Limoneira CO
Form 10-Q
September 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2013

OR

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

FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission File Number: 001-34755

Limoneira Company

(Exact name of Registrant as Specified in its Charter)

Delaware	**77-0260692**
(State or Other Jurisdiction of Incorporation or Organization)	**(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

Not Applicable

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

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. x 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 such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

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

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

As of August 31, 2013, there were 13,310,790 shares outstanding of the registrant’s common stock.

LIMONEIRA COMPANY

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Cautionary Note on Forward-Looking Statements.

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. Forward-looking statements in this 10-Q are subject to a number of risks and uncertainties, some of which are beyond the Company's control. 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 include:

- *changes in laws, regulations, rules, quotas, tariffs and import laws;*
- *weather conditions, including freezes, 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 current exchange rates;*
- *availability of financing for land 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 or work stoppages;*
- *loss of important intellectual property rights; and*
- *other factors disclosed in our public filings with the Securities and Exchange Commission.*

The Company's actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which the Company is not currently aware or which the Company currently deems immaterial could also cause the Company's actual results to differ, including those discussed in the section entitled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

The terms the "Company," "we," "our" and "us" as used throughout this Quarterly Report on Form 10-Q refer to Limoneira Company and its consolidated subsidiaries, unless otherwise indicated.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Limoneira Company

Consolidated Balance Sheets (unaudited)

	July 31, 2013	October 31, 2012
Assets		
Current assets:		
Cash	$157,000	$11,000
Accounts receivable, net	9,962,000	4,252,000
Notes receivable – related parties	6,000	42,000
Cultural costs	1,485,000	2,254,000
Prepaid expenses and other current assets	1,905,000	2,116,000
Income taxes receivable	-	712,000
Total current assets	13,515,000	9,387,000
Property, plant and equipment, net	55,813,000	53,380,000
Real estate development	82,571,000	77,772,000
Equity in investments	1,593,000	8,947,000
Investment in Calavo Growers, Inc.	13,580,000	15,701,000
Notes receivable – related parties	16,000	16,000
Notes receivable	2,004,000	2,296,000
Other assets	5,673,000	5,123,000
Total assets	$174,765,000	$172,622,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$4,811,000	$3,670,000
Growers payable	2,695,000	2,085,000
Accrued liabilities	6,463,000	4,017,000
Fair value of derivative instrument	-	1,072,000
Current portion of long-term debt	558,000	760,000
Total current liabilities	14,527,000	11,604,000
Long-term liabilities:		
Long-term debt, less current portion	47,404,000	88,875,000
Deferred income taxes	11,452,000	10,488,000
Other long-term liabilities	7,014,000	8,953,000
Total long-term liabilities	65,870,000	108,316,000

Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock – $100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at July 31, 2013 and October 31, 2012) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – $.01 par value (20,000 shares authorized: 0 issued or outstanding at July 31, 2013 and October 31, 2012)	-	-
Common Stock – $.01 par value (19,900,000 shares authorized: 13,310,790 and 11,203,180 shares issued and outstanding at July 31, 2013 and October 31, 2012, respectively)	133,000	112,000
Additional paid-in capital	72,130,000	35,714,000
Retained earnings	20,773,000	16,398,000
Accumulated other comprehensive loss	(1,668,000)	(2,522,000)
Total stockholders' equity	94,368,000	52,702,000
Total liabilities and stockholders' equity	$174,765,000	$172,622,000

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

Limoneira Company

Consolidated Statements of Operations (unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2013	2012	2013	2012
Revenues:				
Agribusiness	$28,626,000	$23,664,000	$67,114,000	$47,912,000
Rental operations	1,064,000	962,000	3,155,000	2,959,000
Real estate development	239,000	74,000	328,000	162,000
Total revenues	29,929,000	24,700,000	70,597,000	51,033,000
Costs and expenses:				
Agribusiness	15,932,000	13,554,000	51,781,000	36,624,000
Rental operations	638,000	649,000	1,895,000	1,747,000
Real estate development	444,000	266,000	913,000	755,000
Selling, general and administrative	2,958,000	2,525,000	8,997,000	7,809,000
Total costs and expenses	19,972,000	16,994,000	63,586,000	46,935,000
Operating income	9,957,000	7,706,000	7,011,000	4,098,000
Other income (expense):				
Interest expense	-	(148,000)	(124,000)	(394,000)
Interest income from derivative instrument	269,000	172,000	711,000	527,000
Gain on sale of stock in Calavo Growers, Inc.	-	-	3,138,000	-
Interest income	19,000	26,000	65,000	78,000
Other income, net	1,000	6,000	389,000	214,000
Total other income	289,000	56,000	4,179,000	425,000
Income before income tax provision and equity in earnings (losses) of investments	10,246,000	7,762,000	11,190,000	4,523,000
Income tax provision	(3,772,000)	(2,696,000)	(3,544,000)	(1,501,000)
Equity in earnings (losses) of investments	133,000	15,000	(1,656,000)	(13,000)
Net income	6,607,000	5,081,000	5,990,000	3,009,000
Preferred dividends	(66,000)	(66,000)	(197,000)	(197,000)
Net income applicable to common stock	$6,541,000	$5,015,000	$5,793,000	$2,812,000
Basic net income per common share	$0.49	$0.45	$0.46	$0.25
Diluted net income per common share	$0.49	$0.45	$0.46	$0.25
Dividends per common share	$0.04	$0.03	$0.12	$0.09
Weighted-average common shares outstanding-basic	13,308,000	11,198,000	12,473,000	11,201,000
Weighted-average common shares outstanding-diluted	13,308,000	11,198,000	12,473,000	11,201,000

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

Limoneira Company

Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2013	2012	2013	2012
Net income	$6,607,000	$5,081,000	$5,990,000	$3,009,000
Other comprehensive income (loss), net of tax:				
Minimum pension liability adjustment	155,000	123,000	465,000	369,000
Unrealized holding (losses) gains on security available-for-sale	(361,000)	(680,000)	(283,000)	1,766,000
Unrealized gains (losses) from derivative instruments	701,000	(454,000)	672,000	(1,366,000)
Total other comprehensive income (loss), net of tax	495,000	(1,011,000)	854,000	769,000
Comprehensive income	$7,102,000	$4,070,000	$6,844,000	$3,778,000

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

Limoneira Company

Consolidated Statements of Cash Flows (unaudited)

	Nine months ended July 31, 2013	2012
Operating activities		
Net income	$5,990,000	$3,009,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,638,000	1,571,000
Gain on sale of stock in Calavo Growers, Inc.	(3,138,000)	-
Loss on disposals/sales of assets	-	217,000
Stock compensation expense	675,000	811,000
Equity in losses of investments	1,656,000	13,000
Deferred income taxes	398,000	-
Amortization of deferred financing costs	26,000	28,000
Non-cash interest income on derivative instruments	(711,000)	(527,000)
Accrued interest on notes receivable	(59,000)	(59,000)
Donation of common stock	100,000	100,000
Changes in operating assets and liabilities:		
Accounts and notes receivable	(5,910,000)	(5,634,000)
Cultural costs	769,000	(699,000)
Prepaid expenses and other current assets	260,000	(334,000)
Income taxes receivable	712,000	1,324,000
Other assets	(322,000)	(125,000)
Accounts payable and growers payable	1,098,000	3,384,000
Accrued liabilities	2,286,000	1,281,000
Other long-term liabilities	(410,000)	152,000
Net cash provided by operating activities	5,058,000	4,512,000
Investing activities		
Capital expenditures	(8,045,000)	(6,355,000)
Acquisition of agriculture business	-	(803,000)
Net proceeds from sale of stock in Calavo Growers, Inc.	4,788,000	-
Net proceeds from sale of HM East Ridge, LLC property	5,713,000	-
Cash distributions from equity investments	110,000	-
Equity investment contributions	(125,000)	(98,000)
Collection of note receivable	350,000	-
Investments in mutual water companies and water rights	(312,000)	(303,000)
Other	-	(10,000)
Net cash provided by (used in) investing activities	2,479,000	(7,569,000)
Financing activities		
Borrowings of long-term debt	41,545,000	27,734,000

Repayments of long-term debt	(83,218,000)	(23,345,000)
Dividends paid – Common	(1,418,000)	(1,050,000)
Dividends paid – Preferred	(197,000)	(197,000)
Net proceeds from issuance of common stock	35,897,000	-
Repurchase of common stock	-	(6,000)
Payments of debt financing costs	-	(91,000)
Net cash (used in) provided by financing activities	(7,391,000)	3,045,000
Net increase (decrease) in cash	146,000	(12,000)
Cash at beginning of period	11,000	21,000
Cash at end of period	$157,000	$9,000

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

Limoneira Company

Consolidated Statements of Cash Flows (unaudited) (continued)

	Nine months ended July 31, 2013	2012
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$ 1,705,000	$ 2,652,000
Cash paid during the period for income taxes, net of (refunds) received	$ (300,000)	$ (400,000)
Non-cash investing and financing transactions:		
Unrealized holding loss (gain) on investment in Calavo Growers, Inc.	$ 470,000	$ (2,933,000)
Capital expenditures accrued but not paid at period-end	$ 375,000	$ 233,000
Accrued interest on note receivable	$ 59,000	$ 59,000
Donation of common stock	$ 100,000	$ 100,000

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

Limoneira Company

Consolidated Financial Statements (unaudited)

Preface

The preparation of the unaudited interim consolidated financial statements requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses and certain financial statement disclosures. Actual results may differ from these estimates.

The unaudited interim consolidated financial statements for the three and nine months ended July 31, 2013 and 2012 and balance sheet as of July 31, 2013 included herein have not been audited by an independent registered public accounting firm, but in management's opinion, all adjustments (consisting of normal recurring adjustments) necessary to make a fair statement of the financial position at July 31, 2013 and the results of operations and the cash flows for the periods presented herein have been made. The results of operations for the three and nine months ended July 31, 2013 are not necessarily indicative of the operating results expected for the full fiscal year.

The consolidated balance sheet at October 31, 2012 included herein has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Although we believe the disclosures made are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules or regulations. These unaudited interim consolidated financial statements should be read in conjunction with the October 31, 2012 consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended October 31, 2012.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited)

1. Business

Limoneira Company, a Delaware corporation (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 foodservice, 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 NASDAQ under the symbol CVGW. Calavo's customers include many of the largest retail and foodservice companies in the United States and Canada. The Company's avocados are packed by Calavo, sold and distributed under Calavo brands to its customers.

The unaudited interim 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 unaudited interim consolidated financial statements represent the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income (loss) and consolidated statements of cash flows of the Company and its wholly-owned subsidiaries. The Company's subsidiaries include: Limoneira Company International Division, LLC, Limoneira Mercantile, LLC, Windfall Investors, LLC and Templeton Santa Barbara, LLC. 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. These unaudited consolidated financial statements should be read in conjunction with the notes thereto included in this quarterly report.

2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

FASB ASU 2011-05, Comprehensive Income (Topic 220).

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011.

In December 2011, the FASB issued ASU 2011-12 *Comprehensive Income (Topic 220)* to defer the effective date for those aspects of ASU 2011-05 relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. These aspects of this guidance will be effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The adoption of this standard will only impact the presentation of the Company’s consolidated financial statements and will have no impact on the reported results of operations.

FASB ASU 2012-04, Technical Corrections and Improvements.

In October 2012, the FASB issued guidance clarifying the Codification correcting unintended application of guidance, which includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. Amendments to the Codification without transition guidance are effective upon issuance, and amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance will not have a material impact on our financial statements.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

3. Fair Value Measurements

Under the FASB ASC 820, *Fair Value Measurement 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 July 31, 2013, that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Available- for -sale securities	$13,580,000	$–	$ –	$13,580,000
Liabilities at fair value:				
Derivative	$–	$2,010,000	$ –	$2,010,000

Available-for-sale securities consist of marketable securities in Calavo common stock. The Company currently owns 500,000 shares, representing approximately 3.4% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at July 31, 2013 was $27.16 per share.

The derivative consists of an interest rate swap (see Note 11), the fair value of which 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.

4. Accounts Receivable

The Company grants credit in the course of its operations to customers, 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 certain other factors. At July 31, 2013 and October 31, 2012, the allowances totaled $129,000 and $109,000, respectively.

5. Concentrations

Sales to a customer for lemons represented 8% and 6% of total revenues in the three and nine months ended July 31, 2013, respectively. The Company sells all of its avocado production to Calavo (see Note 13).

Lemons procured from third-party growers accounted for 20% of lemon supply in the three months ended July 31, 2013, of which one third-party grower accounted for 6% of lemon supply. Lemons procured from third-party growers accounted for 54% of lemon supply in the nine months ended July 31, 2013, of which two third-party growers accounted for 17% and 12% of lemon supply, respectively.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

6. Real Estate Development Assets

Real estate development assets consist of the following:

	July 31, 2013	October 31, 2012
East Areas 1 and 2	$50,910,000	$47,384,000
Templeton Santa Barbara, LLC	11,210,000	10,532,000
Windfall Investors, LLC	20,451,000	19,856,000
	$82,571,000	$77,772,000

East Areas 1 and 2

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 the three months ended July 31, 2013 and 2012, the Company capitalized $1,712,000 and $832,000, respectively, of costs related to these projects. During the nine months ended July 31, 2013 and 2012, the Company capitalized $3,526,000 and $2,147,000, respectively, of costs related to these projects. Additionally, in relation to these projects, the Company has incurred net expenses of $3,000 and $16,000 in the three months ended July 31, 2013 and 2012, respectively, and $7,000 and $55,000 in the nine months ended July 31, 2013 and 2012, respectively.

On August 24, 2010, the Company entered into an amendment (the “Amendment”) to a Real Estate Advisory Management Consultant Agreement (the “Consultant Agreement”) with Parkstone Companies, Inc. (the “Consultant”) dated April 1, 2004, that includes provisions for the Consultant to earn a success fee (the “Success Fee”) upon the annexation by the City of Santa Paula, California of East Area I. Under the terms of the Amendment, the Company agrees to pay the Success Fee, in cash or common stock at the discretion of the Company, in an amount equal to 4% of the incremental Property Value under a formula defined in the Amendment. The Success Fee is due and payable 120 days following the earlier to occur of (a) the sale of all or any portion of East Area I, including any unrelated third party material investment in the property, (b) the determination of an appraised value of the East Area I or (c) the second anniversary of the property annexation (each a “Success Fee Event”). In February 2013, East Area 1 was annexed into the City of Santa Paula. Annexation was required in order to re-zone the land for residential, commercial and light industrial development. As of July 31, 2013, the estimated amount of the Success Fee was zero.

In connection with facilitating the annexation of East Area 1 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. As of July 31, 2013, $150,000 has been accrued for the cost of the study.

On May 8, 2013, the Company amended the mitigation agreement it has with the Santa Paula Union High School District, which is associated with the East Area 1 development agreement. In exchange for the release of approximately 7 acres of property previously reserved for school facilities within East Area 1, subject to certain conditions, the amendment requires the Company to pay a total of $1,750,000 comprised of $1,000,000 that was paid in June of 2013 and an increase in school facility fees of $1,500 per unit for each of the first 500 certificates of occupancy issued in connection with the residential development of East Area 1. Such costs have and will be capitalized as real estate development costs.

In May 2013, the Ventura Local Area Formation Commission unanimously approved the annexation of the East Area 2 real estate development project into the City of Santa Paula. The annexation was recorded during August 2013.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

6. Real Estate Development Assets (continued)

Templeton Santa Barbara, LLC

The four real estate development parcels within the Templeton Santa Barbara, LLC project are located in Santa Maria, California and are described as Centennial Square (“Centennial”), The Terraces at Pacific Crest (“Pacific Crest”), Sevilla and East Ridge. The net carrying values of Centennial, Pacific Crest and Sevilla at July 31, 2013 were $3,141,000, $3,382,000 and $4,687,000, respectively, and at October 31, 2012 were $2,889,000, $3,165,000 and $4,478,000, respectively.

During the three months ended July 31, 2013 and 2012, the Company capitalized $172,000 and $298,000, respectively, of costs related to these real estate parcels. During the nine months ended July 31, 2013 and 2012, the Company capitalized $678,000 and $804,000, respectively, of costs related to these real estate parcels. Additionally, in relation to these parcels, the Company incurred net expenses of $3,000 and net incidental income of $3,000 in the three months ended July 31, 2013 and 2012, respectively, and net expenses of $29,000 and $13,000 in the nine months ended July 31, 2013 and 2012, respectively.

In February 2010, the Company and HM Manager, LLC formed a limited liability company, HM East Ridge, LLC (“East Ridge”), for the purpose of developing the East Ridge parcel. The Company’s initial capital contribution into East Ridge was the land parcel with a net carrying value of $7,207,000. The Company made cash contributions of zero to East Ridge during the three months ended July 31, 2013 and 2012, respectively, and $91,000 and $88,000 during the nine months ended July 31, 2013 and 2012, respectively. Since the Company has significant influence over, but less than a controlling interest in, East Ridge, the Company is accounting for its investment in East Ridge using the equity method of accounting and the investment is included in equity in investments in the Company’s consolidated balance sheets at October 31, 2012.

On April 8, 2013, the Company and HM East Ridge, LLC entered into a Purchase and Sale Agreement to sell its East Ridge parcel of property for $6,000,000. The transaction closed in June 2013 and generated net proceeds of $5,713,000. The Company recognized a loss of $1,754,000, which is included in equity in earnings (losses) of investments in the Company’s consolidated statements of operations.

Windfall Investors, LLC

On November 15, 2009, the Company acquired Windfall Investors, LLC, which included $16,842,000 of real estate development assets. During the three months ended July 31, 2013 and 2012, the Company capitalized $184,000 and $247,000, respectively, of costs related to this real estate development project. During the nine months ended July 31, 2013 and 2012, the Company capitalized $595,000 and $649,000, respectively, of costs related to this real estate development project. Additionally, in relation to this project, the Company has incurred net expenses of $199,000 and $175,000, in the three months ended July 31, 2013 and 2012, respectively, and $549,000 and $524,000 in the nine months ended July 31, 2013 and 2012, respectively.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

7. 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 marketable securities 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.

On April 11, 2013, the Company sold 165,000 shares of Calavo stock at a price of $29.02 per share (the closing price on April 10, 2013). Calavo repurchased the shares pursuant to the 2005 stock purchase agreement between the companies. Following the sale, the Company continues to own 500,000 shares of Calavo common stock. The net proceeds to the Company from the sale were $4,788,000 and the Company recognized a gain of $3,138,000.

Additionally, changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses for the remaining shares held by the Company. The Company recorded unrealized holding (losses) of ($600,000) (($361,000) net of tax) and ($1,130,000) (($680,000) net of tax), during the three months ended July 31, 2013 and 2012, respectively. The Company recorded unrealized holding (losses) gains of ($470,000) (($283,000) net of tax) and $2,933,000 ($1,766,000 net of tax), during the nine months ended July 31, 2013 and 2012, respectively.

8. Notes Receivable

In connection with the Company's stock grant program, the Company has recorded total notes receivable and accrued interest from certain employees of $22,000 and $58,000 at July 31, 2013 and October 31, 2012, respectively.

In February 2013, the Company received $350,000 from the lessee of a retail facility owned by the Company for payment in full of a note receivable issued in connection with tenant improvements made to the property.

9. Other Assets

Other assets consist of the following:

	July 31, 2013	October 31, 2012
Investments in mutual water companies	$2,103,000	$1,791,000
Acquired water and mineral rights	1,536,000	1,536,000
Deferred lease assets and other	1,647,000	1,437,000
Revolving funds and memberships	387,000	359,000
	$5,673,000	$5,123,000

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

10. Long-Term Debt

Long-term debt is comprised of the following:

	July 31, 2013	October 31, 2012
Rabobank revolving credit facility secured by property with a net book value of $12,260,000 At July 31, 2013 and October 31, 2012. The interest rate is variable based on the one-month London Interbank Offered Rate (LIBOR), which was 0.20% at July 31, 2013 plus 1.80%. Interest is payable monthly and the principal is due in full in June 2018.	$40,000,000	$61,261,000
Farm Credit West term loan secured by property with a net book value of $11,618,000 at July 31, 2013 and $11,626,000 at October 31, 2012. The interest rate is variable and was 2.75% at July 31, 2013. The loan is payable in quarterly installments through November 2022.	5,385,000	5,743,000
Farm Credit West term loan secured by property with a net book value of $11,626,000 at October 31, 2012. The interest rate was variable and was 3.25% at October 31, 2012. The loan was paid in full in February 2013.	-	861,000
Farm Credit West non-revolving line of credit secured by property with a net book value of $3,884,000 at July 31, 2013 and $3,864,000 at October 31, 2012. The interest rate is variable and was 2.75% at July 31, 2013. Interest is payable monthly and the principal is due in full in May 2018.	492,000	13,000,000
Farm Credit West term loan secured by property with a net book value of $20,451,000 at July 31, 2013 and $19,856,000 at October 31, 2012. The interest rate is fixed at 3.65% until November 2014, becoming variable for the remainder of the loan. The loan is payable in monthly installments through October 2035.	2,085,000	8,770,000
Subtotal	47,962,000	89,635,000
Less current portion	558,000	760,000
Total long-term debt, less current portion	$47,404,000	$88,875,000

In November 2011, the Company entered into a Second Amendment to Amended and Restated Line of Credit Agreement dated as of December 15, 2008, between the Company and Rabobank in order to (i) increase the revolving line of credit from $80,000,000 to the lesser of $100,000,000 or 60% of the appraised value of any real estate pledged as collateral, which was $87,000,000 at July 31, 2013, (ii) amend the interest rate such that the line of credit bears interest equal to LIBOR plus 1.80% effective July 1, 2013 and (iii) extend the maturity date from June 30, 2013 to June 30, 2018. The Company is subject to an annual financial covenant and certain other restrictions measured at its fiscal year end.

Interest is capitalized on non-bearing orchards, real estate development projects and significant construction in progress. The Company capitalized interest of $626,000 and $746,000 during the three months ended July 31, 2013 and 2012, respectively, and $1,920,000 and $2,118,000 during the nine months ended July 31, 2013 and 2012, respectively. Capitalized interest is included in property, plant and equipment and real estate development assets in the Company’s consolidated balance sheets.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

11. Derivative Instruments and Hedging Activities

The Company enters into interest rate swaps to minimize the risks and costs associated with its financing activities. Derivative financial instruments are as follows:

	Notional Amount		Fair Value Liability	
	July 31, 2013	October 31, 2012	July 31, 2013	October 31, 2012
Pay fixed-rate, receive floating-rate interest rate swap, matured June 2013	$-	$42,000,000	$-	$1,072,000
Pay fixed-rate, receive floating-rate forward interest rate swap, beginning July 2013 until June 2018	$40,000,000	$40,000,000	$2,010,000	$2,768,000

In April 2010, the Company cancelled two interest rate swaps with notional amounts of $10,000,000 each and amended the remaining interest rate swap from a notional amount of $22,000,000 to a notional amount of $42,000,000. This remaining interest rate swap was also amended to a pay-fixed rate of 3.63%, which was 62 basis points lower than the original pay-fixed rate. The floating-rate and maturity date of the amended interest rate swap remain unchanged. The Company did not incur any out-of-pocket fees related to the cancellation or amendment of these interest rate swaps.

These interest rate swaps previously qualified as cash flow hedges and were accounted for as hedges under the short-cut method. On the amendment date of the swap agreements, the fair value liability and the related accumulated other comprehensive loss balance was $2,015,000. The accumulated other comprehensive loss balance was amortized and included in interest income from derivative instruments over the period of the original swap agreements. Amortization for the three month periods ended July 31, 2013 and 2012 was $90,000 and $135,000, respectively. Amortization for the nine month periods ended July 31, 2013 and 2012 was $361,000 and $405,000, respectively. The accumulated other comprehensive loss balance was fully amortized at July 31, 2013.

As a result of the re-negotiated terms of the derivatives above, the remaining interest rate swap with a notional amount of $42,000,000 no longer qualified for hedge accounting as of April 30, 2010. Therefore, mark to market adjustments to the underlying fair value liability were recorded in interest income from derivative instruments and the liability balance was recorded in other long-term liabilities and fair value of derivative instrument in the Company's consolidated balance sheets. The mark to market adjustments recognized by the Company during the three month periods ended July 31, 2013 and 2012 resulted in non-cash interest income of $359,000 and $307,000, respectively. The mark to market adjustments recognized by the Company during the nine month periods ended July 31, 2013 and 2012 resulted in non-cash interest income of $1,072,000 and $932,000, respectively. This swap matured in June 2013.

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 is accounted for as a hedge under the short-cut method. Therefore, the fair value liability is included in other long-term liabilities and related accumulated other comprehensive loss at July 31, 2013 and October 31, 2012.

12. 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 stock-based compensation. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding plus the dilutive effect of stock-based compensation calculated using the treasury stock method. There was no dilution due to stock-based compensation for the three and nine month periods ended July 31, 2013 and 2012. The Series B convertible preferred shares are anti-dilutive.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

13. Related-Party Transactions

The Company rents certain of its residential housing assets to employees on a month-to-month basis. The Company recorded $127,000 and $121,000 of rental income from employees in the three months ended July 31, 2013 and 2012, respectively. The Company recorded $392,000 and $387,000 of rental income from employees in the nine months ended July 31, 2013 and 2012, respectively. There were no rental payments due from employees at July 31, 2013 and October 31, 2012.

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 $213,000 and $137,000 in the three months ended July 31, 2013 and 2012, respectively. The Company recorded capital contributions and purchased water and water delivery services from such mutual water companies, in aggregate, of $903,000 and $794,000 in the nine months ended July 31, 2013 and 2012, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the mutual water companies were, in aggregate, $64,000 and $20,000 at July 31, 2013 and October 31, 2012, 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 $438,000 and $416,000 from the association in the three months ended July 31, 2013 and 2012, respectively. The Company purchased services and supplies of $801,000 and $902,000 from the association in the nine months ended July 31, 2013 and 2012, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the association were $143,000 and $72,000 at July 31, 2013 and October 31, 2012, respectively.

The Company recorded dividend income of $432,000 and $366,000 in the nine months ended July 31, 2013 and 2012, respectively, on its investment in Calavo, which is included in other income (expense), net in the Company's consolidated statements of operations. The Company had $7,748,000 and $5,530,000 of avocado sales to Calavo for the three months ended July 31, 2013 and 2012, respectively. The Company had $10,455,000 and $6,255,000 of avocado sales to Calavo for the nine months ended July 31, 2013 and 2012, respectively. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. The amounts receivable from Calavo were $3,081,000 and zero at July 31, 2013 and October 31, 2012, respectively. Additionally, the Company leases office space to Calavo and received rental income of $69,000 and $67,000 in the three months ended July 31, 2013 and 2012, respectively. The Company received rental income from Calavo of $205,000 and $198,000 in the nine months ended July 31, 2013 and 2012, respectively. Such amounts are included in rental operations revenues in the Company’s consolidated statements of operations.

Certain members of the Company’s Board of Directors market lemons through the Company pursuant to its customary marketing arrangements. During the three months ended July 31, 2013 and 2012, the aggregate amount of lemons procured from entities owned or controlled by members of the Board of Directors was $798,000 and $618,000, respectively. During the nine months ended July 31, 2013 and 2012, the aggregate amount was $1,023,000 and $1,091,000, respectively. Such amounts are included in agribusiness expense in the accompanying consolidated statements of operations. Payments due to these Board members were $445,000 and $705,000 at July 31, 2013 and October 31, 2012, 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 an option to lease up to an additional 640 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 rate 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. As of July 31, 2013, no acres have been planted on the leased property; therefore no lease expense has been incurred. 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.

14. Income Taxes

The Company’s effective tax rate for the nine months ended July 31, 2013 is approximately 37.2%, inclusive of certain discrete items and an adjustment to reconcile the fiscal year 2012 tax provision to the 2012 tax return.

There has been no material change to the Company’s uncertain tax position for the three and nine month periods ended July 31, 2013. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

14. Income Taxes (continued)

The Company’s policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has not accrued any interest and penalties associated with uncertain tax positions as of July 31, 2013.

15. 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 of the Company. 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 City National 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 $975,000 and $159,000 during the three months ended July 31, 2013 and 2012, respectively, and $1,127,000 and $425,000 during the nine months ended July 31, 2013 and 2012, respectively.

The net periodic pension costs for the Plan for the three months ended July 31 were as follows:

	2013	2012
Service cost	$41,000	$37,000
Interest cost	180,000	201,000
Expected return on plan assets	(240,000)	(248,000)
Recognized actuarial loss	258,000	205,000
Net periodic pension cost	$239,000	$195,000

The net periodic pension costs for the Plan for the nine months ended July 31 were as follows:

	2013	2012
Service cost	$123,000	$110,000
Interest cost	540,000	603,000
Expected return on plan assets	(720,000)	(743,000)
Recognized actuarial loss	774,000	614,000
Net periodic pension cost	$717,000	$584,000

16. Other Long-term Liabilities

Other long-term liabilities consist of the following:

	July 31, 2013	October 31, 2012
Minimum pension liability	$4,949,000	$6,130,000
Fair value of derivative instrument	2,010,000	2,768,000
Other	55,000	55,000
	$7,014,000	$8,953,000

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Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

17. Stockholders' Equity

As of July 31, 2013, there are 7,810 shares of common stock issued to employees in connection with a discontinued stock option plan. Such shares are subject to repurchase by the Company and constitute a liability due to the repurchase obligation. The repurchase obligation of $6,000 is included in other long-term liabilities in the Company's consolidated balance sheets at July 31, 2013 and October 31, 2012, respectively.

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 three year period. During December 2012, 34,721 shares of common stock were issued to management under the Stock Plan for fiscal year 2012 performance. This resulted in total compensation expense of approximately $657,000, with $216,000 recognized in the year-ended October 31, 2012 and the balance to be recognized over the next two years as the shares vest. No shares were granted for fiscal year 2011 performance. Shares may be granted for fiscal year 2013, when it is determined whether or not the performance criteria have been achieved. Stock-based compensation expense is included in selling, general and administrative expense and is recognized over the performance and vesting periods as summarized below:

		Three Months Ended July 31,		Nine Months Ended July 31,	
Performance Year	Shares Granted	2013	2012	2013	2012
2010	62,287	$-	$135,000	$91,000	$406,000
2012	34,721	50,000	225,000	159,000	225,000
2013	-	75,000	-	225,000	-
		$125,000	$360,000	$475,000	$631,000

During January 2013, members of management exchanged 9,642 and 214 shares of common stock with fair market values of $21.40 and $18.92 per share (at the date of the exchanges), respectively, for the payment of payroll taxes associated with the vesting of shares under the Company's stock-based compensation programs.

During January 2013, 9,040 shares of common stock were granted to the Company’s non-employee directors under the Company’s stock-based compensation plans. The Company incurred no stock-based compensation to non-employee directors during the three months ended July 31, 2013 and 2012. The Company recognized $200,000 and $180,000 of stock-based compensation to non-employee directors during the nine months ended July 31, 2013 and 2012, respectively.

During February 2013, members of management exchanged 1,154 shares of common stock with a fair market value of $21.75 per share (at the date of the exchange) for the repayment of notes issued in relation to payroll taxes associated with the vesting of shares under the Company’s stock-based compensation programs.

During February 2013, the Company sold 2,070,000 shares of common stock at a price of $18.50 per share in a public offering. See Note 19.

On May 21, 2013, the Company’s board of directors authorized a donation of $100,000 of the Company’s common stock to the Museum of Ventura County (the “Museum”), a California non-profit corporation. On June 28, 2013, the Company issued 4,859 unregistered shares of the Company’s common stock with a per share value of $20.58 at the date of the issuance. The donation is 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.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

18. Segment Information

The Company operates in three reportable operating segments: 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 agribusiness segment includes farming and citrus packing operations. The rental operations segment includes residential and commercial rental operations, leased land and organic recycling. The real estate development segment includes real estate development operations. The Company measures operating performance, including revenues and earnings, of its operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income (expense), interest expense and income tax expense, or specifically identify them to its operating segments.

Segment information for the three months ended July 31, 2013:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$28,626,000	$1,064,000	$ 239,000	$–	$29,929,000
Costs and expenses	15,541,000	541,000	429,000	2,910,000	19,421,000
Depreciation and amortization	391,000	97,000	15,000	48,000	551,000
Operating income (loss)	$12,694,000	$426,000	$ (205,000)	$(2,958,000)	$9,957,000

Segment information for the three months ended July 31, 2012:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$23,664,000	$ 962,000	$ 74,000	$–	$24,700,000
Costs and expenses	13,208,000	556,000	253,000	2,472,000	16,489,000
Depreciation and amortization	346,000	93,000	13,000	53,000	505,000
Operating income (loss)	$10,110,000	$ 313,000	$ (192,000)	$(2,525,000)	$7,706,000

The following table sets forth revenues by category, by segment for the three months ended:

	July 31, 2013	July 31, 2012
Lemons	$19,112,000	$15,460,000
Avocados	7,748,000	5,530,000
Navel and Valencia oranges	1,470,000	2,057,000
Specialty citrus and other crops	296,000	617,000
Agribusiness revenues	28,626,000	23,664,000
Rental operations	603,000	564,000
Leased land	427,000	354,000
Organic recycling and other	34,000	44,000
Rental operations revenues	1,064,000	962,000
Real estate development revenues	239,000	74,000
Total revenues	$29,929,000	$24,700,000

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

18. Segment Information (continued)

Segment information for the nine months ended July 31, 2013:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$67,114,000	$3,155,000	$ 328,000	$–	$70,597,000
Costs and expenses	50,611,000	1,618,000	867,000	8,852,000	61,948,000
Depreciation and amortization	1,170,000	277,000	46,000	145,000	1,638,000
Operating income (loss)	$15,333,000	$1,260,000	$ (585,000)	$(8,997,000)	$7,011,000

Segment information for the nine months ended July 31, 2012:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$47,912,000	$2,959,000	$ 162,000	$–	$51,033,000
Costs and expenses	35,530,000	1,469,000	716,000	7,649,000	45,364,000
Depreciation and amortization	1,094,000	278,000	39,000	160,000	1,571,000
Operating income (loss)	$11,288,000	$1,212,000	$ (593,000)	$(7,809,000)	$4,098,000

The following table sets forth revenues by category, by segment for the nine months ended:

	July 31, 2013	July 31, 2012
Lemons	$48,593,000	$35,625,000
Avocados	10,455,000	6,255,000
Navel and Valencia oranges	5,168,000	3,345,000

Specialty citrus and other crops	2,898,000	2,687,000
Agribusiness revenues	67,114,000	47,912,000
Rental operations	1,788,000	1,702,000
Leased land	1,286,000	1,112,000
Organic recycling and other	81,000	145,000
Rental operations revenues	3,155,000	2,959,000
Real estate development revenues	328,000	162,000
Total revenues	$70,597,000	$51,033,000

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Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

19. Public Offering of Common Stock

On August 24, 2011, the Company's shelf registration statement became effective for an aggregate amount of up to $100 million of common stock. During February 2013, the Company 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 the shelf registration statement. The offering represented 16% of the Company's outstanding common stock on an after-issued basis. Upon completion of the offering and issuance of common stock, the Company had 13,307,085 shares of common stock outstanding. The gross proceeds of the offering totaled $38,295,000 and after an underwriting discount of $2,106,000 and other offering expenses of $292,000, the net proceeds were $35,897,000. The planned uses of proceeds from the offering are general corporate purposes, which may include repayment of debt, real estate development, including activities related to East Area 1 and future acquisitions of agriculture properties. During February 2013, the Company used the net offering proceeds to repay long-term debt.

20. Business Combination

On September 6, 2013 (the "Acquisition Date") the Company completed the acquisition of all of the outstanding stock of Associated Citrus Packers, Inc. ("ACP"), a privately owned Arizona corporation, for approximately $18.6 million (the "Acquisition"). The purchase price consists of the issuance of 705,000 unregistered shares of the Company's common stock with an aggregate value of $16.0 million, based on the Company's stock price on the Acquisition Date, $1.0 million in cash and the repayment of $1.6 million in ACP's long term debt. The Acquisition was structured as a tax-free reorganization under section 368 of the Internal Revenue Code. The Acquisition provides for a potential purchase price adjustment based on the net assets acquired and for a holdback from payment of 5% ($850,000) of the stock and cash purchase price for a period of one year to allow for potential indemnification claims as defined in the merger agreement. Upon completion of the Acquisition, ACP became a wholly owned subsidiary of the Company. ACP owns approximately 1,300 acres of property in Yuma, Arizona, comprised of 950 acres of productive lemon orchards, 350 acres of other crops and agriculture equipment and facilities. The transaction will be accounted for under the acquisition method. The Company has not completed its fair value analysis to allocate the purchase price to the assets acquired and liabilities assumed in the acquisition, however, a significant amount of the fair value is expected to be recorded to land and productive lemon orchards. Transactions costs incurred in connection with the acquisition as of July 31, 2013 are approximately $60,000, which are included in selling, general and administrative expense. The results of operations of ACP will be included in the consolidated results of operations of the Company from the Acquisition Date.

21. Subsequent Events

The Company has evaluated events subsequent to July 31, 2013 to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. Based upon this evaluation, except as disclosed in the notes to consolidated financial statements, it was determined that no subsequent events occurred that require recognition or disclosure in the unaudited consolidated financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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 8,271 acres of land, water resources and other assets to maximize long-term shareholder 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 Growers, Inc. (“Sunkist”), we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of specialty citrus and other crops. We have agricultural plantings throughout Ventura and Tulare counties in California, which plantings consist of approximately 2,060 acres of lemons, 1,169 acres of avocados, 1,654 acres of oranges and 773 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons that we grow, as well as lemons grown by others.

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

For more than 100 years, we have been making strategic investments in California agribusiness and real estate development. We currently have six active real estate development projects in California. Our real estate developments range from apartments to single-family homes and include approximately 200 completed units and another approximately 2,000 units in various stages of planning and development.

Business Segment Summary

We have three business segments: agribusiness, rental operations and real estate development. Our agribusiness segment currently generates the majority of our revenue from its farming and lemon packing operations; our rental operations segment generates revenue from our housing, organic recycling and commercial and leased land operations; and our real estate development segment generates revenue from the sale of real estate development projects. Generally, 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 development projects are monetized, our agribusiness will then be able to expand more rapidly into new regions and markets.

Agribusiness

We are one of the largest growers of lemons and the largest grower of avocados in the United States and, as a result, our agribusiness segment is the largest of our three segments, representing approximately 93%, 88% and 87% of our fiscal year 2012, 2011 and 2010 consolidated revenues, respectively. We market and sell lemons directly to our foodservice, wholesale and retail customers throughout the United States, Canada, Asia and other international markets. During the three months ended July 31, 2013, lemon sales were comprised of approximately 74% to U.S. and Canada-based customers, 25% to domestic exporters and 1% to international customers. During the nine months ended July 31, 2013, lemon sales were comprised of approximately 72% to U.S. and Canada-based customers, 27% to domestic exporters and 1% to international customers. We are a member of Sunkist, an agricultural marketing cooperative, and we sell our oranges, specialty citrus and other crops to Sunkist-licensed and other third-party packinghouses.

Historically, our agricultural operations have been seasonal in nature with quarterly revenue fluctuating depending on the timing and variety of the crops being harvested. Cultural costs in our agribusiness segment tend to be higher in the first and second quarters and lower in the third and fourth quarters because of the timing of expensing cultural costs in the current year that were inventoried in the prior year. Our harvest costs generally increase in the second quarter and peak in the third quarter coinciding with the increasing production and revenue.

Fluctuations in price are a function of global supply and demand with weather conditions, such as unusually low or high temperatures, typically having the most dramatic effect on the amount of lemons supplied in any individual growing season. We believe we have a competitive advantage by operating our own lemon packing operation, even though a significant portion of the costs related to our lemon packing operations are fixed. As a result, cost per carton is a function of fruit throughput. While we regularly monitor our costs for redundancies and opportunities for cost reductions, we also supplement the number of lemons we pack in our packinghouse with additional lemons from other growers. Because the fresh utilization rate for our lemons, or the percentage of lemons we harvest and pack that go to the fresh market, is directly related to the quality of lemons we pack and, consequently, the price we receive per 40-pound carton, we only pack lemons from other growers if we determine their lemons are of high quality.

Our avocado producing business is important to us yet nevertheless faces some constraints on growth as there is little additional land that can be cost-effectively acquired to support new avocado orchards in Southern California. Also, avocado production is cyclical as avocados typically bear fruit on a bi-annual basis with large crops in one year followed by smaller crops the next year. While our avocado production remains volatile, the profitability and cash flow realized from our avocados frequently offsets occasional losses in other crops we grow and helps to diversify our fruit production base.

In addition to growing lemons and avocados, we also grow oranges, specialty citrus and other crops, typically utilizing land not suitable for growing high quality lemons. We regularly monitor the demand for the fruit we grow in the ever-changing marketplace to identify trends. For instance, while per capita consumption of oranges in the United States has been decreasing since 2000 primarily as a result of consumers increasing their consumption of mandarin oranges and other specialty citrus, the international market demand for U.S. oranges has increased. As a result, we have focused our orange production on high quality late season Navel and Valencia oranges primarily for export to Japan, China and Korea, which are typically highly profitable niche markets. We produce our specialty citrus and other crops in response to consumer trends we identify and believe that we are a leader in the niche production and sale of certain of these high margin fruits. Because we carefully monitor the respective markets of specialty citrus and other crops, we believe that demand for the types and varieties of specialty citrus and other crops that we grow will continue to increase throughout the world.

Rental Operations

Our rental operations segment represented approximately 6% of our fiscal year 2012 consolidated revenues and approximately 7% of our fiscal year 2011 and 2010 consolidated revenues. Our rental housing units generate reliable cash flows which we use to partially fund the operations of all three of our business segments, and provide affordable housing to many of our employees, including our agribusiness employees, a unique employment benefit that helps us maintain a dependable, long-term employee base. In addition, our leased land business provides us with a typically profitable diversification. Revenue from our rental operations segment is generally level throughout the year.

Real Estate Development

Our real estate development segment represented 1% of our consolidated revenues in fiscal year 2012, 5% of our consolidated revenues in fiscal year 2011 and 6% of our consolidated revenues in fiscal year 2010. We recognize that long-term strategies are required for successful real estate development activities. We plan to redeploy real estate earnings and cash flow into the expansion of our agribusiness and other income producing real estate.

Recent Developments

In February, 2013, our East Area 1 real estate development project was annexed into the City of Santa Paula. The annexation enables us to proceed with our master planned community project consisting of up to 1,500 residential units, 210,000 square feet of commercial space and 350,000 square feet of light industrial space. Annexation into the City of Santa Paula was required in order to re-zone the land for residential, commercial and light industrial development. We have begun tract mapping of the area for development and will be applying for infrastructure building permits and expect to break ground on the project in late 2014. We are projecting to begin home sales in 2015. In May 2013, the Ventura Local Area Formation Commission unanimously approved the annexation of our East Area 2 real estate development project into the City of Santa Paula. The annexation was recorded during August 2013.

On August 24, 2011, our shelf registration statement became effective for an aggregate amount of up to $100 million of common stock. During 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 the 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 $38,295,000 and after an underwriting discount of $2,106,000 and other offering expenses of $292,000, the net proceeds were $35,897,000. The planned use of proceeds from the offering are general corporate purposes, which may include repayment of debt, real estate development, including activities related to East Area 1 and future acquisitions of agriculture properties. During February 2013, we used the net offering proceeds to repay long-term debt.

On June 25, 2013, we declared a $0.0375 per share dividend paid on July 16, 2013 in the aggregate amount of $499,000 to common shareholders of record on July 8, 2013.

In April 2013, we purchased land for use as a citrus orchard for a purchase price of $375,000 cash. The acquisition was for approximately 25 acres of agricultural property located adjacent to the Sheldon Ranch. This acquisition was accounted for as an asset purchase with substantially the entire purchase price allocated to land.

On April 8, 2013, the Company and HM East Ridge, LLC entered into a Purchase and Sale Agreement to sell its East Ridge parcel of property for $6,000,000. The property is located in the city of Santa Maria, County of Santa Barbara, California and includes approximately 40 acres of land. The transaction closed in June 2013 and generated net proceeds of $5,713,000. The Company recognized a loss on its investment in HM East Ridge, LLC of $1,754,000, which is included in equity in earnings (losses) of investments in the accompanying consolidated statements of operations. During July 2013, we used the net sale proceeds to repay long-term debt.

On April 11, 2013, we sold 165,000 shares of Calavo Growers, Inc. (“Calavo ”) common stock at a price of $29.02 per share (the closing price on April 10, 2013). Calavo repurchased the shares pursuant to a stock purchase agreement between the companies in 2005. Following the sale of shares of Calavo, we continue to own 500,000 shares of Calavo common stock. The net proceeds to our Company from the sale were $4,788,000, resulting in a gain of $3,138,000. We used the proceeds to repay our long-term debt.

In June 2013, we announced that we plan to build 71 agriculture workforce housing units in Santa Paula, California, that will be available for rent to local agriculture workers and Limoneira employees. We estimate that the total cost of the development will be approximately $8.5 million and will be completed and available for rent during 2014. When fully occupied, annual rental revenue from the additional housing units is anticipated to be approximately $850,000 to $900,000.

On July 1, 2013, we entered into a lease agreement (the “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 Agreement, Limoneira has secured the right to plant up to 1,280 acres of lemons over the next five years at the Cadiz Ranch operations in the Cadiz Valley. The Agreement provides that Limoneira will initially plant 320 acres of lemons at the Cadiz Ranch and will also hold options to plant up to 960 additional acres by 2018. The annual rental payment will include 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. The annual rental payment will not exceed a total of $1,200 per acre.

On September 6, 2013 (the “Acquisition Date”) we completed the acquisition of all of the outstanding stock of Associated Citrus Packers, Inc. (“ACP”), a privately owned Arizona corporation, for approximately $18.6 million (the “Acquisition”). The purchase price consists of the issuance of 705,000 unregistered shares of our common stock with an aggregate value of $16.0 million, based on our stock price on the Acquisition Date, $1.0 million in cash and the repayment of $1.6 million in ACP’s long term debt. The Acquisition was structured as a tax-free reorganization under section 368 of the Internal Revenue Code. The Acquisition provides for a potential purchase price adjustment based on the net assets acquired and for a holdback from payment of 5% ($850,000) of the stock and cash purchase price for a period of one year to allow for potential indemnification claims as defined in the merger agreement. Upon completion of the Acquisition, ACP became a wholly owned subsidiary of our Company. ACP owns approximately 1,300 acres of property in Yuma, Arizona, comprised of 950 acres of productive lemon orchards, 350 acres of other crops and agriculture equipment and facilities. The transaction will be accounted for under the acquisition method. We have not completed our fair value analysis to allocate the purchase price to the assets acquired and liabilities assumed in the acquisition, however, a significant amount of the fair value is expected to be recorded to land and productive lemon orchards. Transactions costs incurred in connection with the acquisition as of July 31, 2013 are approximately $60,000, which are included in selling, general and administrative expense. The results of operations of ACP will be included in our consolidated results of operations from the Acquisition Date.

Results of Operations

The following table shows the results of operations for the three and nine months ended July 31:

	Quarters Ended July 31,		Nine Months Ended July 31,	
	2013	2012	2013	2012
Revenues:				
Agribusiness	$28,626,000	$23,664,000	$67,114,000	$47,912,000
Rental operations	1,064,000	962,000	3,155,000	2,959,000
Real estate development	239,000	74,000	328,000	162,000
Total revenues	29,929,000	24,700,000	70,597,000	51,033,000
Costs and expenses:				
Agribusiness	15,932,000	13,554,000	51,781,000	36,624,000
Rental operations	638,000	649,000	1,895,000	1,747,000
Real estate development	444,000	266,000	913,000	755,000
Selling, general and administrative	2,958,000	2,525,000	8,997,000	7,809,000
Total costs and expenses	19,972,000	16,994,000	63,586,000	46,935,000
Operating income:				
Agribusiness	12,694,000	10,110,000	15,333,000	11,288,000
Rental operations	426,000	313,000	1,260,000	1,212,000
Real estate development	(205,000)	(192,000)	(585,000)	(593,000)
Selling, general and administrative	(2,958,000)	(2,525,000)	(8,997,000)	(7,809,000)
Operating income	9,957,000	7,706,000	7,011,000	4,098,000
Other income (expense):				
Interest expense	-	(148,000)	(124,000)	(394,000)
Interest income from derivative instrument	269,000	172,000	711,000	527,000
Gain on sale of stock in Calavo Growers, Inc.	-	-	3,138,000	-
Interest income and other	(20,000)	32,000	454,000	292,000
Total other income	289,000	56,000	4,179,000	425,000
Income tax provision	(3,772,000)	(2,696,000)	3,544,000	(1,501,000)
Equity in earnings (losses) of investments	133,000	15,000	(1,656,000)	(13,000)
Net income	$6,607,000	$5,081,000	$5,990,000	$3,009,000

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 our Company and may not be consistent with methodologies used by other companies. EBITDA is summarized and reconciled to net income (loss) which management considers to be the most directly comparable financial measure calculated and presented in accordance with GAAP as follows:

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2013	2012	2013	2012
Net income	$6,607,000	$5,081,000	$5,990,000	$3,009,000
Total interest income, net	(288,000)	(50,000)	(652,000)	(211,000)
Income taxes	3,772,000	2,696,000	3,544,000	1,501,000
Depreciation and amortization	551,000	505,000	1,638,000	1,571,000
EBITDA	$10,642,000	$8,232,000	$10,520,000	$5,870,000

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Third Quarter Fiscal Year 2013 Compared to Third Quarter Fiscal Year 2012

Revenues

Total revenue for the third quarter of fiscal year 2013 was $29.9 million compared to $24.7 million for the third quarter of fiscal year 2012. The 21% increase of $5.2 million was primarily the result of increased agribusiness revenue, as detailed below:

	Agribusiness Revenues for the Quarters Ended July 31,			
	2013	2012	Change	
Lemons	$ 19,112,000	$ 15,460,000	$ 3,652,000	24 %
Avocados	7,748,000	5,530,000	2,218,000	40 %
Navel and Valencia oranges	1,470,000	2,057,000	(587,000)	(29)%
Specialty citrus and other crops	296,000	617,000	(321,000)	(52)%
Agribusiness revenues	$ 28,626,000	$ 23,664,000	$ 4,962,000	21 %

- Lemons: The increase in the third quarter of fiscal year 2013 was primarily the result of increased volume of fresh lemons sold at higher prices. During the third quarters of fiscal years 2013 and 2012, fresh lemon sales were $16.9 million and $13.3 million, respectively, on 934,000 and 794,000 cartons of lemons sold at average per carton prices of $18.09 and $16.75, respectively. The higher average per carton prices in fiscal year 2013 compared to fiscal year 2012 were primarily due to more favorable overall market conditions. Additionally, lemon by-product and other lemon sales were $2.2 million in the third quarters of fiscal years 2013 and 2012.

- Avocados: The increase in the third quarter of fiscal year 2013 was the result of increased volume, partially offset by lower prices. The California avocado crop typically experiences alternating years of high and low production due to plant physiology. During the third quarter of fiscal year 2013, 10.4 million pounds of avocados were sold at an average per pound price of $0.75 compared to 6.8 million pounds sold at an average per pound price of $0.81 during the same period in fiscal year 2012.

- Navel and Valencia oranges: The decrease in the third quarter of fiscal year 2013 was the result of decreased volume sold at lower prices. During the third quarter of fiscal year 2013, 162,000 field boxes of oranges were sold at an average per field box price of $9.07 compared to 182,000 field boxes sold at an average per field box price of $11.30 during the same period in fiscal year 2012. Lower prices in the third quarter of fiscal year 2013 were primarily due to smaller fruit sizes from lack of annual rainfall in fiscal year 2013 compared to fiscal year 2012.

- Specialty citrus and other crops: The decrease in the third quarter of fiscal year 2013 was primarily the result of decreased volume of specialty citrus and other crops sold at lower prices. During the third quarter of fiscal year 2013, 22,000 field boxes of specialty citrus and other crops were sold at an average per field box price of $13.45 compared to 32,000 field boxes sold at an average per field box price of $19.28 during the same period in fiscal year 2012.

Costs and Expenses

Our total costs and expenses in the third quarter of fiscal year 2013 were $20.0 million compared to $17.0 million in the third quarter of fiscal year 2012, an 18% increase of $3.0 million. This increase was primarily attributable to increases in our agribusiness costs and selling, general and administrative expenses. Costs associated with our agribusiness 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 Quarters Ended July 31,			
	2013	2012	Change	
Packing costs	$ 5,104,000	$ 3,959,000	$ 1,145,000	29 %
Harvest costs	3,120,000	2,931,000	189,000	6 %
Growing costs	4,278,000	3,677,000	601,000	16 %
Third-party grower costs	3,039,000	2,641,000	398,000	15 %
Depreciation and amortization	391,000	346,000	45,000	13 %
Agribusiness costs and expenses	$ 15,932,000	$ 13,554,000	$ 2,378,000	18 %

- 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 the third quarter of fiscal year 2013 was primarily attributable to a higher volume of fresh lemons packed and sold compared to the same period in fiscal year 2012. During the third quarter of fiscal year 2013, we packed and sold 934,000 cartons at average per carton costs of $5.46 compared to 794,000 cartons packed and sold at average per carton costs of $4.99 during the same period in fiscal year 2012. The $0.47 increase in average per carton costs during the second quarter of fiscal year 2013 was mainly due to $0.27 per carton increase in costs for purchased, packed fruit to sell, $0.16 per carton increase in labor and benefits, $0.06 per carton increase in cardboard cartons and $0.02 per carton net decrease in supplies and other packing costs compared to the same period in fiscal year 2012.

- Harvest costs: The increase in the third quarter of fiscal year 2013 was primarily attributable to higher avocado harvest volumes compared to the same period in fiscal year 2012.

- 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 the third quarter of fiscal year 2013 was primarily attributable to $0.6 million growing costs from the Sheldon Ranch, comprised of $0.4 million of costs associated with the current harvest period and $0.2 million of net lease expense. In comparison, the Sheldon Ranch incurred $0.2 million of growing costs during the third quarter of fiscal year 2012, comprised of $0.1 million of costs associated with the current harvest period and $0.1 million of net lease expense. Additionally, during the third quarter of fiscal year 2013, cultivation and irrigation increased, in aggregate, $0.2 million on our remaining ranches due to weather and the timing of harvest cycles compared to the third quarter of fiscal year 2012.

- 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 in the third quarter of fiscal year 2013 was primarily attributable to higher cost of third-party grower lemons compared to the third quarter of fiscal year 2012. Of the 934,000 and 794,000 cartons sold during the third quarter of fiscal years 2013 and 2012, respectively, 231,000 (25%) and 218,000 (27%) were procured from third-party growers at average per carton costs of $13.16 and $12.11, respectively.

Selling, general and administrative costs in the third quarter of fiscal year 2013 were $2.9 million compared to $2.5 million for the third quarter of fiscal year 2012. This 17% increase of $0.4 million was primarily due to the following:

- $0.2 million increase in salaries, benefits and incentive compensation due to employee compensation increases and incentive compensation in the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012.

- $0.2 million increase in other selling, general and administrative expenses, including certain consulting expenses associated with our strategic growth initiatives, in the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012.

Other Income (Expense)

Other income (expense) for the third quarter of fiscal year 2013 was $0.3 million of income compared to $0.1 million of income for the third quarter of fiscal year 2012. The $0.2 million increase in income was primarily attributable to the following:

- $0.1 million decrease in interest expense as a result of lower average debt levels in the third quarter of fiscal year 2013 compared to the same period in fiscal year 2012 due to repayments of long-term debt made with the proceeds from our February 2013 publi