 183,000      |
| Deferred income taxes                                                             | 6,195,000               | (350,000 )   | (129,000 )   |
| Amortization of deferred financing costs                                          | 49,000                  | 47,000       | 44,000       |
| Accrued interest on note receivable                                               | (23,000 )               | (40,000 )    | (60,000 )    |
| Gain on sale of stock in Calavo Growers, Inc.                                     | (3,419,000 )            | (5,033,000 ) | -            |
| Gain on sale of conservation easement                                             | (995,000 )              | -            | -            |
| Gain on sale of Wilson Ranch                                                      | -                       | (935,000 )   | -            |
| Fair value adjustment of contingent consideration                                 | (300,000 )              | -            | -            |
| Donation of common stock                                                          | -                       | 100,000      | 100,000      |
| Changes in operating assets and liabilities:                                      |                         |              |              |
| Account receivable, net                                                           | (1,880,000 )            | (184,000 )   | (810,000 )   |
| Cultural costs                                                                    | 72,000                  | (225,000 )   | 433,000      |
| Prepaid expenses and other current assets                                         | 78,000                  | 224,000      | (370,000 )   |
| Income taxes receivable                                                           | (2,810,000 )            | 1,143,000    | (1,143,000 ) |
| Other assets                                                                      | 312,000                 | (286,000 )   | 344,000      |
| Accounts payable and growers payable                                              | 808,000                 | (873,000 )   | 4,125,000    |
| Accrued liabilities                                                               | 1,249,000               | (1,678,000 ) | 912,000      |
| Other long-term liabilities                                                       | 129,000                 | 2,477,000    | 163,000      |
| Net cash provided by operating activities                                         | 14,304,000              | 7,695,000    | 16,092,000   |
| Investing activities                                                              |                         |              |              |
| Capital expenditures                                                              | (16,252,000)            | (31,254,000) | (25,866,000) |
| Proceeds from sale of LLC Interest                                                | 18,000,000              | -            | -            |
| Agriculture property acquisitions                                                 | (15,098,000)            | (3,389,000 ) | -            |
| Net proceeds from sale of Wilson Ranch                                            | -                       | 2,712,000    | -            |
| Business combination                                                              | -                       | -            | (700,000 )   |
| Net proceeds from sale of stock in Calavo Growers, Inc.                           | 4,019,000               | 6,433,000    | -            |
| Net proceeds from sale of conservation easement                                   | 995,000                 | -            | -            |

Edgar Filing: Limoneira CO - Form 10-K

|                                                        |                |                |                |
|--------------------------------------------------------|----------------|----------------|----------------|
| Equity investment contributions                        | (2,890,000 )   | (9,000 )       | (1,758,000 )   |
| Investments in mutual water companies and water rights | (296,000 )     | (300,000 )     | (299,000 )     |
| Net cash used in investing activities                  | \$(11,522,000) | \$(25,807,000) | \$(28,623,000) |

**Limoneira Company**

## Consolidated Statements of Cash Flows (continued)

|                                                                             | Years Ended October 31, |                |                |
|-----------------------------------------------------------------------------|-------------------------|----------------|----------------|
|                                                                             | 2016                    | 2015           | 2014           |
| Financing activities                                                        |                         |                |                |
| Borrowings of long-term debt                                                | \$ 157,423,000          | \$ 120,484,000 | \$ 117,765,000 |
| Repayments of long-term debt                                                | (156,403,000)           | (99,014,000)   | (111,543,000)  |
| Dividends paid-common                                                       | (2,834,000 )            | (2,539,000 )   | (2,321,000 )   |
| Dividends paid-preferred                                                    | (628,000 )              | (635,000 )     | (430,000 )     |
| Exchange of common stock                                                    | (190,000 )              | (275,000 )     | (176,000 )     |
| Issuance of preferred stock                                                 | -                       | -              | 9,300,000      |
| Payments of debt financing costs                                            | (65,000 )               | -              | (106,000 )     |
| Tax (provision) benefit of stock grant vesting                              | (86,000 )               | 38,000         | 52,000         |
| Net cash (used in) provided by financing activities                         | (2,783,000 )            | 18,059,000     | 12,541,000     |
| Net (decrease) increase in cash                                             | (1,000 )                | (53,000 )      | 10,000         |
| Cash at beginning of year                                                   | 39,000                  | 92,000         | 82,000         |
| Cash at end of year                                                         | \$38,000                | \$39,000       | \$92,000       |
| Supplemental disclosures of cash flow information:                          |                         |                |                |
| Cash paid during the year for interest (net of amounts capitalized)         | \$ 1,405,000            | \$ 55,000      | \$(51,000 )    |
| Cash paid during the year for income taxes, net of refunds received         | \$ 2,125,000            | \$ 2,963,000   | \$ 6,495,000   |
| Non-cash investing and financing activities:                                |                         |                |                |
| Unrealized holding gain on Calavo investment                                | \$(2,668,000 )          | \$(487,000 )   | \$(9,425,000 ) |
| Increase in real estate development and sale-leaseback deferral             | \$3,349,000             | \$-            | \$-            |
| Reclassification of real estate development to property plant and equipment | \$26,779,000            | \$-            | \$-            |
| Settlement of lease obligation related to agriculture property acquisition  | \$(739,000 )            | \$-            | \$-            |
| Capital expenditures accrued but not paid at year-end                       | \$594,000               | \$1,270,000    | \$1,134,000    |
| Accrued equity investment contribution                                      | \$325,000               | \$-            | \$-            |
| Non-cash reduction of note receivable                                       | \$-                     | \$1,535,000    | \$-            |
| Accrued interest on note receivable                                         | \$23,000                | \$40,000       | \$60,000       |
| Donation of common stock                                                    | \$-                     | \$100,000      | \$100,000      |
| Conversion of preferred stock to common stock                               | \$50,000                | \$50,000       | \$-            |

In April 2016, 500 shares of Series B preferred stock were converted into 6,250 shares of Limoneira common stock.

During fiscal year 2015, the holder of the note receivable from a 2004 sale of property completed the drilling of three water wells at the Company's Windfall Investors, LLC real estate development property and two water wells at property leased by the Company. The fair value of the well drilling services was \$1,535,000 and the Company recorded a non-cash reduction of the note receivable.

In September 2015, 500 shares of Series B preferred stock were converted into 6,250 shares of Limoneira common stock.

On June 30, 2014, the Company acquired the packing house property, equipment and certain intangible assets of Marlin Packing Company in Yuma, Arizona for a purchase price of approximately \$1,700,000 in cash and stock as further described in Note 3, Acquisitions.

*See Notes to Consolidated Financial Statements.*

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 1. Business

Limoneira Company, a Delaware Company (the “Company”), engages primarily in growing citrus and avocados, picking and hauling citrus, and packing, marketing and selling lemons. The Company is also engaged in residential rentals and other rental operations and real estate development activities.

The Company markets and sells lemons directly to food service, wholesale and retail customers throughout the United States, Canada, Asia and other international markets. The Company is a member of Sunkist Growers, Inc. (“Sunkist”), an agricultural marketing cooperative, and sells its oranges, specialty citrus and other crops to Sunkist-licensed and other third-party packinghouses.

The Company sells all of its avocado production to Calavo Growers, Inc. (“Calavo”), a packing and marketing company listed on the NASDAQ Global Select Market under the symbol CVGW. Calavo’s customers include many of the largest retail and food service companies in the United States and Canada. The Company’s avocados are packed by Calavo and sold and distributed under Calavo brands to its customers.

#### 2. Summary of Significant Accounting Policies

##### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. The consolidated financial statements represent the consolidated balance sheets, statements of operations, statements of comprehensive income, statements of stockholders’ equity and temporary equity and statements of cash flows of Limoneira Company and its wholly owned subsidiaries. The Company’s subsidiaries include: Limoneira Mercantile, LLC, Windfall Investors, LLC (“Windfall”), Templeton Santa Barbara, LLC, Associated Citrus Packers, Inc. (“Associated”), Limoneira Chile SpA, Limoneira EA 1 Land, LLC and Limoneira S.A. All significant intercompany balances and transactions have been



eliminated in consolidation. The Company considers the criteria established under the Financial Accounting Standards Board – Accounting Standards Code (“FASB ASC”) 810, *Consolidations* and the effect of variable interest entities, in its consolidation process.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **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 allowances on its receivables as required based on accounts receivable aging and other factors. At October 31, 2016 and 2015 the allowances totaled \$357,000 and \$390,000, respectively. The October 31, 2015 allowance includes \$208,000 provided for amounts due on certain brokered fruit sales, on which the Company earns a commission, with the corresponding amount recorded as a reduction to lemon supplier payables, which is included in accrued liabilities. For fiscal years 2016, 2015 and 2014 credit losses were insignificant.

### **Concentrations**

The Company sells all of its avocado production to Calavo. Sales of avocados to Calavo were \$10,767,000, \$7,132,000 and \$7,374,000 in fiscal years 2016, 2015 and 2014, respectively.

Lemons procured from third-party growers were approximately 42%, 36% and 36%, of lemon supply in fiscal years 2016, 2015 and 2014, respectively. One third-party grower was 44% of grower payable at October 31, 2016.

The Company maintains its cash in federally insured financial institutions. The account balances at these institutions periodically exceed Federal Deposit Insurance Corporation (“FDIC”) insurance coverage and, as a result, there is a concentration of risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes the risk is not significant.



## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### Cultural Costs

Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. Harvest costs are comprised of labor and equipment expenses incurred to harvest and deliver crops to the packinghouses.

Lemons, oranges, specialty citrus and other crops such as pistachio nuts and olives are grown in the Company's San Joaquin Valley orchards. Additionally, lemons are grown in the Company's Yuma County, Arizona orchards. These crops have distinct growing periods and distinct harvest and selling periods, each of which lasts approximately four to six months. During the growing period, cultural costs are capitalized as they are associated with benefiting and preparing the crops for the harvest and selling period. During the harvest and selling period, harvest costs and cultural costs are expensed when incurred and capitalized cultural costs are amortized as components of agribusiness costs and expenses.

The Company grows lemons and avocados in its Ventura County orchards. Due to climate, growing conditions and the types of crops grown, the Ventura County orchards may be harvested and sold on a year round basis. Accordingly, the Company does not capitalize cultural costs associated with its Ventura County orchards and therefore such costs, as well as harvest costs associated with the Ventura County orchards, are expensed to operations when incurred as components of agribusiness costs and expenses.

Most cultural costs, including amortization of capitalized cultural costs, and harvest costs are associated with and charged to specific crops. Certain other costs, such as property taxes, indirect labor including farm supervision and management and irrigation that benefit multiple crops are allocated to crops on a per acre basis.

### 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.

### **Property, Plant and Equipment**

Property, plant and equipment is stated at original cost, net of accumulated depreciation. Depreciation is computed using the straight-line method at rates based upon the estimated useful lives of the related assets as follows (in years):

|                                     |         |
|-------------------------------------|---------|
| Land improvements                   | 10 – 30 |
| Buildings and building improvements | 10 – 50 |
| Equipment                           | 5 – 20  |
| Orchards                            | 20 – 40 |

Costs of planting and developing orchards are capitalized until the orchards become commercially productive. Planting costs consist primarily of the costs to purchase and plant nursery stock. Orchard development costs consist primarily of maintenance costs of orchards such as cultivation, pruning, irrigation, labor, spraying and fertilization, and interest costs during the development period. The Company ceases the capitalization of costs and commences depreciation when the orchards become commercially productive and orchard maintenance costs are accounted for as cultural costs as described above.

## **LIMONEIRA COMPANY**

### Notes to Consolidated Financial Statements

## **2. Summary of Significant Accounting Policies (continued)**

### **Capitalized Interest**

Interest is capitalized on real estate development projects and significant construction in progress using the weighted average interest rate during the fiscal year. Interest of \$1,919,000 and \$2,534,000 was capitalized during the years ended October 31, 2016 and 2015, respectively, and is included in property, plant, and equipment and real estate development assets in the Company's consolidated balance sheets.

### **Real Estate Development Costs**

The Company capitalizes the planning, entitlement, construction, development costs and interest associated with its various real estate projects. Costs that are not capitalized, which include property maintenance and repairs, general and administrative and marketing expenses, 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. The Company capitalized costs related to its real estate projects of \$6,870,000 and \$7,979,000 in fiscal years 2016 and 2015, respectively.

### **Equity in Investments**

Investments in unconsolidated joint ventures in which the Company has significant influence but less than a controlling interest, or is not the primary beneficiary if the joint venture is determined to be a Variable Interest Entity ("VIE"), are accounted for under the equity method of accounting and, accordingly, are adjusted for capital contributions, distributions and the Company's equity in net earnings or loss of the respective joint venture.

### **Marketable Securities**

The Company classifies its marketable securities as available-for-sale. The Company's investments in marketable securities are stated at fair value with unrealized gains (losses), net of tax, reported as a component of accumulated other comprehensive income (loss) in the Company's consolidated statements of comprehensive income. At October 31, 2016 and 2015, marketable securities are comprised of the Company's investment in Calavo.

### **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.

### **Intangible Assets**

Intangible assets consist primarily of acquired water and mineral rights, a patent and certain trade names and trademarks. Certain of the Company's trade names and trademarks are being amortized on a straight line basis over their estimated lives of eight years. The Company evaluates its indefinite-life intangible assets annually or whenever events or changes in circumstances indicate an impairment of the assets' value may exist.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 2. Summary of Significant Accounting Policies (continued)

##### Goodwill

Goodwill is tested for impairment on an annual basis or when an event or changes in circumstances indicate that its carrying value may not be recoverable. Goodwill impairment is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment is tested in a two-step process, with the first step performed to determine if there is potential for impairment by comparing the fair value of the reporting unit to its carrying value. If potential impairment is identified as indicated by the carrying value exceeding the fair value of the reporting unit, the second step is performed to measure the amount of impairment to be recognized in the financial statements by comparing the implied fair value of goodwill to its carrying value. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recognized for the excess amount. Goodwill impairment testing involves significant judgment and estimates. The annual assessment of goodwill impairment was performed as of July 31, 2016 with no impairment noted.

##### Fair Values of Financial Instruments

The fair values of financial instruments are based on level-one indicators within the fair value hierarchy or quoted market prices, where available, or are estimated using the present value or other valuation techniques. Estimated fair values are significantly affected by the assumptions used.

Accounts receivable, note receivable, accounts payable, growers payable and accrued liabilities reported on the Company's consolidated balance sheets approximate their fair values due to the short-term nature of the instruments.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the fair value of long-term debt is approximately equal to its carrying amount as of October 31, 2016 and 2015.

### **Derivative Financial 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.

### **Comprehensive Income (Loss)**

Comprehensive income (loss) represents all changes in a company's net assets, except changes resulting from transactions with shareholders, and is reported as a component of the Company's stockholders' equity.

### **Revenue Recognition**

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. The Company records a sales allowance in the period revenue is recognized as a provision for estimated customer discounts and concessions.



## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### Revenue Recognition (continued)

*Agribusiness revenue* - Revenue from lemon sales is generally recognized FOB shipping point when the customer takes possession of the fruit from the Company's packing house. 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. The Company also earns commissions on certain brokered fruit sales, which totaled \$263,000, \$114,000 and \$115,000 in fiscal years 2016, 2015, and 2014, respectively.

The Company's avocados, oranges, specialty citrus and other specialty crops are packed and sold by Calavo and other third-party packinghouses. 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 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 entitled "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.

Revenue from crop insurance proceeds is recorded when the amount of and the right to receive the payment can be reasonably determined. The Company recorded agribusiness revenues from crop insurance proceeds of \$83,000, \$9,000 and \$184,000 in fiscal years 2016, 2015 and 2014, respectively.

*Rental operations 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. Such revenues are recognized when actual results, based on collected fees reported by the tenant, are received. 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*, 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.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### Revenue Recognition (continued)

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.

### Advertising Expense

Advertising costs are expensed as incurred. Such costs in fiscal years 2016, 2015 and 2014 were \$264,000, \$364,000 and \$308,000, respectively.

### Leases

The Company records rent expense for its operating leases on a straight-line basis from the lease commencement date as defined in the lease agreement until the end of the base lease term.

### Basic and Diluted Net Income per Share

Basic net income per common share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of preferred stock. Diluted net income per common share

is calculated using the weighted-average number of common shares outstanding plus the dilutive effect of conversion of preferred stock. The Series B and Series B-2 convertible preferred shares were anti-dilutive for fiscal years ended October 31, 2016, 2015 and 2014.

Unvested stock-based compensation awards that contain non-forfeitable rights to dividends as participating shares are included in computing earnings per share using the two-class method. The Company's unvested, restricted stock awards qualify as participating shares.

### **Reclassifications and Adjustments**

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the October 31, 2016 presentation.

### **Defined Benefit Retirement Plan**

The Company sponsors a defined benefit retirement plan that was frozen in June 2004, and no future benefits have been accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715, *Compensation – Retirement Benefits*, provides guidance as to, among other things, future estimated pension expense, pension liability and minimum funding requirements. This information is provided to the Company 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. During 2016, the Society of Actuaries (SOA) released a new mortality improvement scale table, referred to as MP-2016, which is believed to better reflect mortality improvements and is to be used in calculating defined benefit pension obligations. In addition, during fiscal year 2016, the assumed discount rate used to measure the pension obligation decreased from 4.1% to 3.6% as a result of changes in market interest rates. The Company used the latest mortality tables released by the SOA through October 2016 to measure its pension obligation as of October 31, 2016 and combined with the decrease in the assumed discount rate and other demographic assumptions, its pension obligation increased by approximately \$1,290,000 as of October 31, 2016 with a corresponding decrease in other comprehensive income recognized net of tax. Further changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### Recent Accounting Pronouncements

*Financial Accounting Standards Board – Accounting Standards Update (“FASB ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606).*

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and tangible assets within the scope of Topic 350, Intangibles – Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. On July 9, 2015, the FASB deferred the effective date of ASU 2014-09 for one year. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 is effective for the Company in the first quarter of its fiscal year ending October 31, 2019.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.

- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

In March 2016, the FASB issued ASU 2016-08 (ASU 2016-08), Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU 2016-10 (ASU 2016-10), Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services.

In May 2016, the FASB issued, ASU 2016-12 (ASU 2016-12) FASB Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 provides clarifying guidance in certain narrow areas and adds some practical expedients.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. We currently anticipate adopting the standard using the modified retrospective method. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 2. Summary of Significant Accounting Policies (continued)

### Recent Accounting Pronouncements (continued)

*Financial Accounting Standards Board – Accounting Standards Update (“FASB ASU”) 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*

ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes.

This ASU is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

*FASB Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis*

ASU 2015-02 amends the consolidation guidance for variable interest entities and voting interest entities, among other items, by eliminating the consolidation model previously applied to limited partnerships, emphasizing the risk of loss when determining a controlling financial interest and reducing the frequency of the application of related-party guidance when determining a controlling financial interest. ASU 2015-02 is effective for periods beginning after December 15, 2015, for public companies. The adoption of ASU 2015-02 did not have a material impact on our consolidated financial statements.

*FASB Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*

The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU.

The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Retrospective adoption is required. The Company has early adopted this guidance as of January 31, 2016 and has reclassified debt issuance costs \$156,000 from other long-term assets to long-term debt as of October 31, 2015, respectively.

*FASB Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory*

The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost.

An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method.

The amendments in this ASU more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards.

The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the



beginning of an interim or annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

## LIMONEIRA COMPANY

Notes to Consolidated Financial Statements

### 2. Summary of Significant Accounting Policies (continued)

#### Recent Accounting Pronouncements (continued)

*FASB Accounting Standards Update No. 2016-02, Leases (Topic 832)*

Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

*FASB Accounting Standards Update No. 2016-09, Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows.

The amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

### **3. Acquisitions**

#### **Agriculture Property Acquisitions**

In September 2015, the Company completed the acquisition of 157 acres of lemon, orange and specialty citrus orchards in California's San Joaquin Valley for \$3,389,000. The orchards were acquired pursuant to purchase options contained in certain operating leases the Company had been a party to since 2012 covering approximately 1,000 acres of lemon, orange and specialty citrus and other crops, which the Company refers to as the Sheldon Ranch leases. This acquisition was accounted for as an asset purchase and included in property, plant and equipment in the Company's consolidated balance sheet at October 31, 2015.

In September 2015, the Company entered into a purchase agreement to acquire 757 acres of lemon, orange and specialty citrus orchards in California's San Joaquin Valley, for \$15,148,000. The orchards were acquired pursuant to purchase options contained in the Sheldon Ranches operating leases. The Company paid a deposit of \$50,000 in September 2015 and escrow closed in December 2015, at which time the remaining \$15,098,000 was paid. This acquisition was accounted for as an asset purchase and included in property, plant and equipment in the Company's consolidated balance sheet at October 31, 2016.



**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**3. Acquisitions (continued)****Business Combination****Yuma Packinghouse**

On June 30, 2014, the Company acquired the packing house property, equipment and certain intangible assets of Marlin Packing Company from its sole shareholder, Marlin Ranching Company. Both companies are privately owned Arizona corporations located in Yuma, Arizona. No liabilities were assumed in the acquisition. The purchase price was \$1,700,000, comprised of 23,455 unregistered shares of the Company's common stock valued at \$518,600, \$700,000 in cash, contingent consideration consisting of an earn-out with a fair value of \$300,000 and a deferred cash payment of \$181,400 which was paid in fiscal year 2015 upon the completion of certain land remediation activities required by the seller. Transaction costs associated with the acquisition were not significant and were expensed in the year ended October 31, 2014. The results of operations of the Yuma packinghouse have been included in the consolidated results of operations from the acquisition date.

The following is a summary of the fair value of the assets acquired on the date of acquisition based on a third-party valuation, which is considered a Level 3 fair value measurement under FASB ASC 820, *Fair Value Measurements and Disclosures*:

|                               |             |
|-------------------------------|-------------|
| Building                      | \$395,000   |
| Land and improvements         | 260,000     |
| Equipment                     | 885,000     |
| Customer relationships        | 160,000     |
| Fair value of assets acquired | \$1,700,000 |

Customer relationships are subject to amortization over an estimated life of five years.

Revenue and net loss of \$136,000 and \$522,000, respectively, of the Yuma packinghouse are included in the Company's consolidated statement of operations for fiscal year 2014. The fair value of the earn-out, which was recorded as contingent consideration in other long-term liabilities at October 31, 2015, was determined to be zero based on probability of achievement of performance targets at October 31, 2016 and the Company recorded a \$300,000 reduction of agribusiness costs and expenses in fiscal year 2016.

#### 4. Fair Value Measurements

Under the FASB ASC 820, *Fair Value Measurements and Disclosures*, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

The following table sets forth the Company's financial assets and liabilities as of October 31, 2015 and 2014 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

| 2016                            | Level 1      | Level 2     | Level<br>3 | Total        |
|---------------------------------|--------------|-------------|------------|--------------|
| Assets at fair value:           |              |             |            |              |
| Available- for -sale securities | \$17,745,000 | \$-         | \$ -       | \$17,745,000 |
| Liabilities at fair value:      |              |             |            |              |
| Derivative                      | \$-          | \$1,151,000 | \$ -       | \$1,151,000  |
| <b>2015</b>                     | Level 1      | Level 2     | Level<br>3 | Total        |
| Assets at fair value:           |              |             |            |              |
| Available- for -sale securities | \$18,508,000 | \$-         | \$ -       | \$18,508,000 |
| Liabilities at fair value:      |              |             |            |              |
| Derivative                      | \$-          | \$1,702,000 | \$ -       | \$1,702,000  |

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**4. Fair Value Measurements (continued)**

Available-for-sale securities consist of marketable securities in Calavo common stock. At October 31, 2016 and 2015, respectively, the Company owned 300,000 and 360,000 shares representing approximately 1.7% and 2.1% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at October 31, 2016 and 2015 was \$59.15 and \$51.41 per share, respectively.

The derivative consists of an interest rate swap; the fair value is estimated using industry-standard valuation models. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following at October 31:

|                                  | 2016        | 2015        |
|----------------------------------|-------------|-------------|
| Prepaid insurance                | \$633,000   | \$598,000   |
| Prepaid supplies                 | 879,000     | 1,064,000   |
| Lemon supplier advances          | 41,000      | 35,000      |
| Deposits                         | 61,000      | 129,000     |
| Deferred lease expense and other | 895,000     | 561,000     |
|                                  | \$2,509,000 | \$2,387,000 |

**6. Property, Plant and Equipment**

Property, plant and equipment consist of the following at October 31:

|                                     | 2016          | 2015          |
|-------------------------------------|---------------|---------------|
| Land                                | \$76,418,000  | \$48,211,000  |
| Land improvements                   | 22,458,000    | 19,998,000    |
| Buildings and building improvements | 38,811,000    | 20,655,000    |
| Equipment                           | 45,775,000    | 28,624,000    |
| Orchards                            | 31,282,000    | 26,648,000    |
| Construction in progress            | 17,558,000    | 35,428,000    |
|                                     | 232,302,000   | 179,564,000   |
| Less accumulated depreciation       | (55,206,000 ) | (50,613,000 ) |
|                                     | \$177,096,000 | \$128,951,000 |

Depreciation expense was \$5,243,000, \$4,086,000 and \$3,448,000 for fiscal years 2016, 2015 and 2014, respectively.

Windfall is an approximately 700-acre former thoroughbred breeding farm and equestrian facility located in Creston, California, near Paso Robles, California. During fiscal years 2014 and 2015, the Company planted approximately 200 acres of vineyards and plans to plant an additional 100 acres in fiscal year 2017. Vineyards are generally productive after four years. During the fourth quarter of fiscal year 2016, the vineyards produced their first harvest from the 2014 planting, generating approximately 200 tons of grapes and \$336,000 of revenue. The Company generally expects to sell vineyard production by the ton to various wineries with current per ton prices of approximately \$1,500 depending on the grape variety and other factors. Based on management's reassessment of the strategic and operational plans for the Windfall property and concurrent with the first harvest in October 2016, the Company re-purposed Windfall from a real estate development project to an agricultural ranch and reclassified \$26,779,000 of real estate development assets to property, plant and equipment. The reclassified assets consist of land, buildings and improvements, vineyards and construction in process of \$16,161,000, \$4,746,000, \$2,273,000 and \$3,599,000, respectively. Accordingly, Windfall was reclassified to the other agribusiness reportable segment from the real estate development segment in October 2016.



**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**7. Real Estate Development**

Real estate development assets are comprised primarily of land and land development costs and consist of the following at October 31:

|                              | 2016         | 2015         |
|------------------------------|--------------|--------------|
| East Areas I and II          | \$66,097,000 | \$59,227,000 |
| Templeton Santa Barbara, LLC | 11,039,000   | 11,039,000   |
| Windfall Investors, LLC      | -            | 25,801,000   |
|                              | \$77,136,000 | \$96,067,000 |

**East Areas I and II**

In fiscal year 2005, the Company began capitalizing the costs of two real estate development projects east of Santa Paula, California, for the development of 550 acres of land into residential units, commercial buildings and civic facilities. During fiscal years 2016 and 2015, the Company capitalized \$6,870,000 and \$4,211,000, respectively, of costs related to these real estate development projects. Additionally, in connection with these projects, the Company incurred expenses of \$1,161,000, \$21,000 and \$17,000 in fiscal years 2016, 2015 and 2014, respectively.

On November 10, 2015 (the "Transaction Date"), the Company entered into a joint venture with The Lewis Group of Companies ("Lewis") for the residential development of its East Area 1 real estate development project. To consummate the transaction, the Company formed Limoneira Lewis Community Builders, LLC (the "LLC" or "Joint Venture") as the development entity, contributed its East Area 1 property to the LLC and sold a 50% interest in the LLC to Lewis for \$20,000,000, comprised of a \$2,000,000 deposit received in September 2015 and \$18,000,000 received on the Transaction Date. The Company received net cash of approximately \$18,800,000 after transaction costs of approximately \$1,200,000, which were expensed in the first quarter of fiscal year 2016. In addition, on the Transaction Date, the Company incurred a Success Fee with Parkstone Companies, Inc., in the amount of \$2,100,000, which was paid on January 28, 2016 and capitalized as a component of the Company's investment in the East Area 1 property.

On the Transaction Date, the LLC and Lewis also entered into a limited liability company agreement (the "LLC Agreement") providing for the admittance of Lewis as a 50% member of the Joint Venture. The LLC Agreement provides that Lewis will serve as the manager of the Joint Venture with the right to manage, control, and conduct its day-to-day business and development activities. Certain major decisions, which are enumerated in the LLC Agreement, require approval by an executive committee comprised of two representatives appointed by Lewis and two representatives appointed by the Company.

Pursuant to the LLC Agreement, the Joint Venture will own, develop, subdivide, entitle, maintain, improve, hold for investment, market and dispose of the Joint Venture's property in accordance with the business plan and budget approved by the executive committee.

Further, on the Transaction Date, the Joint Venture and the Company entered into a Lease Agreement (the "Lease Agreement"), pursuant to which the Joint Venture will lease certain of the contributed East Area I property back to the Company for continuation of agricultural operations, and certain other permitted uses, on the property until the Joint Venture requires the property for development. The Lease will terminate in stages corresponding to the Joint Venture's development of the property, which is to occur in stages pursuant to a phased master development plan. In any event, the Lease will terminate five years from the Transaction Date.

The Company and the Joint Venture also entered into a Retained Property Development Agreement on the Transaction Date (the "Retained Property Agreement"). Under the terms of the Retained Property Agreement, the Joint Venture will transfer certain contributed East Area I property, which is entitled for commercial development, back to the Company (the "Retained Property") and arrange for the design and construction of certain improvements to the Retained Property, subject to certain reimbursements by the Company.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 7. Real Estate Development (continued)

##### East Areas I and II (continued)

The Company's sale of an interest in the LLC in which the Company's contributed property comprises the LLC's primary asset, combined with the Lease Agreement is considered a sale-leaseback transaction under *FASB ASC 840, Leases* because of the Company's continuing involvement in the property in the form of its agricultural operations. Accordingly, the property continues to be carried on the consolidated balance sheet as real estate development, rather than being classified as an equity investment and a sale-leaseback deferral has been recorded for the \$20,000,000 payment made by Lewis for the purchase of the LLC interest. Lease expense associated with the Lease Agreement is not required under sale-leaseback accounting since the Company is treated as though it continues to own the property. During the year ended October 31, 2016, the Company recorded \$3,349,000 of real estate development costs and corresponding increases in the sale-leaseback deferral to recognize real estate development costs capitalized by the LLC. There are no repayment requirements for the sale-leaseback deferral and as the Lease Agreement is terminated in connection with the staged development of the property, a corresponding amount of real estate development and the sale-leaseback deferral will be adjusted to equity investments on the consolidated balance sheet.

In connection with the LLC Agreement, the Company is to be reimbursed \$500,000 by the Joint Venture for Initial Public Safety Facility Payments made to the City of Santa Paula in October 2015. The reimbursement is to be paid in two installments of \$250,000 each on February 1, 2017 and February 1, 2018. These amounts are included in prepaid expenses and other current assets and other assets in the consolidated balance sheets. Additionally, beginning in March 2016, the Company leased office space to Lewis and received rental income of \$12,000 for the year ended October 31, 2016.

The Company determined the Joint Venture to be a Variable Interest Entity ("VIE") under *ASC 810, Consolidation*, because the Joint Venture will require additional subordinated financial support to finance its operations. The Company further determined that it is not the primary beneficiary of the VIE, as the Company and Lewis have joint control over all significant decisions affecting the Joint Venture's economic performance. Accordingly, contributions made by the Company to the LLC, the Company's proportionate share of the Joint Venture's results of operations and distributions received by the Company from the LLC will be accounted for under the equity method of accounting. The Joint Venture partners will share in capital contributions to fund project costs until loan proceeds and/or revenues

are sufficient to fund the project. The Company made contributions of \$2,275,000 for the year ended October 31, 2016 and an additional \$1,150,000 in November 2016.

In connection with facilitating the annexation of the East Area 1 property into the City of Santa Paula, during February 2013, the Company entered into a Capital Improvement Cost Sharing Agreement for Improvements to Santa Paula Creek Channel (the "Cost Sharing Agreement") with the Ventura County Watershed Protection District (the "District"). The Cost Sharing Agreement requires the Company to reimburse the District 28.5% of the costs of the improvements, up to a maximum of \$5,000,000. Additionally, the Company is required to pay the cost of preparing a study to determine a feasible scope of work and budget for the improvements. No cost reimbursements have been incurred to date in relation to this agreement.

### **Templeton Santa Barbara, LLC**

The three real estate development parcels within the Templeton Santa Barbara, LLC project ("Templeton Project") are described as Centennial Square ("Centennial"), The Terraces at Pacific Crest ("Pacific Crest") and Sevilla. The carrying values of Centennial, Pacific Crest and Sevilla at October 31, 2016 were \$2,983,000, \$3,370,000 and \$4,686,000, respectively.

During fiscal years 2016 and 2015, the Company capitalized zero costs related to these real estate development projects. Additionally, in relation to these projects, the Company incurred expenses of \$174,000, \$167,000 and \$129,000 in fiscal years 2016, 2015 and 2014, respectively.

On August 25, 2014, the Company entered into a non-binding letter of intent to sell Centennial for \$3,100,000 in cash. The sale transaction was not completed but an impairment charge of \$435,000 was recognized in fiscal year 2014 for the difference in expected net proceeds and the book value of the properties at October 31, 2014.

### **Windfall Investors, LLC**

In October 2016, the Company re-purposed Windfall Farms from a real estate development project to an agricultural ranch and reclassified \$26,779,000 of real estate development assets to property, plant and equipment.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 8. Equity Investments

##### **Limco Del Mar, Ltd.**

The Company has a 1.3% interest in Limco Del Mar, Ltd. (“Del Mar”) as a general partner and a 26.8% interest as a limited partner. In October of 2016, the Company purchased 14,468 units of Del Mar for \$940,000, increasing our prior-year 22.1 % interest as a limited partner. The Company paid \$615,000 in October 2016 and \$325,000 in November 2016 for these additional units. Based on the terms of the partnership agreement, the Company may be removed without cause from the partnership upon the vote of the limited partners owning an aggregate of 50% or more interest in the partnership. Since the Company has significant influence, but less than a controlling interest, the Company’s investment in Del Mar is accounted for using the equity method of accounting.

The Company provides Del Mar with farm management, orchard land development and accounting services and received expense reimbursements of \$146,000, \$150,000 and \$141,000 in fiscal years 2016, 2015 and 2014, respectively. The Company also performed contract lemon packing services for Del Mar and recognized revenues of \$637,000, \$568,000 and \$675,000 in fiscal years 2016, 2015 and 2014, respectively. Fruit proceeds due to Del Mar were \$791,000 and \$712,000 at October 31, 2016 and 2015, respectively, and are included in grower’s payable in the accompanying consolidated balance sheets.

##### **Romney Property Partnership**

In May 2007, the Company and an individual formed the Romney Property Partnership (“Romney”) for the purpose of owning and leasing an office building and adjacent lot in Santa Paula, California. The Company paid \$489,000 in 2007 for 75% interest in Romney, and contributed zero, \$9,000 and \$8,000 to the partnership in fiscal years 2016, 2015 and 2014, respectively. The terms of the partnership agreement affirm the status of the Company as a non-controlling investor in the partnership since the Company cannot exercise unilateral control over the partnership. Since the Company has significant influence, but less than a controlling interest, the Company’s investment in Romney is accounted for using the equity method of accounting. Net profits, losses and cash flows of Romney are shared by the Company, which receives 75% and the individual, who receives 25%.

### **Limoneira Chile SpA**

On August 14, 2014, through its wholly owned subsidiary, Limoneira Chile SpA, the Company invested \$1,750,000 for a 35% interest in Rosales S.A. (“Rosales”), a citrus packing, marketing and sales business located in La Serena, Chile. The Company’s investment includes certain preferred interest provisions through December 31, 2016, including cash distributions of the 50% and 40% of the net income of Rosales for the years ending December 31, 2014 and 2015, respectively, as well as a liquidation preference on its investment. In addition, the Company has the right to acquire the 52% interest of the majority shareholder of Rosales upon death or disability of Rosales’ general manager for the fair value of the interest on the date of the event as defined in the shareholders’ agreement. Since the Company has significant influence, but less than a controlling interest, the Company’s investment in Rosales is accounted for using the equity method of accounting.

Rosales’ functional currency is the Chilean Peso. The following financial information has been translated to U.S. dollars. In addition, as a result of the Company’s acquisition of its equity interest, basis differences were identified between the historical cost of the net assets of Rosales and the proportionate fair value of the net assets acquired. Such basis differences aggregated \$1,683,000 on the acquisition date and are primarily comprised of intangible assets, including \$343,000 of equity method goodwill. The remaining \$1,340,000 in basis differences is being amortized over the estimated life of the underlying intangible assets as a reduction in the equity investment and an expense included in equity in earnings (losses) of investments. Amortization amounted to \$208,000, \$208,000 and \$43,000 for fiscal year 2016, 2015 and 2014, respectively, and is estimated to be approximately \$206,000 per year through October 31, 2018 and \$55,000 per year for years ending October 31, 2019 through October 31, 2023.

### **Limoneira Lewis Community Builders (“LLC”)**

As described in Note 7, on November 10, 2015, the Company entered into a joint venture with The Lewis Group of Companies for the residential development of its East Area 1 real estate development project.

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**8. Equity Investments (continued)**

The following is unaudited financial information of the equity method investees for fiscal years 2016, 2015 and 2014:

|                              | Del Mar     | Romney     | Rosales     | LLC          | Total        |
|------------------------------|-------------|------------|-------------|--------------|--------------|
| 2016                         |             |            |             |              |              |
| Assets                       | \$1,244,000 | \$690,000  | \$4,300,000 | \$47,332,000 | \$53,566,000 |
| Liabilities                  | \$-         | \$-        | \$2,719,000 | \$36,000     | \$2,755,000  |
| Equity                       | 1,244,000   | 690,000    | 1,581,000   | 47,296,000   | 50,811,000   |
| Total liabilities and equity | \$1,244,000 | \$690,000  | \$4,300,000 | \$47,332,000 | \$53,566,000 |
| Revenues                     | \$3,452,000 | \$11,000   | \$7,639,000 | \$-          | \$11,102,000 |
| Expenses                     | 910,000     | 24,000     | 6,979,000   | 1,000        | 7,914,000    |
| Net income (loss)            | \$2,542,000 | \$(13,000) | \$660,000   | \$(1,000)    | \$3,188,000  |
| 2015                         |             |            |             |              |              |
| Assets                       | \$1,204,000 | \$652,000  | \$2,103,000 | \$-          | \$3,959,000  |
| Liabilities                  | \$-         | \$-        | \$1,113,000 | \$-          | \$1,113,000  |
| Equity                       | 1,204,000   | 652,000    | 990,000     | -            | 2,846,000    |
| Total liabilities and equity | \$1,204,000 | \$652,000  | \$2,103,000 | \$-          | \$3,959,000  |
| Revenues                     | \$2,817,000 | \$13,000   | \$4,864,000 | \$-          | \$7,694,000  |
| Expenses                     | 876,000     | 17,000     | 4,838,000   | -            | 5,731,000    |
| Net income (loss)            | \$1,941,000 | \$(4,000)  | \$26,000    | \$-          | \$1,963,000  |
| 2014                         |             |            |             |              |              |
| Assets                       | \$2,623,000 | \$707,000  | \$3,722,000 | \$-          | \$7,052,000  |
| Liabilities                  | \$-         | \$-        | \$2,471,000 | \$-          | \$2,471,000  |
| Equity                       | 2,623,000   | 707,000    | 1,251,000   | -            | 4,581,000    |
| Total liabilities and equity | \$2,623,000 | \$707,000  | \$3,722,000 | \$-          | \$7,052,000  |
| Revenues                     | \$2,003,000 | \$6,000    | \$2,175,000 | \$-          | \$4,184,000  |
| Expenses                     | 910,000     | 16,000     | 2,009,000   | -            | 2,935,000    |
| Net income (loss)            | \$1,093,000 | \$(10,000) | \$166,000   | \$-          | \$1,249,000  |

The Company's investment and equity in earnings (losses) of the equity method investees are as follows:

Edgar Filing: Limoneira CO - Form 10-K

|                                     | Del Mar     | Romney    | Rosales     | LLC         | Total       |
|-------------------------------------|-------------|-----------|-------------|-------------|-------------|
| Investment balance October 31, 2013 | \$1,265,000 | \$535,000 | \$-         | \$-         | \$1,800,000 |
| Equity earnings (losses)            | 256,000     | (8,000 )  | 15,000      | -           | 263,000     |
| Cash distributions                  | (183,000 )  | -         | -           | -           | (183,000 )  |
| Investment contributions            | -           | 8,000     | 1,750,000   | -           | 1,758,000   |
| Investment balance October 31, 2014 | 1,338,000   | 535,000   | 1,765,000   | -           | 3,638,000   |
| Equity earnings (losses)            | 455,000     | (13,000 ) | (199,000 )  | -           | 243,000     |
| Cash distributions                  | (789,000 )  | -         | (54,000 )   | -           | (843,000 )  |
| Investment contributions            | -           | 9,000     | -           | -           | 9,000       |
| Investment balance October 31, 2015 | 1,004,000   | 531,000   | 1,512,000   | -           | 3,047,000   |
| Equity earnings (losses)            | 603,000     | (9,000 )  | 40,000      | -           | 634,000     |
| Cash distributions                  | (586,000 )  | -         | (56,000 )   | -           | (642,000 )  |
| Investment contributions            | 940,000     | -         | -           | 2,275,000   | 3,215,000   |
| Investment balance October 31, 2016 | \$1,961,000 | \$522,000 | \$1,496,000 | \$2,275,000 | \$6,254,000 |



## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### **9. Investment in Calavo Growers, Inc.**

In June 2005, the Company entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Company purchased 1,000,000 shares, or approximately 6.9%, of Calavo's common stock for \$10,000,000 and Calavo purchased 1,728,570 shares, or approximately 15.1%, of the Company's common stock for \$23,450,000. Under the terms of the agreement, the Company received net cash consideration of \$13,450,000. The Company has classified its Calavo investment as available-for-sale. In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of \$6,079,000, recognizing a gain of \$2,729,000. In fiscal year 2013, the Company sold 165,000 shares of Calavo stock for a total of \$4,788,000, recognizing a gain of \$3,138,000.

In October 2015, the Company sold 140,000 shares of Calavo stock at an average price of \$46.00 per share. The net proceeds to the Company from the sale were \$6,433,000 and the Company recognized a gain of \$5,033,000. In June and July 2016, the Company sold 60,000 shares of Calavo stock for a total of \$4,019,000, recognizing a gain of \$3,419,000. These gains are included in other income in the consolidated statements of operations. The Company continues to own 300,000 shares of Calavo common stock.

Additionally, changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses on shares held by the Company and reclassifications of unrealized gains on securities sold by the Company. In fiscal year 2016, the Company recorded unrealized holding gains of \$2,668,000 (\$1,619,000 net of tax) and reclassification of unrealized gain on security sold of \$2,830,000 (\$1,719,000 net of tax). In fiscal year 2015, the Company recorded unrealized holding gains of \$487,000 (\$273,000 net of tax) and reclassification of unrealized gain on security sold of \$4,850,000 (\$2,932,000 net of tax). In fiscal year 2014, the Company recorded unrealized holding gains of \$9,425,000 (\$5,790,000 net of tax).

#### **10. Other Assets**

Other assets consist of the following at October 31:

|                                       | 2016        | 2015        |
|---------------------------------------|-------------|-------------|
| Investments in mutual water companies | \$4,327,000 | \$4,031,000 |
| Acquired water and mineral rights     | 1,536,000   | 1,536,000   |
| Deferred lease assets and other       | 930,000     | 1,404,000   |
| Note receivable                       | 612,000     | 589,000     |
| Revolving funds and memberships       | 292,000     | 349,000     |
| Acquired trade names and trademarks   | 341,000     | 446,000     |
| Goodwill                              | 680,000     | 680,000     |
|                                       | \$8,718,000 | \$9,035,000 |

### **Investments in Mutual Water Companies**

The Company's investments in various not-for-profit mutual water companies provide the Company with the right to receive a proportionate share of water from each of the not-for-profit mutual water companies that have been invested in and do not constitute voting shares and/or rights.

### **Acquired Water and Mineral Rights**

Acquired water and mineral rights are indefinite-life intangible assets not subject to amortization.

### **Deferred Lease Assets and Other**

Deferred lease assets and other as of October 31, 2016 and 2015 includes \$373,000 and \$586,000 of deferred rent assets, respectively, and \$79,000 of prepaid lease amounts on pollination equipment.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 10. Other Assets (continued)

In addition, deferred lease assets and other as of October 31, 2016 and 2015 includes a patent for an agricultural variety with a carrying value of \$97,000 and \$110,000, respectively, net of accumulated amortization of \$125,000 and \$112,000, respectively. Amortization expense associated with the patent was \$13,000 for each of the fiscal years 2016, 2015 and 2014. The Company will amortize \$13,000 each year for fiscal years 2017 through 2021 related to its patent.

#### Note Receivable

In fiscal year 2004, the Company sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and the resulting gain on the sale of \$161,000 was deferred. In connection with the sale, the Company recorded a note receivable of \$4,263,000. Principal of \$2,963,000 and interest was paid in April 2005 and \$112,000 of the deferred gain was recognized as income at that time. The remaining deferred gain is included in other long-term liabilities in the Company's consolidated balance sheets. The remaining principal balance of \$1,300,000 and the related accrued interest was initially payable in April 2009; however, the Company and the buyer of the Morro Bay land executed a note extension agreement in March 2009. Based on the terms of the note extension agreement, the remaining principal balance of \$1,300,000 and the related accrued interest was to be paid in full on April 1, 2014. During July 2011, the Company and the buyer agreed to extend the due date for the note from April 1, 2014 to April 1, 2020 and to convert the interest rate from a fixed rate of 7.0% to a floating rate of LIBOR plus 3.5% with a floor of 6.0%. On April 1, 2014 the rate converted to a floating rate of LIBOR plus 3.5% with no floor. The note is subordinate to bank financing and provides for repayment that is based on a percentage of net operating cash flows of the underlying avocado orchard as defined in the note, ranging from 35% through 2014 and 50% until fully repaid or any unpaid balance due and payable on the due date.

In fiscal year 2015, the holder of the note completed the drilling of three water wells at the Company's Windfall Investors, LLC real estate development property and two water wells at the Sheldon Ranches, which are leased by the Company. The fair value of the well drilling services was \$1,535,000 and the Company recorded a non-cash reduction of the note receivable comprised of \$824,000 in accrued interest and \$711,000 of principal. Additionally, the Company recognized \$27,000 of deferred gain in fiscal year 2015. Total principal and interest due was \$612,000 and \$589,000 at October 31, 2016 and 2015, respectively. Interest continues to accrue on the principal balance of the note

and was \$23,000, \$40,000 and \$60,000 in fiscal years 2016, 2015 and 2014, respectively.

### **Revolving Funds and Memberships**

Revolving funds and memberships represent the Company's investments in various cooperative associations.

### **Acquired Trade Names, Trademarks and Goodwill**

The Company acquired \$486,000 of trade names and trademarks and \$680,000 of goodwill in its acquisition of Associated in September 2013. Tradenames and trademarks are being amortized over eight years and the Company will amortize \$60,000 each year for fiscal years 2017 through 2021. Additionally, the Company acquired \$160,000 of customer relationships with the acquisition of the Yuma packinghouse in June 2014. Customer relationships are being amortized over five years and the Company will amortize \$24,000 each year for fiscal years 2017 and 2018. Accumulated amortization for tradenames, trademarks and customer relationships was \$304,000 and \$201,000 as of October 31, 2016 and 2015, respectively. Amortization expense for tradenames, trademarks and customer relationships was \$83,000, \$85,000 and \$55,000 in fiscal years 2016, 2015 and 2014, respectively. Additionally, we recognized a fair value adjustment to customer relationships and recorded a \$20,000 increase in agribusiness costs and expenses in fiscal year 2016.

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**11. Accrued Liabilities**

Accrued liabilities consist of the following at October 31:

|                                     | 2016        | 2015        |
|-------------------------------------|-------------|-------------|
| Compensation                        | \$2,362,000 | \$1,655,000 |
| Income taxes                        | -           | 180,000     |
| Property taxes                      | 520,000     | 541,000     |
| Interest                            | 277,000     | 263,000     |
| Deferred rental income and deposits | 633,000     | 892,000     |
| Lease expense                       | 296,000     | 827,000     |
| Lemon supplier payables             | 1,242,000   | 788,000     |
| Capital expenditures and other      | 1,091,000   | 718,000     |
|                                     | \$6,421,000 | \$5,864,000 |

**12. Long-Term Debt**

Long-term debt is comprised of the following at October 31:

|                                                                                                                                                                                                                                                               | 2016         | 2015         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Rabobank revolving credit facility: the interest rate is variable based on the one-month London Interbank Offered Rate ("LIBOR"), which was 0.52% at October 31, 2016, plus 1.80%. Interest is payable monthly and the principal is due in full in June 2018. | \$59,606,000 | \$83,834,000 |
| Farm Credit West term loan: the interest rate is variable and was 2.95% at October 31, 2016. The loan is payable in quarterly installments through November 2022.                                                                                             | 3,701,000    | 4,235,000    |
| Farm Credit West non-revolving line of credit: the loan was repaid in February 2016 with proceeds from the Farm Credit West term loans as noted below.                                                                                                        | -            | 492,000      |

Edgar Filing: Limoneira CO - Form 10-K

|                                                                                                                                                                                                    |              |              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Farm Credit West term loan: the interest rate is variable and was 2.95% at October 31, 2016. The loan is payable in monthly installments through October 2035.                                     | 1,213,000    | 1,263,000    |
| Farm Credit West term loan: the interest rate is fixed at 4.70%. The loan is payable in monthly installments through March 2036.                                                                   | 9,822,000    | -            |
| Farm Credit West term loan: the interest rate is fixed at 3.62% until March 2021, becoming variable for the remainder of the loan. The loan is payable in monthly installments through March 2036. | 7,349,000    | -            |
| Wells Fargo term loan: the interest rate is fixed at 3.58%. The loan is payable in monthly installments through January 2023.                                                                      | 9,152,000    | -            |
| Subtotal                                                                                                                                                                                           | 90,843,000   | 89,824,000   |
| Less deferred financing costs                                                                                                                                                                      | 171,000      | 156,000      |
| Total long-term debt, net                                                                                                                                                                          | 90,672,000   | 89,668,000   |
| Less current portion                                                                                                                                                                               | 2,508,000    | 589,000      |
| Long-term debt, less current portion                                                                                                                                                               | \$88,164,000 | \$89,079,000 |

The Rabobank and Farm Credit West loans are secured by certain of the Company's agricultural properties and a portion of the equity interest in the Company's investments in certain mutual water companies.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 12. Long-Term Debt (continued)

On March 31, 2014, the Company entered into a Third Amendment to the Amended and Restated Line of Credit Agreement dated December 15, 2008 in order to, among other things, release Rabobank's security interest in Teague McKeveitt Ranch, which is also known as East Area I real estate development project, in Ventura County, California, and grant Rabobank a security interest in certain of the Company's agricultural properties located in Ventura and Tulare Counties. The line of credit provides for maximum borrowings of \$100,000,000 and the borrowing capacity based on collateral value was \$92,556,000 at October 31, 2015. The Company paid debt financing costs of \$106,000 in fiscal year 2014 related to this amendment. In 2016, an appraisal was performed on the collateral value of certain agricultural property and the borrowing base was increased to \$100,000,000. The company paid debt financing costs of \$21,000 in fiscal year 2016 related to this appraisal.

On January 20, 2016, the Company entered into a \$10,000,000 term loan with Wells Fargo Equipment Finance, Inc. with security on the loan comprised of certain equipment associated with the Company's new packing facilities. The loan contains affirmative and restrictive covenants including, among other customary covenants and default provisions, a requirement that the Company maintain a debt service coverage ratio, as defined in the loan agreement, of less than 1.25 to 1.0 measured annually at October 31. The loan includes a prepayment penalty of 2% of the unpaid balance for the first eighteen months, with no prepayment penalty thereafter.

On February 16, 2016, the Company entered into a Promissory Note and Loan Agreement with Farm Credit West. The loan agreement provides for a term loan in the amount of \$10,000,000 and a term loan in the amount of \$7,500,000 (the "Term Loans"). The Term Loans are secured by certain of the Company's agricultural properties and are pre-payable in whole or in part after September 1, 2016. The proceeds from the Term Loans were used to repay the Farm Credit West Line of Credit and pay down outstanding indebtedness under the Rabobank revolving credit facility. Additionally, the loan agreement includes default provisions that, at the lender's option, may cause all principal, interest and other amounts that may have been advanced under the loan to become immediately due and payable by the Company. The Company paid debt financing costs of \$44,000 related to these loans.

Interest is capitalized on non-bearing orchards, real estate development projects and significant construction in progress. The Company capitalized interest of \$1,919,000 and \$2,534,000 during the year ended October 31, 2016 and 2015, respectively. Capitalized interest is included in property, plant and equipment and real estate development assets

in the Company's consolidated balance sheets.

The Company incurs certain loan fees and costs associated with its new or amended credit arrangements. Such costs are capitalized as deferred financing costs and amortized as interest expense using the straight-line method over the terms of the credit agreements. The balance of deferred financing costs is \$171,000 net of amortization and is included in long-term debt on the Company's consolidated balance sheet at October 31, 2016.

Principal payments on the Company's long-term debt are due as follows:

|            |              |
|------------|--------------|
| 2017       | \$2,508,000  |
| 2018       | 62,203,000   |
| 2019       | 2,691,000    |
| 2020       | 2,787,000    |
| 2021       | 2,888,000    |
| Thereafter | 17,766,000   |
|            | \$90,843,000 |



**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**13. Derivative Instruments and Hedging Activities**

Derivative financial instruments consist of the following at October 31:

|                                                                                                       | Notional Amount |              | Fair Value Liability |             |
|-------------------------------------------------------------------------------------------------------|-----------------|--------------|----------------------|-------------|
|                                                                                                       | 2016            | 2015         | 2016                 | 2015        |
| Pay fixed-rate, receive floating-rate forward interest rate swap, beginning July 2013 until June 2018 | \$40,000,000    | \$40,000,000 | \$1,151,000          | \$1,702,000 |

In November 2011, the Company entered into a forward interest rate swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on \$40,000,000 of its outstanding borrowings under the Rabobank line of credit beginning July 2013 until June 2018. This interest rate swap qualifies as a cash flow hedge and the fair value liability is included in fair value of derivative instruments, other long-term liabilities and related accumulated other comprehensive income in the accompanying consolidated balance sheet.

**14. Earnings Per Share**

Basic net income per common share is calculated using the weighted-average number of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding during the period plus the dilutive effect of conversion of preferred stock. The Series B and Series B-2 convertible preferred shares were anti-dilutive for fiscal years ended October 31, 2016, 2015 and 2014. The computations for basic net income per common share are as follows:

|                                                   | Year ended October 31, |             |             |
|---------------------------------------------------|------------------------|-------------|-------------|
|                                                   | 2016                   | 2015        | 2014        |
| Basic net income per common share:                |                        |             |             |
| Numerator: Net income applicable to common stock  | \$7,430,000            | \$6,447,000 | \$6,531,000 |
| Denominator: Weighted average common shares-basic | 14,168,000             | 14,119,000  | 14,055,000  |

|                                   |        |        |        |
|-----------------------------------|--------|--------|--------|
| Basic net income per common share | \$0.52 | \$0.46 | \$0.46 |
|-----------------------------------|--------|--------|--------|

Unvested stock-based compensation awards that contain non-forfeitable rights to dividends as participating shares are included in computing earnings per share using the two-class method. The Company's unvested, restricted stock awards qualify as participating shares.

## 15. Related-Party Transactions

The Company rents certain of its residential housing assets to employees on a month-to-month basis. The Company recorded \$749,000, \$622,000 and \$561,000 of rental income from employees in fiscal years 2016, 2015 and 2014, respectively. There were no rental payments due from employees at October 31, 2016 and 2015.

The Company has representation on the boards of directors of the mutual water companies in which the Company has investments. The Company recorded capital contributions and purchased water and water delivery services from such mutual water companies, in aggregate, of \$1,287,000, \$1,357,000 and \$1,232,000 in fiscal years 2016, 2015 and 2014, respectively. Capital contributions are included in other assets in the Company's consolidated balance sheets and purchased water and water delivery services are included in agribusiness expense in the Company's consolidated statements of operations. Water payments due to the mutual water companies were, in aggregate, \$131,000 and \$175,000 at October 31, 2016 and 2015, respectively.

The Company has representation on the board of directors of a non-profit cooperative association that provides pest control services for the agricultural industry. The Company purchased services and supplies of \$1,659,000, \$1,567,000 and \$1,425,000 from the association in fiscal years 2016, 2015 and 2014, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the cooperative were \$87,000 and \$142,000 at October 31, 2016 and 2015, respectively.

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**15. Related-Party Transactions (continued)**

The Company recorded dividend income of \$288,000, \$375,000 and \$350,000 in fiscal years 2016, 2015 and 2014, respectively, on its investment in Calavo, which is included in other income, net, in the Company's consolidated statements of operations. The Company had \$10,767,000, \$7,132,000 and \$7,374,000 in avocado sales to Calavo in fiscal years 2016, 2015 and 2014, respectively. Additionally, the Company had zero, \$67,000 and zero in lemon sales to Calavo in fiscal years 2016, 2015 and 2014, respectively. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. The Company leases office space to Calavo and received rental income of \$279,000, \$272,000, and \$277,000 in fiscal years 2016, 2015 and 2014, respectively. Such amounts are included in rental revenues in the Company's consolidated statements of operations. No amounts were receivable by the Company from Calavo at October 31, 2016 or 2015. The Company purchased \$517,000, \$162,000 and \$658,000 of packed avocados and lemons to sell from Calavo in fiscal years 2016, 2015 and 2014, respectively. No amounts were due to Calavo at October 31, 2016 and 2015, respectively.

Certain members of the Company's board of directors market lemons through the Company pursuant to its customary marketing agreements. During fiscal years 2016, 2015 and 2014 the aggregate amount of lemons procured from entities owned or controlled by members of the board of directors was \$2,246,000, \$1,472,000 and \$1,583,000, respectively, which is included in agribusiness expense in the Company's consolidated statements of operations. Payments due to these Board members were \$877,000 and \$531,000 at October 31, 2016 and 2015, respectively. Additionally, the Company leases approximately 31 acres of orchards from entities affiliated with a member on the board of directors and incurred \$135,000, \$23,000 and \$123,000 of lease expense related to these leases in fiscal years 2016, 2015 and 2014, respectively.

On July 1, 2013, the Company and Cadiz Real Estate, LLC ("Cadiz"), a wholly owned subsidiary of Cadiz, Inc., entered into a long-term lease agreement (the "Lease") for a minimum of 320 acres, with options to lease up to an additional 960 acres, located within 9,600 zoned agricultural acres owned by Cadiz in eastern San Bernardino County, California. The initial term of the Lease runs for 20 years and the annual base rental will be equal to the sum of \$200 per planted acre and 20% of gross revenues from the sale of harvested lemons (less operating expenses) and will not exceed \$1,200 per acre per year. During fiscal years 2016, 2015 and 2014 respectively, \$92,000, \$58,000 and \$15,000 of lease expense was incurred in connection with this lease. A member of the Company's Board of Directors serves as the CEO, President and a member of the board of directors of Cadiz, Inc. Additionally, this board member is an attorney with a law firm that provided services of \$30,000, \$148,000 and \$82,000 to the Company during the years ended October 31, 2016, 2015 and 2014 respectively. Payments due to the law firm were \$6,000 and \$42,000 at October 31,

2016 and 2015, respectively.

On February 5, 2015, the Company entered into a Modification of Lease Agreement (the “Amendment”) with Cadiz. The Amendment, among other things, increased by 200 acres the amount of property leased by the Company under the lease agreement dated July 1, 2013. In connection with the Amendment, the Company paid a total of \$1,212,000 to acquire existing lemon trees and irrigations systems from Cadiz and a Cadiz tenant. In February 2016, Cadiz assigned this lease to Fenner Valley Farms, LLC (“Fenner”), a subsidiary of Water Asset Management, LLC (“WAM”). An entity affiliated with WAM is the holder of 9,300 shares of Limoneira Company Series B-2 convertible preferred stock. Payments due to Fenner were \$25,000 and zero at October 31, 2016 and October 31, 2015, respectively.

The Company has representation on the board of directors of Colorado River Growers, Inc. (“CRG”), a non-profit cooperative association of fruit growers engaged in the agricultural harvesting business in Yuma County, Arizona. The Company paid harvest and third-party grower expense to CRG of \$4,492,000, \$6,003,000 and \$6,805,000 for the years ended October 31, 2016, 2015, and 2014 respectively. Such amounts are included in agribusiness expense in the Company’s consolidated financial statements. Additionally, Associated provided harvest management and administrative services to CRG in the amount of \$282,000, \$218,000, and \$345,000 during the years ended October 31, 2016, 2015, and 2014 respectively. Such amounts are included in agribusiness revenues in the Company’s consolidated financial statements. There was \$181,000 and \$116,000 due to Associated from CRG at October 31, 2016 and October 31, 2015, respectively, which is included in accounts receivable in the Company’s consolidated balance sheets.

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**15. Related-Party Transactions (continued)**

The Company has representation on the board of directors of Yuma Mesa Irrigation and Drainage District (“YMIDD”). In December 2013, Associated entered into an agreement, as amended in December 2014 and 2015, with YMIDD to participate in a Pilot Fallowing Program in which Associated agreed to forego its water allocation for approximately 300 acres of land in exchange for \$750 per acre through December 31, 2016, unless terminated sooner by YMIDD. In relation to this program the Company recorded income of \$201,000, \$210,000 and \$160,000 during the years ended October 31, 2016, 2015 and 2014, respectively. In relation to this program, during the years ended October 31, 2016, 2015 and 2014, respectively, the Company recorded losses on orchard disposals of zero, \$160,000 and \$184,000, respectively. These net amounts are included in other income, net in the Company’s consolidated statements of operations. Additionally, the Company purchased water in the amount of \$132,000, \$125,000 and \$119,000 during fiscal years 2016, 2015 and 2014, respectively. Such amounts are included in agribusiness expenses in the Company’s consolidated statements of operations. There were no amounts receivable from or payments due to YMIDD at October 31, 2016 and October 31, 2015.

**16. Income Taxes**

The components of the provisions for income taxes for fiscal years 2016, 2015 and 2014 are as follows:

|                                   | 2016        | 2015          | 2014          |
|-----------------------------------|-------------|---------------|---------------|
| Current:                          |             |               |               |
| Federal                           | \$1,736,000 | \$(3,315,000) | \$(2,820,000) |
| State                             | (749,000 )  | (1,007,000)   | (882,000 )    |
| Foreign                           | (59,000 )   | (2,000 )      | -             |
| Total current benefit (provision) | 928,000     | (4,324,000)   | (3,702,000)   |
| Deferred:                         |             |               |               |
| Federal                           | (5,942,000) | 343,000       | 80,000        |
| State                             | (253,000 )  | 7,000         | 49,000        |

Edgar Filing: Limoneira CO - Form 10-K

|                                    |               |               |               |
|------------------------------------|---------------|---------------|---------------|
| Total deferred (provision) benefit | (6,195,000)   | 350,000       | 129,000       |
| Total provision                    | \$(5,267,000) | \$(3,974,000) | \$(3,573,000) |

The income tax provision differs from the amount which would result from the statutory federal income tax rate primarily as a result of dividend exclusions, the domestic production activities deduction and state income taxes.

Deferred income taxes reflect the net of temporary differences between the carrying amount of the assets and liabilities for financial reporting and income tax purposes. The components of deferred income tax assets (liabilities) at October 31, 2016 and 2015 are as follows:

|                                                  | 2016           | 2015           |
|--------------------------------------------------|----------------|----------------|
| Deferred income tax assets:                      |                |                |
| Labor accruals                                   | \$246,000      | \$246,000      |
| State income taxes                               | 293,000        | 337,000        |
| Net operating losses                             | 1,000          | 18,000         |
| Prepaid insurance and other                      | 69,000         | 38,000         |
| Impairments of real estate development assets    | 3,147,000      | 3,152,000      |
| Derivative instruments                           | 452,000        | 669,000        |
| Minimum pension liability adjustment             | 2,207,000      | 1,715,000      |
| Amortization                                     | 462,000        | 683,000        |
| Total deferred income tax assets                 | 6,877,000      | 6,858,000      |
| Deferred income tax liabilities:                 |                |                |
| Property taxes                                   | (184,000 )     | (205,000 )     |
| Depreciation                                     | (11,644,000)   | (5,518,000 )   |
| Unrealized net gain on Calavo investment         | (5,792,000 )   | (5,864,000 )   |
| Book and tax basis difference of acquired assets | (14,471,000)   | (14,482,000)   |
| Other                                            | (114,000 )     | (214,000 )     |
| Total deferred income tax liabilities            | (32,205,000)   | (26,283,000)   |
| Net deferred income tax liabilities              | \$(25,328,000) | \$(19,425,000) |

At October 31, 2016, the Company had state net operating loss carry-forwards of approximately \$30,000. The state net operating loss carry forwards will begin to expire in fiscal year 2032 unless previously utilized.

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**16. Income Taxes (continued)**

The income tax provision differs from that computed using the federal statutory rate applied to income before taxes as follows for fiscal years 2016, 2015 and 2014:

|                                          | 2016          |         | 2015          |         | 2014          |         |
|------------------------------------------|---------------|---------|---------------|---------|---------------|---------|
|                                          | Amount        | %       | Amount        | %       | Amount        | %       |
| Provision at statutory rates             | \$(4,530,000) | (34.0)% | \$(3,757,000) | (34.0)% | \$(3,587,000) | (34.0)% |
| State income tax, net of federal benefit | (733,000 )    | (5.5 )% | (614,000 )    | (5.5 )% | (552,000 )    | (5.2 )% |
| Dividend exclusion                       | 72,000        | 0.5 %   | 94,000        | 0.8 %   | 83,000        | 0.8 %   |
| Production deduction                     | 50,000        | 0.4 %   | 495,000       | 4.5 %   | 461,000       | 4.4 %   |
| Other permanent items                    | (126,000 )    | (0.9 )% | (192,000 )    | (1.7 )% | 22,000        | 0.2 %   |
| Total income tax provision               | \$(5,267,000) | (39.5)% | \$(3,974,000) | (35.9)% | \$(3,573,000) | (33.8)% |

The Company recognizes excess tax deductions associated with the vesting of stock grants directly to stockholders' equity when realized.

At October 31, 2016 and 2015, the Company had no unrecognized tax benefits. The Company reports accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company files income tax returns in the U.S., California, Arizona and Chile. The Company is no longer subject to significant U.S. and state income tax examinations for years prior to the statutory periods of three years for federal and four years for state tax jurisdictions. The Company recognizes interest expense and penalties related to income tax matters as a component of income tax expense. There was no accrued interest or penalties associated with uncertain tax positions as of October 31, 2016.

**17. Retirement Plans**

The Limoneira Company Retirement Plan (the “Plan”) is a noncontributory, defined benefit, single employer pension plan, which provides retirement benefits for all eligible employees. Benefits paid by the Plan are calculated based on years of service, highest five-year average earnings, primary Social Security benefit and retirement age. Effective June 2004, the Company froze the Plan and no additional benefits accrued to participants subsequent to that date. The Plan is administered by Wells Fargo Bank and Mercer Human Resource Consulting.

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of \$500,000 and \$375,000 for fiscal years 2016 and 2015, respectively. Plan assets are invested in a group trust consisting primarily of pooled funds, mutual funds, short-term investment funds and cash.

The investment policy and strategy has been established to provide a total investment return that will, over time, maintain purchasing power parity for the Plan’s variable benefits and keep the Plan funding at a reasonable level. The long-term target asset allocation ranges are as follows: Domestic Equity 35%-40%; International Equity 10%-15%; Fixed Income 47% and Cash 3%.

The following tables set forth the Plan’s net periodic cost, changes in benefit obligation and Plan assets, funded status, amounts recognized in the Company’s consolidated balance sheets, additional year-end information and assumptions used in determining the benefit obligations and net periodic benefit cost.



**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**17. Retirement Plans (continued)**

The components of net periodic benefit cost for the Plan for fiscal years 2016 and 2015 were as follows:

|                                | 2016        | 2015        |
|--------------------------------|-------------|-------------|
| Administrative expenses        | \$ 125,000  | \$ 135,000  |
| Interest cost                  | 835,000     | 852,000     |
| Expected return on plan assets | (1,077,000) | (1,128,000) |
| Amortization of net loss       | 746,000     | 984,000     |
| Net periodic benefit cost      | \$ 629,000  | \$ 843,000  |

Following is a summary of the Plan's funded status as of October 31:

|                                                | 2016          | 2015          |
|------------------------------------------------|---------------|---------------|
| Change in benefit obligation:                  |               |               |
| Benefit obligation at beginning of year        | \$ 21,051,000 | \$ 21,959,000 |
| Administrative expenses                        | 125,000       | 135,000       |
| Interest cost                                  | 835,000       | 852,000       |
| Plan amendments                                | 322,000       | -             |
| Benefits paid                                  | (1,184,000 )  | (1,031,000 )  |
| Actuarial loss (gain)                          | 1,290,000     | (864,000 )    |
| Benefit obligation at end of year              | \$ 22,439,000 | \$ 21,051,000 |
| Change in plan assets:                         |               |               |
| Fair value of plan assets at beginning of year | \$ 16,692,000 | \$ 17,005,000 |
| Actual return on plan assets                   | 812,000       | 343,000       |
| Employer contributions                         | 500,000       | 375,000       |
| Benefits paid                                  | (1,184,000 )  | (1,031,000 )  |
| Fair value of plan assets at end of year       | \$ 16,820,000 | \$ 16,692,000 |

Reconciliation of funded status:

Edgar Filing: Limoneira CO - Form 10-K

|                           |               |               |
|---------------------------|---------------|---------------|
| Fair value of plan assets | \$16,820,000  | \$16,692,000  |
| Benefit obligations       | 22,439,000    | 21,051,000    |
| Net plan obligations      | \$(5,619,000) | \$(4,359,000) |

Amounts recognized in statements of financial position:

|                                                               |               |               |
|---------------------------------------------------------------|---------------|---------------|
| Noncurrent assets                                             | \$-           | \$-           |
| Current liabilities                                           | -             | -             |
| Noncurrent liabilities                                        | (5,619,000)   | (4,359,000)   |
| Net obligation recognized in statements of financial position | \$(5,619,000) | \$(4,359,000) |

Reconciliation of amounts recognized in statements of financial position:

|                                                                  |               |               |
|------------------------------------------------------------------|---------------|---------------|
| Prior service cost                                               | \$(322,000)   | \$-           |
| Net loss                                                         | (8,823,000)   | (8,015,000)   |
| Accumulated other comprehensive loss                             | (9,145,000)   | (8,015,000)   |
| Accumulated contributions in excess of net periodic benefit cost | 3,526,000     | 3,656,000     |
| Net deficit recognized in statements of financial position       | \$(5,619,000) | \$(4,359,000) |

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**17. Retirement Plans (continued)**

Presented below are changes in accumulated other comprehensive income, before tax, in the Plan as of October 31:

|                                                                                | 2016        | 2015          |
|--------------------------------------------------------------------------------|-------------|---------------|
| Changes recognized in other comprehensive income:                              |             |               |
| New prior service cost                                                         | \$322,000   | \$-           |
| Net loss (gain) arising during the year                                        | 1,555,000   | (79,000 )     |
| Amortization of net loss                                                       | (746,000 )  | (984,000 )    |
| Total recognized in other comprehensive loss (income)                          | \$1,131,000 | \$(1,063,000) |
| Total recognized in net periodic benefit and other comprehensive loss (income) | \$1,760,000 | \$(220,000 )  |

Presented below is the October 31, year-ended estimated amount that will be amortized from accumulated other comprehensive income over the next fiscal year:

|                                | 2016        |
|--------------------------------|-------------|
| Initial net asset (obligation) | \$-         |
| Prior service cost             | (45,000 )   |
| Net loss                       | (833,000)   |
| Total                          | \$(878,000) |

The following assumptions, as of October 31, were used in determining benefit obligations and net periodic benefit cost:

|                                                                     | 2016 |   | 2015 |   |
|---------------------------------------------------------------------|------|---|------|---|
| Weighted-average assumptions used to determine benefit obligations: |      |   |      |   |
| Discount rate                                                       | 3.60 | % | 4.10 | % |

Edgar Filing: Limoneira CO - Form 10-K

Assumptions used to determine net periodic benefit cost:

|                                |      |   |      |   |
|--------------------------------|------|---|------|---|
| Discount rate                  | 4.10 | % | 4.00 | % |
| Expected return on plan assets | 6.50 | % | 7.00 | % |

Additional year-end information:

|                                |              |              |
|--------------------------------|--------------|--------------|
| Projected benefit obligation   | \$22,439,000 | \$21,051,000 |
| Accumulated benefit obligation | \$22,439,000 | \$21,051,000 |
| Fair value of plan assets      | \$16,820,000 | \$16,692,000 |

Benefit payments are expected to be paid during the following fiscal years:

|           |              |
|-----------|--------------|
| 2017      | \$1,210,000  |
| 2018      | 1,243,000    |
| 2019      | 1,268,000    |
| 2020      | 1,272,000    |
| 2021      | 1,277,000    |
| 2022-2026 | 6,623,000    |
|           | \$12,893,000 |

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**17. Retirement Plans (continued)**

The following table sets forth the Plan's assets as of October 31, 2016, segregated by level using the hierarchy established by FASB ASC 820, *Fair Value Measurements and Disclosures*:

|                           | Level 1     | Level 2    | Level 3 | Total        |
|---------------------------|-------------|------------|---------|--------------|
| Cash and cash equivalents | \$171,000   | \$-        | \$ -    | \$171,000    |
| Mutual funds              | 1,349,000   | -          | -       | 1,349,000    |
| Pooled funds              | -           | 15,300,000 | -       | 15,300,000   |
|                           | \$1,520,000 | 15,300,000 | \$ -    | \$16,820,000 |

The Company has a 401(k) plan in which it contributes an amount equal to 4% of an eligible employee's annual earnings beginning after one year of employment. Employees may elect to defer up to 100% of their annual earnings subject to Internal Revenue Code limits. The Company makes an additional matching contribution on these deferrals up to 4% of the employee's annual earnings. Employees are 100% vested in the Company's contribution after six years of employment. Participants vest in any matching contribution at a rate of 20% per year beginning after one year of employment. During fiscal years 2016, 2015 and 2014, the Company contributed to the plan and recognized expenses of \$823,000, \$775,000 and \$647,000, respectively.

**18. Other Long-Term Liabilities**

Other long-term liabilities consist of the following at October 31:

|                                     | 2016        | 2015        |
|-------------------------------------|-------------|-------------|
| Minimum pension liability           | \$5,619,000 | \$4,359,000 |
| Fair value of derivative instrument | 461,000     | 935,000     |
| Contingent consideration            | -           | 300,000     |

|                                             |             |             |
|---------------------------------------------|-------------|-------------|
| Deposit received for joint venture interest | -           | 2,000,000   |
| Deferred gain and other                     | 47,000      | 47,000      |
|                                             | \$6,127,000 | \$7,641,000 |

## 19. Operating Lease Income

The Company rents certain of its assets under net operating lease agreements ranging from one month to 20 years. The cost of land subject to agricultural land leases was \$1,529,000 at October 31, 2016. The total cost and accumulated depreciation of buildings, equipment and building improvements subject to leases was \$21,997,000 and \$6,081,000, respectively, at October 31, 2016. The Company's rental operations revenue includes contingent rental revenue of \$195,000, \$135,000 and \$200,000 for fiscal years 2016, 2015 and 2014, respectively.

The future minimum lease payments to be received by the Company related to these net operating lease agreements as of October 31, 2016, are as follows:

|            |             |
|------------|-------------|
| 2017       | \$1,675,000 |
| 2018       | 1,441,000   |
| 2019       | 930,000     |
| 2020       | 688,000     |
| 2021       | 287,000     |
| Thereafter | 1,249,000   |
|            | \$6,270,000 |

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 20. Commitments and Contingencies

##### Operating Leases

The Company has operating leases for agricultural land, pollinating equipment, packinghouse equipment, and photovoltaic generators. Total lease expense for fiscal years 2016, 2015 and 2014 was \$2,049,000, \$2,922,000 and \$3,390,000, respectively, which is included in agribusiness costs and expenses in the Company's consolidated statements of operations.

During fiscal year 2008, the Company entered into a contract with Perpetual Power, LLC ("Perpetual") to install a 1,000 KW photovoltaic generator in order to provide electrical power for the Company's lemon packinghouse operations. The facility became operational in October 2008. Farm Credit West provided financing for the generator and upon completion of the construction Perpetual sold the generator to Farm Credit West. The Company then signed a 10-year operating lease agreement with Farm Credit West. At the end of the 10-year lease term, the Company will have an option to purchase the generator from Farm Credit West for \$1,125,000.

Additionally, in fiscal year 2008, the Company entered into a contract with Perpetual to install a second 1,000 KW photovoltaic generator in order to provide electrical power for the Company's farming operations in Ducor, California. Farm Credit West provided the financing for the generator and when construction was completed, Perpetual sold the generator to Farm Credit West. The Company then signed a 10-year operating lease agreement with Farm Credit West for this facility. At the end of the 10-year lease term, the Company will have an option to purchase the generator from Farm Credit West for \$1,275,000. The generator in Ducor, California became operational in December 2008. Included in prepaid expenses and other current assets and other assets in the Company's consolidated balance sheets is \$436,000 and \$664,000 at October 31, 2016 and 2015, respectively of deferred rent assets related to the Company's Ducor solar lease as the minimum lease payments exceed the straight-line rent expense during the earlier terms of the lease.

Additionally, the Company had agreements, which expired in 2014, with an electric utility through the California Solar Initiative which entitled it to receive rebates for energy produced by our solar arrays. These rebates were zero, zero and \$91,000 in fiscal years 2016, 2015 and 2014, respectively.

In January 2012, the Company entered into a series of operating leases for approximately 1,000 acres of lemon, orange, specialty citrus and other crop orchards in Lindsay, California. Each of the leases is for ten-year terms and provides for four five-year renewal options with an aggregate base rent of approximately \$500 per acre. The leases also contain profit share arrangements with the landowners as additional rent on each of the properties and a provision for the potential purchase of the properties by us in the future. The Company purchased substantially all of the leased acreage in September and December 2015 as discussed in Note 3. The Company incurred lease expense of \$202,000, \$1,137,000 and \$1,641,000 in fiscal years 2016, 2015 and 2014

On July 1, 2013, the Company and Cadiz, entered into a long-term lease agreement for a minimum of 320 acres, with an option to lease up to an additional 960 acres, located within 9,600 zoned agricultural acres owned by Cadiz in eastern San Bernardino County, California. The initial term of the lease runs for 20 years and the annual base rental will be equal to the sum of \$200 per planted acre and 20% of gross revenues from the sale of harvested lemons (less operating expenses) and will not exceed \$1,200 per acre per year.

On February 5, 2015, the Company entered into a Modification of Lease Agreement (the “Amendment”) with Cadiz. The Amendment, among other things, increased by 200 acres the amount of property leased by the Company under the lease agreement dated July 1, 2013. In connection with the Amendment, the Company paid a total of \$1,212,000 to acquire existing lemon trees and irrigations systems from Cadiz and a Cadiz tenant. In February 2016, Cadiz assigned this lease to Fenner Valley Farms, LLC (“Fenner”), a subsidiary of Water Asset Management, LLC (“WAM”). An entity affiliated with WAM is the holder of 9,300 shares of Limoneira Company Series B-2 convertible preferred stock. The Company incurred lease expenses of \$92,000, \$58,000 and \$15,000 in fiscal years 2016, 2015 and 2014. Payments due to Fenner were \$25,000 and zero at October 31, 2016 and October 31, 2015, respectively.

Minimum future lease payments are as follows:

|            |             |
|------------|-------------|
| 2017       | \$1,317,000 |
| 2018       | 1,284,000   |
| 2019       | 498,000     |
| 2020       | 471,000     |
| 2021       | 471,000     |
| Thereafter | 2,295,000   |
|            | \$6,336,000 |



## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### **20. Commitments and Contingencies (continued)**

##### **Letters of Credit**

The Company utilizes standby letters of credit to satisfy workers' compensation insurance security deposit requirements. At October 31, 2016, these outstanding letters of credit totaled \$137,000.

##### **Litigation**

The Company is from time to time involved in various lawsuits and legal proceedings that arise in the ordinary course of business. At this time, the Company is not aware of any pending or threatened litigation against it that it expects will have a material adverse effect on its business, financial condition, liquidity, or operating results. Legal claims are inherently uncertain, however, and it is possible that the Company's business, financial condition, liquidity and/or operating results could be adversely affected in the future by legal proceedings.

#### **21. Series B and Series B-2 Preferred Stock**

##### **Series B Convertible Preferred Stock**

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 \$100.00 par value (the "Series B Stock").

**Dividends:** 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.

**Voting Rights:** Each shareholder of Series B Stock is entitled to ten votes on all matters submitted to a vote of the stockholders of the Company.

**Redemption:** The Company, at the option of the Board of Directors, may redeem the Series B Stock, as a whole or in part, at any time or from time to time on or after August 1, 2017 and before July 31, 2027, at a redemption price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for redemption.

**Conversion:** The holders of Series B Stock have the right, at their option, to convert such shares into shares of Common Stock of the Company at any time prior to redemption. The conversion price is \$8.00 per share of Common Stock. Pursuant to the terms of the Certificate of Designation, Preferences and Rights of the Series B Stock, the conversion price shall be adjusted to reflect any dividends paid in Common Stock of the Company, the subdivision of the Common Stock of the Company into a greater number of shares of Common Stock of the Company or upon the advice of legal counsel.

**Put:** The holders of Series B Stock may at any time after July 1, 2017 and before June 31, 2027 cause the Company to repurchase such shares at a repurchase price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for repurchase.

Because the Series B Stock may be redeemed by holders of the shares at their discretion beginning July 1, 2017, the redemption is outside of the control the Company and accordingly, the Series B Stock has been classified as temporary equity.

In April 2016, 500 shares of Series B preferred stock were converted into 6,250 shares of Limoneira common stock.

In September 2015, 500 shares of Series B preferred stock were converted into 6,250 shares of Limoneira common stock.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

#### 21. Series B and Series B-2 Preferred Stock (continued)

##### Series B-2 Convertible Preferred Stock

During March and April of 2014, pursuant to a Series B-2 Stock Purchase Agreement dated March 21, 2014, the Company issued an aggregate of 9,300 shares of Series B-2, 4% voting preferred stock with a par value of \$100.00 per share ("Series B-2 Preferred Stock") to WPI-ACP Holdings, LLC ("WPI"), an entity affiliated with Water Asset Management, LLC ("WAM") for total proceeds of \$9,300,000. The transactions were exempt from the registration requirements of the Securities Act of 1933, as amended. The Series B-2 Preferred Stock has the following rights, preferences, privileges, and restrictions:

**Conversion:** Each share of the Series B-2 Preferred Stock is convertible into common stock at a conversion price equal to the greater of (a) the then-market price of the Company's common stock based upon the closing price of the Company's common stock on the NASDAQ Stock Market, LLC or on such other principal market on which the Company's common stock may then be trading and (b) \$15.00 per share of common stock. Shares of the Series B-2 Preferred Stock may be converted into common stock (i) at any time prior to the redemption thereof, or (ii) in the event the Option Agreement (as defined below) is terminated without all of the shares of Series B-2 Preferred Stock having been redeemed, within 30 calendar days following such termination.

**Dividends:** The holder of shares of the Series B-2 Preferred Stock is entitled to receive cumulative cash dividends at an annual rate of 4% of the liquidation value of \$1,000 per share. Such dividends are payable quarterly on the first day of January, April, July and October in each year commencing July 1, 2014.

**Liquidation Rights:** In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holder of shares of the Series B-2 Preferred Stock is entitled to be paid out of the assets available for distribution, before any payment is made to the holders of the Company's common stock or any other series or class of the Company's shares ranking junior to the Series B-2 Preferred Stock, an amount equal to the liquidation value of \$1,000 per share, plus an amount equal to all accrued and unpaid dividends.

Voting Rights: Each share of Series B-2 Preferred Stock is entitled to one vote on all matters submitted to a vote of the Company's stockholders.

Redemption: The Company may redeem shares of Series B-2 Preferred Stock only (i) from WPI or its designee and (ii) upon, and to the extent of, an election to exercise the option pursuant to the Option Agreement, described below, at a redemption price equal to the liquidation value of \$1,000 per share plus accrued and unpaid dividends.

Because the Series B-2 Preferred Stock may be redeemed by WPI at its discretion with the exercise of the Option Agreement, the redemption is outside of the control the Company and accordingly, the Series B-2 Preferred Stock has been classified as temporary equity.

In connection with the sale of the Series B-2 Preferred Stock, Associated and another affiliate of WAM ("WPI-ACP"), entered into a series of agreements related to the future ownership and disposition of farmland with associated Colorado River water rights and other real estate that is held by Associated in Yuma, Arizona. The agreements allow the parties to explore strategies that will make the highest and best use of those assets, including but not limited to the sale or lease of assets or the expansion of a fallowing and water savings program in which a portion of Associated's property is currently enrolled. The net proceeds of any monetization event would be shared equally by the parties. The agreements entered into include a Water Development Agreement and an Option Agreement. Pursuant to the Water Development Agreement, Associated granted WPI-ACP exclusive rights to develop water assets attributable to the real estate owned by Associated for the mutual benefit of Associated and WAM. Pursuant to the Option Agreement, Associated granted WPI-ACP an option to purchase an undivided interest of up to one-half of the real estate owned by Associated in Yuma County, Arizona (the "Property") and the water rights associated therewith until January 1, 2026. The purchase price for the Property subject to the Option Agreement will be paid via the redemption by the Company of a proportionate percentage of the Series B-2 Preferred Stock. Unless and until a definitive agreement or definitive agreements with respect to Associated's real estate and water rights is entered into that would cause the cessation of farming operations, Associated expects to continue farming the Property and recognize all results of operations and retain all proceeds from such operations.

## LIMONEIRA COMPANY

### Notes to Consolidated Financial Statements

## 22. Stockholders' Equity

### Series A Junior Participating Preferred Stock and Shareholder Rights Agreement

During fiscal year 2007, the Company entered into a shareholder rights agreement with the Bank of New York acting as rights agent. In connection with this agreement, on October 31, 2006, the Company designated 20,000 shares of preferred stock as Series A Junior Participating Preferred Stock at \$.01 par value (the "Series A Stock"). Additionally, on October 31, 2006, the Company declared a dividend to be distributed on December 20, 2006, to each holder of record of the Company's common stock the right to purchase one one-hundredth of a share of Series A Stock. If a triggering event occurred, the Board of Directors had the option to allow rights holders to exercise their rights. The shareholder rights agreement, and the rights thereunder, expired by its terms on December 19, 2016.

### Stock-based compensation

The Company has a stock-based compensation plan (the "Stock Plan") that allows for the grant of common stock of the Company to members of management based on achievement of certain annual financial performance and other criteria. The number of shares granted is based on a percentage of the employee's base salary divided by the stock price on the grant date. Shares granted under the Stock Plan generally vest over a 2-year period.

In December 2016, 44,688 shares of common stock with a per share value of \$19.92 were granted to management under the Stock Plan for fiscal year 2016 performance, resulting in total compensation expense of approximately \$890,000, with \$544,000 recognized in the year ended October 31, 2016 and the balance to be recognized over the next two years as the shares vest. In December 2015, 27,424 shares of common stock with a per share value of \$15.29 were granted to management under the Stock Plan for fiscal year 2015 performance, resulting in total compensation expense of approximately \$410,000, with \$130,000 recognized in the year ended October 31, 2015 and the balance to be recognized over the next two years as the shares vest. In December 2014, 42,085 shares of common stock with a per share value of \$25.35 were granted to management under the Stock Plan for fiscal 2014 performance, resulting in a total compensation expense of approximately \$1,071,000, with \$367,000 recognized in the year ended October 31, 2014 and the balance to be recognized over the next two years as the shares vest.

Stock-based compensation expense is included in selling, general and administrative expense and is recognized over the performance and vesting periods as summarized below:

97

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**22. Stockholders' Equity (continued)****Stock-based compensation (continued)**

| Performance Year | Shares Granted | Year Ended October 31, |           |           |
|------------------|----------------|------------------------|-----------|-----------|
|                  |                | 2016                   | 2015      | 2014      |
| 2012             | 34,721         | \$-                    | \$33,000  | \$209,000 |
| 2013             | 27,091         | -                      | 237,000   | 237,000   |
| 2014             | 42,085         | 352,000                | 352,000   | 367,000   |
| 2015             | 27,424         | 140,000                | 130,000   | -         |
| 2016             | 44,688         | 544,000                | -         | -         |
|                  |                | \$1,036,000            | \$752,000 | \$813,000 |

During fiscal years 2016, 2015 and 2014, respectively, members of management exchanged 12,433, 10,907 and 6,619 shares of common stock with fair value of \$190,000, \$275,000 and \$176,000, at the date of the exchanges, for the payment of payroll taxes associated with the vesting of shares under the Company's stock-based compensation programs.

During fiscal years 2016, 2015 and 2014, respectively, 21,905, 15,077 and 13,587 shares of common stock were issued to the Company's non-employee directors under the Company's stock-based compensation plans. The Company recognized \$273,000, \$325,000 and \$303,000 of stock-based compensation in fiscal years 2016, 2015 and 2014, respectively.

**Donation of Common Stock**

During each June 2015 and 2014 the Company donated \$100,000 of unregistered common stock to the Museum of Ventura County ("the Museum"), a California non-profit corporation. The number of shares of common stock issued

was 4,498 and 4,552 in 2015 and 2014, respectively, which was based on the market value of Limoneira common stock on the date of the donation. The Company recognized expense of \$100,000 each year, which is included in selling, general and administrative expense. The donations are to be used by the Museum to establish and operate an agriculture museum in Santa Paula, California depicting the history of agriculture in Ventura County

## **Dividend**

On December 15, 2016, the Company declared a \$0.055 per share dividend which is to be paid on January 17, 2017 in the aggregate amount of \$782,000 to common shareholders of record as of December 27, 2016.

## **23. Fruit Growers Supply Cooperative**

The Company is a member of Fruit Growers Supply (“FGS”), a cooperative supply corporation. FGS is the manufacturing and supply affiliate of Sunkist. FGS allocates after-tax earnings derived from non-member business to members. The allocations may then be disbursed to members as dividends no less than five years after allocation. As of October 31, 2016 and October 31, 2015, the Company has been allocated \$729,000; however, the declaration of dividends is subject to approval by the FGS Board of Directors and members may receive amounts less than those originally allocated. The Company records allocations disbursed by FGS as reductions of agribusiness expenses. The Company received dividends of zero, zero and \$67,000 in fiscal years 2016, 2015 and 2014, respectively.

During September 2011, the Company settled a claim with Sunkist in which Sunkist requested a refund of \$586,000 of fiscal year 2010 lemon by-products revenue. The Company assigned 50% of future dividends it receives from FGS up to the amount of claim in the unconditional settlement of the claim. The balance of the claim as of October 31, 2016 was \$251,000.



**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**24. Segment Information**

The Company operates in four reportable operating segments: lemon operations, other agribusiness, rental operations and real estate development. The reportable operating segments of the Company are strategic business units with different products and services, distribution processes and customer bases. The lemon operations segment includes farming, harvesting and lemon packing. The other agribusiness segment includes farming and harvesting. The rental operations segment includes housing and commercial rental operations, leased land and organic recycling. The real estate development segment includes real estate development operations. The Company does not separately allocate depreciation and amortization to its lemon operations and other agribusiness segments. No asset information is provided for reportable segments as these specified amounts are not included in the measure of segment profit or loss reviewed by the Company's chief operating decision maker. The Company measures operating performance, including revenues and operating income, of its operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income, interest expense and income taxes, or specifically identify them to its operating segments.

In October 2016, the Company re-purposed Windfall Farms from a real estate development project to an agricultural ranch and reclassified \$26,779,000 of real estate development assets to property, plant and equipment. Windfall Farms was reclassified to the other agribusiness reportable segment from the real estate development segment in October 2016. Windfall Farms has had limited real estate development activities in recent years, with operating costs consisting primarily of property maintenance and taxes being the main components of its operating results. Operating losses of \$669,000, \$1,052,000 and \$954,000 are included in the real estate development segment operating loss for fiscal years 2016, 2015 and 2014, respectively.

The following table provides segment information for fiscal years 2016, 2015 and 2014:

|                    | Year Ended October 31, |              |              |
|--------------------|------------------------|--------------|--------------|
|                    | 2016                   | 2015         | 2014         |
| Lemon operations:  |                        |              |              |
| Revenues           | \$85,267,000           | \$78,978,000 | \$79,726,000 |
| Costs and expenses | 66,558,000             | 61,766,000   | 59,412,000   |
| Operating income   | 18,709,000             | 17,212,000   | 20,314,000   |

Edgar Filing: Limoneira CO - Form 10-K

|                                                            |              |              |              |
|------------------------------------------------------------|--------------|--------------|--------------|
| Other agribusiness:                                        |              |              |              |
| Revenues                                                   | 20,863,000   | 16,146,000   | 18,796,000   |
| Costs and expenses                                         | 12,725,000   | 12,079,000   | 12,086,000   |
| Operating income                                           | 8,138,000    | 4,067,000    | 6,710,000    |
| Lemon and other agribusiness depreciation and amortization |              |              |              |
|                                                            | 4,321,000    | 3,341,000    | 2,827,000    |
| Total agribusiness operating income                        | 22,526,000   | 17,938,000   | 24,197,000   |
| Rental operations:                                         |              |              |              |
| Revenues                                                   | 5,603,000    | 5,104,000    | 4,640,000    |
| Costs and expenses                                         | 2,885,000    | 2,859,000    | 2,651,000    |
| Depreciation and amortization                              | 732,000      | 581,000      | 422,000      |
| Operating income                                           | 1,986,000    | 1,664,000    | 1,567,000    |
| Real estate development:                                   |              |              |              |
| Revenues                                                   | 56,000       | 83,000       | 300,000      |
| Costs and expenses                                         | 2,006,000    | 1,284,000    | 1,756,000    |
| Depreciation and amortization                              | 55,000       | 46,000       | 79,000       |
| Operating loss                                             | (2,005,000 ) | (1,247,000 ) | (1,535,000 ) |
| Selling, general and administrative expenses;              |              |              |              |
|                                                            | (13,319,000) | (13,772,000) | (14,336,000) |
| Total operating income                                     | \$9,188,000  | \$4,583,000  | \$9,893,000  |

**LIMONEIRA COMPANY**

## Notes to Consolidated Financial Statements

**24. Segment Information (continued)**

The following table sets forth revenues by category, by segment for fiscal years 2016, 2015 and 2014:

|                                    | Year Ended October 31, |               |               |
|------------------------------------|------------------------|---------------|---------------|
|                                    | 2016                   | 2015          | 2014          |
| Lemon operations revenues          | \$85,267,000           | \$78,978,000  | \$79,726,000  |
| Avocados                           | 10,767,000             | 7,132,000     | 7,374,000     |
| Navel and Valencia oranges         | 6,143,000              | 5,626,000     | 7,616,000     |
| Specialty citrus and other crops   | 3,953,000              | 3,388,000     | 3,806,000     |
| Other agribusiness revenues        | 20,863,000             | 16,146,000    | 18,796,000    |
| Residential and commercial rentals | 3,555,000              | 2,892,000     | 2,454,000     |
| Leased land                        | 1,755,000              | 1,865,000     | 1,986,000     |
| Organic recycling and other        | 293,000                | 347,000       | 200,000       |
| Rental operations revenues         | 5,603,000              | 5,104,000     | 4,640,000     |
| Real estate development revenues   | 56,000                 | 83,000        | 300,000       |
| Total revenues                     | \$111,789,000          | \$100,311,000 | \$103,462,000 |

**25. Sale of Property**

On August 21, 2015, the Company sold its Wilson Ranch, which is comprised of 52 acres of land with 33 acres of avocado orchards located near the City of Fillmore, in Ventura County, California. The sales price was \$2,750,000 and the gain on the sale was \$935,000.

**26. Sale of Conservation Easement**

In October 2016, the Company sold a conservation easement on certain of its Ventura County property to The Nature Conservancy. The easement preserves 235 acres along the Santa Clara River in perpetuity from commercial and residential development and provides access to the river by certain groups for environmental study and observation. The sales price was \$995,000 and the gain on the sale was \$995,000. The Company retains title to the property, the easement allows the Company to continue agriculture and related activities on the property and the post-easement, appraised value of the property exceeds its carrying value.

## **27. Subsequent Events**

The Company has evaluated events subsequent to October 31, 2016, to assess the need for potential recognition or disclosure in this Annual Report on Form 10-K. Based upon this evaluation, except as disclosed below and in the notes to consolidated financial statements, it was determined that no other subsequent events occurred that require recognition or disclosure in the consolidated financial statements.

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

**None.**

Item 9A. Controls and Procedures

**Disclosure Controls and Procedures.** As of October 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report.

**Internal Control over Financial Reporting.** See “Management’s Report on Internal Control over Financial Reporting” on page 59 and “Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting” on page 60.

**Changes in Internal Control over Financial Reporting.** There have been no significant changes in our internal controls over financial reporting during the quarter ended October 31, 2016 or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Limitations on the Effectiveness of Controls.** Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

**None.**

101

### PART III

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

#### Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item is incorporated herein by reference to the Proxy Statement.

#### Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Proxy Statement.

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

The information required by this Item is incorporated herein by reference to the Proxy Statement.

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

The information required by this Item is incorporated herein by reference to the Proxy Statement.

#### Item 14. Principal Accountant’s Fees and Services

The information required by this Item is incorporated herein by reference to the Proxy Statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

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

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at October 31, 2016 and 2015

Consolidated Statements of Operations for the years ended October 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income for the years ended October 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity and Temporary Equity for the years ended October 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended October 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

(b) **Exhibits**

See "Exhibit Index" set forth on page E-1.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 10, 2017.

LIMONEIRA COMPANY

By: /s/ Harold S. Edwards  
Harold S. Edwards  
Director, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 10, 2017 by the following persons on behalf of the registrant and in the capacities indicated:

| <b>Signature</b>                                           | <b>Title</b>                                                                                                  |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| /s/ Gordon E. Kimball<br>Gordon E. Kimball                 | Chairman of the Board of Directors                                                                            |
| /s/ Harold S. Edwards<br>Harold S. Edwards                 | Director, President and Chief Executive Officer<br>(Principal Executive Officer)                              |
| /s/ Joseph D. Rumley<br>Joseph D. Rumley                   | Chief Financial Officer, Treasurer<br>and Corporate Secretary<br>(Principal Financial and Accounting Officer) |
| /s/ Elizabeth Blanchard Chess<br>Elizabeth Blanchard Chess | Director                                                                                                      |
| /s/ Lecil E. Cole<br>Lecil E. Cole                         | Director                                                                                                      |
| /s/ John W.H. Merriman<br>John W.H. Merriman               | Director                                                                                                      |
| /s/ Ronald Michaelis<br>Ronald Michaelis                   | Director                                                                                                      |
| /s/ Donald R. Rudkin<br>Donald R. Rudkin                   | Director                                                                                                      |

/s/ Robert M. Sawyer      Director  
Robert M. Sawyer

/s/ Scott S. Slater      Director  
Scott S. Slater

103

EXHIBIT INDEX

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                        |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                | Certificate of Merger of Limoneira Company and The Samuel Edwards Associates into Limoneira Company, dated October 31, 1990 (Incorporated by reference to exhibit 3.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885)) |
| 2.2                | Certificate of Merger of McKeveitt Corporation into Limoneira Company dated December 31, 1994 (Incorporated by reference to exhibit 3.3 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                               |
| 2.3                | Agreement of Merger Between Ronald Michaelis Ranches, Inc. and Limoneira Company, dated June 24, 1997 (Incorporated by reference to exhibit 3.6 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                       |
| 3.1                | Restated Certificate of Incorporation of Limoneira Company, dated July 5, 1990 (Incorporated by reference to exhibit 3.1 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                              |
| 3.2                | Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated April 22, 2003 (Incorporated by reference to exhibit 3.7 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                         |
| 3.3                | Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated March 24, 2010 (Incorporated by reference to exhibit 3.9 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                         |
| 3.4                | Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Annual Report on Form 10-K, filed January 14, 2013 (File No. 001-34755))                                                                                                                      |
| 3.4.1              | Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 25, 2013 (File No. 001-34755))                                                                                                       |
| 3.4.2              | Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed December 18, 2014 (File No. 001-34755))                                                                                                        |
| 4.1                | Specimen Certificate representing shares of Common Stock, par value \$0.01 per share (Incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                        |
| 4.2                | Rights Agreement dated December 20, 2006 between Limoneira Company and The Bank of New York, as Rights Agent (Incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                |

- 4.3 Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, \$.01 Par Value, of Limoneira Company, dated November 21, 2006 (Incorporated by reference to exhibit 3.8 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 4.4 Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.4 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 4.5 Amended Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.4 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                     |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.6         | Certificate of Designation, Preferences and Rights of 4% Voting Preferred Stock, \$100.00 Par Value, Series B-2 of Limoneira Company, dated March 20, 2014 (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 24, 2014 (File No. 001-34755))                  |
| 10.1        | Real Estate Advisory Management Consultant Agreement dated April 1, 2004, by and between Limoneira Company and Parkstone Companies (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed August 25, 2010 (File No. 001-34755))                                          |
| 10.2        | Amendment No. 1 to Real Estate Advisory Management Consultant Agreement dated August 24, 2010, by and between Limoneira Company and Parkstone Companies (Incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed August 25, 2010 (File No. 001-34755))                     |
| 10.3        | Avocado Marketing Agreement effective February 8, 2003, by and between Calavo Growers, Inc. and Limoneira Company, as amended (Incorporated by reference to exhibit 10.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))    |
| 10.4        | Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.3 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                            |
| 10.5        | Standstill Agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.4 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                      |
| 10.6        | Standstill Agreement dated June 1, 2005 between Calavo Growers, Inc. and Limoneira Company (Incorporated by reference to exhibit 10.5 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                       |
| 10.7        | Lease Agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.6 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                |
| 10.8        | Amended and Restated Line of Credit Agreement dated as of December 15, 2008, by and between Limoneira Company and Rabobank, N.A. (Incorporated by reference to exhibit 10.7 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885)) |
| 10.9        | Amendment to Amended and Restated Line of Credit Agreement dated May 12, 2009, between Limoneira Company and Rabobank, N.A. (Incorporated by reference to exhibit 10.8 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))      |
| 10.10       | Second Amendment to Amended and Restated Line of Credit Agreement dated November 14, 2011 between Limoneira Company and Rabobank N.A. (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed November 17, 2011 (File No. 001-34755))                                     |

- 10.11 Third Amendment to Amended and Restated Line of Credit Agreement dated March 19, 2014, between Limoneira Company and Rabobank N.A. (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed April 2, 2014 (File No. 001-34755))
- 10.12 Revolving Equity Line of Credit Promissory Note and Loan Agreement dated October 28, 1997, between Limoneira Company and Farm Credit West, FLCA (as successor by merger to Central Coast Federal Land Bank Association) (Incorporated by reference to exhibit 10.9 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 10.13 Promissory Note and Loan Agreement dated April 23, 2007, between Farm Credit West, FLCA and Limoneira Company (Incorporated by reference to exhibit 10.10 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                            |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.14       | Promissory Note and Loan Agreement dated as of September 23, 2005, among Farm Credit West, FLCA and Windfall Investors, LLC (Incorporated by reference to exhibit 10.12 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                                            |
| 10.15       | Master Loan Agreement dated as of May 1, 2012 between Limoneira Company and Farm Credit West, PCA (Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 2, 2012 (File No. 001-34755))                                                                                                                                    |
| 10.16       | Promissory Note and Supplement to Master Loan Agreement dated as of May 1, 2012 between Limoneira Company and Farm Credit West, PCA (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 2, 2012 (File No. 001-34755))                                                                                                  |
| 10.17†      | Limoneira Company Amended and Restated 2010 Omnibus Incentive Plan (Incorporated by reference to exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on June 11, 2012 (File No. 001-34755))                                                                                                                                                              |
| 10.18†      | Limoneira Company Management Incentive Plan 2009-2010 (Incorporated by reference to exhibit 10.16 of the Company's Form 10-K, filed January 26, 2011 (File No. 001-34755))                                                                                                                                                                                             |
| 10.19†      | Limoneira Stock Grant Performance Bonus Plan (Incorporated by reference to exhibit 10.15 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                                                                                                                           |
| 10.20       | Pre-Annexation and Development Agreement dated March 3, 2008, by and between the City of Santa Paula and Limoneira Company (Incorporated by reference to exhibit 10.20 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))                                                             |
| 10.21       | Judgment, dated March 7, 1996, <i>United Water Conservation Dist. v. City of San Buenaventura, et al.</i> , Case No. 115611, Superior Court of the State of California, Ventura County (Incorporated by reference to exhibit 10.24 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885)) |
| 10.22       | Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and the C. V. Sheldon Family Limited Partnership (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))                                                                   |
| 10.23       | Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and the CH Sheldon LP (Incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))                                                                                              |
| 10.24       | Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Charles W. T. Sheldon (Incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))                                                                                          |
| 10.25       |                                                                                                                                                                                                                                                                                                                                                                        |

Edgar Filing: Limoneira CO - Form 10-K

Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Paul N. Sheldon Family Trust, U/D/T 10-27-06 (Incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))

10.26 Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Sheldon Family Revocable Trust, U/D/T 1-31-10 (Incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))

10.27 Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Katherine J. Sheldon as Trustee of the Katherine J. Sheldon Trust (Incorporated by reference to exhibit 10.6 of the Company's Current Report on Form 8-K, filed January 11, 2012 (File No. 001-34755))



| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.28       | Option Agreement, dated February 27, 2013, by and among the Company, Jason B. Rushing as Trustee of the Jason B. Rushing Trust, Jennifer R. Rushing as trustee for the Jennifer R. Rushing Revocable trust, Zella A. Rushing as trustee of the 1988 Zella Rushing Trust (Incorporated by reference to exhibit 10.1 of the company's Quarterly Report on Form 10-Q, filed June 10, 2013 (File No. 001-34755)) |
| 10.29       | Purchase and Sale Agreement and Escrow Instructions, dated April 8, 2013, by and among HM East Ridge LLC, Limoneira Company and IPDC construction, Inc., (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed April 12, 2013 (File No. 001-34755))                                                                                                                            |
| 10.30       | Lease Agreement, dated July 1, 2013, by and between the Company and Cadiz, Inc. (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed July 2, 2013 (File No. 001-34755))                                                                                                                                                                                                       |
| 10.31#      | Cadiz-Limoneira Amended and Restated Lease, dated February 3, 2015, by and between Cadiz Real Estate LLC and Limoneira Company (Incorporated by reference to exhibit 10.1 of the company's Quarterly Report on Form 10-Q, filed March 9, 2015 (File No. 001-34755)).                                                                                                                                         |
| 10.32       | Agreement and Plan of Merger, dated September 6, 2013, by and among Limoneira Company, ACP Merger Sub, Inc., Associated Citrus Packers, Inc., and Mark Spencer, as the Shareholder Representative defined therein (Incorporated by reference to exhibit 10.1 to the Current Report on form 8-K, filed September 12, 2013 (File No. 001-34755))                                                               |
| 10.33       | Purchase and Sale Agreement and Joint Escrow Instructions, dated September 27, 2013, by and between Sun World International, LLC and Limoneira Company (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed October 15, 2013 (File No. 001-34755))                                                                                                                            |
| 10.34       | Construction Contract and Agreement, dated October 1, 2013, by and between Limoneira Company and NEXGEN Builders, Inc. (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed December 4, 2013 (File No. 001-34755))                                                                                                                                                            |
| 10.35       | General Conditions of the Contract and Agreement, dated October 1, 2013, by and between Limoneira company and NEXGEN Builders, Inc. (Incorporated by reference to exhibit 10.2 to the Current Report on Form 8-K, filed December 4, 2013 (File No. 001-34755))                                                                                                                                               |
| 10.36       | Purchase and Sale Agreement and Escrow Instructions, dated November 29, 2013, by and between Templeton Santa Barbara, LLC and MI Land, LLC related to the sale of the Sevilla Property (Incorporated by reference to exhibit 10.3 to the Current Report on Form 8-K, filed December 4, 2013 (File No. 001-34755))                                                                                            |
| 10.37       | Purchase and Sale Agreement and Escrow Instructions, dated November 29, 2013, by and between Templeton Santa Barbara, LLC and MI Land, LLC related to the sale of the Pacific Crest Property (Incorporated by reference to exhibit 10.3 to the Current Report on Form 8-K, filed December 4, 2013 (File No. 001-34755))                                                                                      |
| 10.38       |                                                                                                                                                                                                                                                                                                                                                                                                              |

Edgar Filing: Limoneira CO - Form 10-K

Series B-2 Preferred Stock Purchase Agreement, dated March 21, 2014, by and between Limoneira Company and WPI-ACP Holdings, LLC (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed March 24, 2014 (File No. 001-34755))

10.39 Contribution Agreement, dated September 4, 2015, by and among Limoneira Company and Lewis Santa Paula Member, LLC (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 10, 2015 (File No. 001-34755))

10.40 First Amended and Restated Limited Liability Company Agreement of Limoneira Lewis Community Builders, LLC, dated November 10, 2015, by and among Limoneira EA1 Land LLC and Lewis Santa Paula Member, LLC (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 16, 2015 (File No. 001-34755))

| Exhibit No. | Description                                                                                                                                                                                                                                                                          |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.41       | Interim Funding Agreement, dated as of December 1, 2015, between Limoneira and Wells Fargo Equipment Finance, Inc. (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 22, 2015 (File No. 001-34755))                             |
| 10.42       | Master Loan and Security Agreement, dated December 1, 2015, between Limoneira Company and Wells Fargo Equipment Finance, Inc. (Incorporated by reference to exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed March 10, 2016 (File No. 001-34755))                  |
| 10.43       | Loan Schedule to Master Loan and Security Agreement, dated January 20, 2016, between Limoneira Company and Wells Fargo Equipment Finance, Inc. (Incorporated by reference to exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed March 10, 2016 (File No. 001-34755)) |
| 10.44       | Promissory Note and Loan Agreement, dated February 11, 2016, between Limoneira Company and Farm Credit West, FLCA (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 18, 2016 (File No. 001-34755))                            |
| 10.45       | Lease Agreement, dated November 10, 2015, by and among Limoneira Company and Limoneira Lewis Community Builders, LLC (Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 16, 2015 (File No. 001-34755))                         |
| 10.46       | Retained Property Development Agreement, dated November 10, 2015, by and among Limoneira Company and Limoneira Lewis Community Builders, LLC (Incorporated by reference to exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 16, 2015 (File No. 001-34755)) |
| 10.47       | Form of Award Agreement under the Limoneira Company 2010 Amended and Restated Omnibus Incentive Plan (Incorporated by reference to exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, filed March 10, 2016 (File No. 001-34755)) †                                         |
| 21.1*       | Subsidiaries of Limoneira Company                                                                                                                                                                                                                                                    |
| 23.1*       | Consent of Independent Registered Public Accounting Firm                                                                                                                                                                                                                             |
| 31.1*       | Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)                                                                                                                                                                                 |
| 31.2*       | Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)                                                                                                                                                                  |
| 32.1*       | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                |
| 32.2*       | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                                                                                                |

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema Document

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\*Filed herewith

Denotes management contracts and compensatory plans or arrangements

# Certain portions have been omitted pursuant to a confidential treatment request. Omitted information has been filed separately with the Securities and Exchange Commission.