

2008 ANNUAL REPORT



LIMONEIRA
SINCE 1893

PIONEERING FOR A BRIGHTER TOMORROW



SENIOR MANAGEMENT left to right:

ALEX M. TEAGUE Senior Vice President

HAROLD S. EDWARDS President & Chief Executive Officer

DON P. DELMATOFF Vice President of Finance & Administration & Chief Financial Officer





POWERING UP CLEAN, SUSTAINABLE ENERGY FOR OUR OPERATIONS

Over 2.5 million cartons of delicious fresh citrus are processed through our plant each year on their way to customers from around the corner to around the world. Our new Solar Orchard ENERGIZES OUR BOTTOM LINE TOO. By farming the sun, we reduce our energy costs, and we supply one-third of our Company's current energy needs. Our solar project helps Limoneira do its part to help our state meet the goal in California's Solar Initiative of installing 3,000 MW of new grid-connected solar over the next decade. We've also just completed a new 1-MW solar project for our operations in the San Joaquin Valley for even more savings. **SUSTAINABILITY** and **STEWARDSHIP** have been Company themes for over a century and will ensure value creation for the next century. We believe that managing our resources more sustainably is not only the right thing to do, it's good business.



MANAGEMENT

front row left to right:

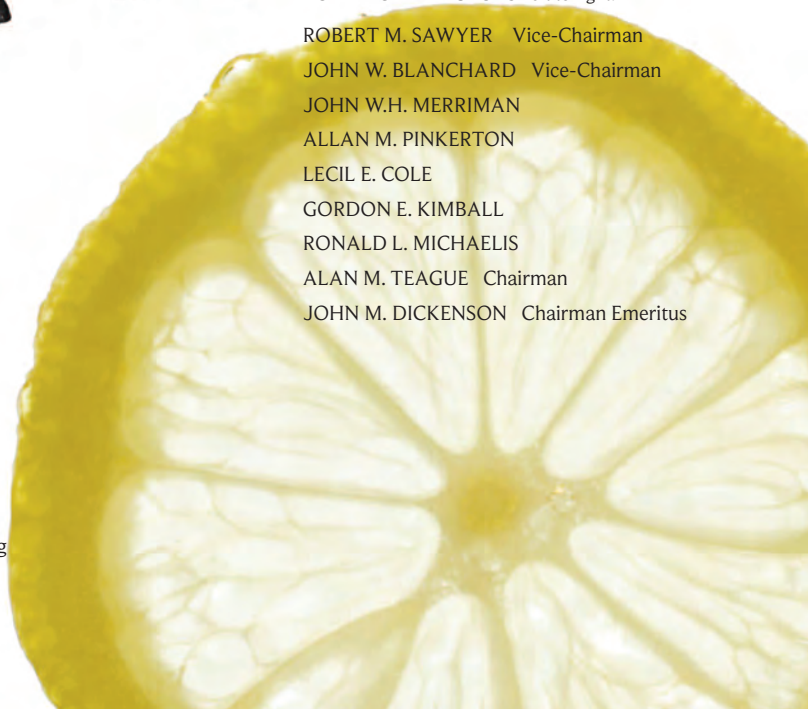
- GREG HAMM Controller
- SUSAN JONES-NG Sales Manager, Lemon Operations
- PETE DINKLER Vice President, Lemon Packing
- TOMAS GONZALEZ Manager, Food Safety and Sustainability
- KATHLEEN THOMPSON Director, Human Resources
- ROSIE CASTILLO Property Manager
- JOHN CHAMBERLAIN Director, Marketing

back row left to right:

- DAN GALBRAITH Director, Northern Farming Operations
- RYAN NASALROAD Operations Manager, Agritourism and Filming
- MARIO ORTEGA Harvest Manager
- GUS GUNDERSON Director, Southern Operations
- ERIC TOVIAS Director, Information Systems

BOARD OF DIRECTORS left to right:

- ROBERT M. SAWYER Vice-Chairman
- JOHN W. BLANCHARD Vice-Chairman
- JOHN W.H. MERRIMAN
- ALLAN M. PINKERTON
- LECIL E. COLE
- GORDON E. KIMBALL
- RONALD L. MICHAELIS
- ALAN M. TEAGUE Chairman
- JOHN M. DICKENSON Chairman Emeritus





FROM GROWING GREAT PRODUCE TO GROWING GREAT COMMUNITIES

Limoneira has a history of creating great neighborhoods. In 1886, Charles McKeveatt, Limoneira's first treasurer, put plans in place for new neighborhoods and 75 new homes, among the first in Santa Paula for our growing community. This trend continued throughout the twentieth century as families sought new homes in the Blanchard neighborhoods in the 1950's, Hillsborough in the 1980s and Vista Pointe in the 1990s. Our new **SANTA PAULA EAST AREA I** master planned community will have something for everyone. Passed by 83% of the voters in June 2008, this new development will offer homes, schools, senior housing, athletic fields, a new community center, outdoor amphitheater and new retail, office and light industrial opportunities for **NEW JOBS**.

LETTER FROM THE CHAIRMAN TO SHAREHOLDER

This year's annual report is again indicative of a team effort. Your Board of Directors realizes this and wishes to thank all of those who have been such an important part of the Company's success. That means over 200 employees not to mention our contractors, consultants and other professionals.

As you see, agricultural operations produced a banner year. We are reminded of the importance of crop innovation and diversification.

Another first time achievement was the June ballot victory for our East Area 1 property. An 83 percent favorable vote is unheard of in coastal California. Careful planning, research of citizen desires, and a full disclosure as to style and community benefit played an essential role.

We continue to actively pursue a solid reputation as being fully sustainable. There is growing recognition of Limoneira Company as a leader in this important area. The inauguration of our 5 acre solar panel facility is just one more facet of the plan.

2009 brings new challenges particularly in light of the nation's fiscal crises. Since 1893, Limoneira has faced and survived several economic downturns. We continue to adjust to these conditions without sacrificing the quality of our agricultural operations.

It cannot be over emphasized the degree to which management has been open, thoughtful and innovative.

No one individual has a lock on what the future brings. Yet, we can assure you management is prepared to seek opportunities that are consistent with the Company's mission statement. Your Board of Directors shares this sentiment.

To you, our shareholders, we welcome your comments and questions whether they are in writing or in person at our annual meeting.

Respectively submitted,



Alan M. Teague
Chairman of the Board

PRESIDENT'S LETTER TO THE SHAREHOLDERS

The United States—indeed, the whole developed world—is suffering through one of the most challenging economic downturns in decades. Banks are failing or teetering on bankruptcy. Credit has dried up. The overbuilt and overly leveraged housing bubble burst like a neutron bomb. Real estate values can't find the market's bottom, so both undercapitalized and previously solvent home builders have gone under or may soon go out. Unemployment is on a seemingly upward curve with no ceiling in sight. America's auto companies are begging for handouts. There's a veritable worldwide rush to reduce debt, and asset sales yield little gains. No one can recall ever experiencing such low confidence levels among both consumers and business people. And even if this critical situation is being exacerbated—as it is—by the endless news cycle trumpeting imminent disaster, there's no way around the fact that nearly \$10 trillion of private equity capital will continue to just sit on the sidelines until a measure of assurance is restored. When will that be? It's anyone's guess.

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However, I am as optimistic about Limoneira's present and future as I have ever been. Yes, it may seem odd to convey such a confident message during these grim times, but our Company has endured difficult times before. Limoneira was founded in 1893, the year referred to as "The Panic of 1893", the worst economic crisis our country had suffered till that point. Moreover, in those days citrus was largely unknown to most of the company's potential customers, which meant that Limoneira would have to educate its market about the value of its goods. So we've been through much worse before. We've ridden out perhaps a dozen down economic cycles and always come through in fine fashion. Which we shall do again. In fact, given the current and long-term strength of our diversified assets and operations, the high quality of our business partners, the exceptional caliber of our work force, and the expanding market for our produce, we are well positioned to weather this cycle and prosper in the coming years.

Regardless of economic conditions, people in this country and around the world will continue to eat and enjoy the products that this company produces. We do not market luxury items - caviar, for instance - that can easily be dispensed with during belt-tightening times. We grow and ship fresh lemons, oranges, and avocados, which are staples of a rapidly growing population. Further, our real estate assets are in some of the most beautiful areas of the United States. People still flock to this area of California. It enjoys ideal weather, an unparalleled quality of life and ample water. Such advantages, particularly for a major agribusiness in the process of building on its core while also diversifying, offer exceptional benefits. Which is why I believe that the as-yet unrealized value of some of Limoneira's vast assets will in time be monetized for the benefit of our shareholders. This process will occur gradually, and require patience and diligence, to ensure that the full value of those assets is returned.

Limoneira's mission is to create and maximize value for its shareholders through the preservation and promotion of its tradition and heritage in agriculture, community development and stewardship. The key theme is sustainability, which I define as meeting the needs of the present without compromising the ability of future generations to meet their needs too. As a sustainable company, our goal is to do business in sustainable

communities to serve a sustainable world. To that end, I am extremely pleased with our efforts last year on all fronts. The Limoneira brand is becoming synonymous with awareness, consciousness, and sustainability—and everyone at the company is proud of what we stand for.

Fiscal 2008 was our 115th year of operation, and it was truly a milestone year for Limoneira. Besides enjoying record operating profits of \$20.3 million—driven primarily by extraordinary results in our lemon business—we successfully advanced our sustainability initiatives with the dedication of solar orchards: a 5.5-acre, one-megawatt installation in Santa Paula, and four smaller installations in Northern California that collectively generate an additional megawatt. These installations allow us to cover over 60 percent of our company's annual electricity needs in a sustainable fashion. It can now truly be said that Limoneira's lemons, avocados, and oranges are quite literally sun-kissed.

Another of Limoneira's historic achievements in 2008 was our entitlement for the East Area 1 community-development project. Our six years of hard work paid off in spectacular fashion when the citizens of Santa Paula approved the project during June's referendum with an overwhelming 83 percent of the vote, granting us a 30-year development agreement with the city. Even better, Limoneira advantageously acquired the 63-acre ranch within East Area 1 that was not previously owned by the company. This now gives Limoneira 100 percent ownership and control of the entire project. Even considering the current housing and real-estate market woes, we remain confident that our investments in East Area 1 will yield significant returns for Limoneira shareholders. The reasons are simple: One, the length of the development agreement (30 years); two, no upfront development fee requirements; three, a chronic disparity in Ventura County between housing supply and demand, which is being compounded by the county's having no other approved developments in the pipeline; four, the natural beauty of this area, its proximity to two major metropolitan areas, and its consistently high quality of life—all of which will be magnified by the presence of East Area 1.

In recognition of Limoneira's extraordinary 2008, your board of directors was pleased to distribute shareholder dividends of \$3.25/share last year, an increase of 160 percent over our standard annual dividend, including a special dividend approved late in the fall to celebrate the company's special year.

CAPITAL STRUCTURE

We are extremely grateful for our new relationship with Rabobank, a large farmer's banking cooperative based in The Netherlands, which has extended Limoneira an \$80 million line of credit at favorable rates. Of course, we remain grateful for our longstanding relationship with Farm Credit West and the Federal Land Bank, which continue to support us with long-term debt financing, also at favorable rates. As of this writing, our effective cost of debt is 3.79 percent, a rate that in these difficult market conditions allows us to carry our slow-moving real estate assets through to anticipated project completion. Given all the uncertainties today in the banking industry, and the depth of the economic problems facing the country and the world, it is worth noting that these solid financial institutions have stood behind Limoneira at every step. In tough times, it's good to have tough and committed partners.

Limoneira increased its total indebtedness to \$66 million in 2008, up by \$27 million, in order to finance the acquisition of those 63 acres within East Area 1 that would give us 100 percent ownership of the project, as well as to complete its two luxury-home development projects in Paradise Valley, Arizona. Of our total debt, \$48 million relates to three real-estate ventures: East Area 1, Santa Maria, and Paradise Valley. We project that \$31 million will be returned to Limoneira in the near term through the sale of our Paradise Valley homes and Santa Maria development parcels. The lack of credit in real estate markets is naturally hampering the sale of these assets, but our bullishness regarding these assets is justified by their qualitative excellence and our relatively low investment basis. As of 2008 fiscal year-end we found no impairment on the values of our two Paradise Valley housing projects, and only limited (5%) impairment on our Santa Maria properties. There is no reason not to believe at this point that, over time, we will enjoy a return on these investments as a whole.

Limoneira's management stands accountable and transparent, fully committed to creating value from each strategic investment. In this difficult environment, we are balancing the creation of value against the desire to reduce indebtedness. But even knowing that 2009 promises a continuation of challenging times, I am confident that we will increase shareholder value in 2009 through operational earnings and the successful sales of targeted real-estate investments. We will, in every way possible and at every opportunity, create value and reduce debt. Our allies in this will be time, patience, and discipline.

2008 REVIEW

OPERATING PROFIT

| | <u>2008</u> | <u>2007</u> | <u>VAR</u> | <u>%</u> |
|-------------------------|---------------------|---------------------|--------------------|-----------|
| Agribusiness | \$18,311,000 | \$15,826,000 | \$2,485,000 | 16% |
| Housing & Commercial | \$887,000 | \$934,000 | (\$47,000) | (5%) |
| Interest Income & Other | \$1,711,000 | \$2,622,000 | (\$911,000) | (35%) |
| Operations | (\$570,000) | (\$531,000) | (\$39,000) | 7% |
| TOTAL | \$20,339,000 | \$18,851,000 | \$1,488,000 | 8% |

(Operating profit is defined as income from continuing operations excluding income taxes, net loss on the sale of assets, interest expense, depreciation and amortization expense, selling, general and administrative costs, impairment of real estate development and real estate development expense.)

AGRIBUSINESS

OPERATING PROFIT

| | <u>2008</u> | <u>2007</u> | <u>VAR</u> | <u>%</u> |
|--------------------|---------------------|---------------------|--------------------|------------|
| Lemons | \$16,036,000 | \$11,753,000 | \$4,283,000 | 36% |
| Avocados | \$427,000 | \$289,000 | \$138,000 | 48% |
| Oranges | \$555,000 | \$2,059,000 | (\$1,504,000) | (73%) |
| Specialty Crops | \$973,000 | \$806,000 | \$167,000 | 21% |
| Leased Land | \$1,492,000 | \$1,302,000 | \$190,000 | 15% |
| Orchard Write-Offs | (\$1,172,000) | (\$383,000) | (\$789,000) | 206% |
| TOTAL | \$18,311,000 | \$15,826,000 | \$2,485,000 | 16% |

LEMONS

A perfect storm of events in 2008 resulted in the best results for lemon operations in Limoneira's history. In 2007, devastating freezes destroyed crops in California, Argentina, Chile, and Europe, dramatically reducing last year's global supplies. Limoneira's production, however, was all but unaffected by the freeze, which enabled us fresh utilization levels of 74 percent at record sales prices. By the end of the year, our operating profits were \$16 million through sales of 1.5 million cartons of fresh lemons at an average price of \$27/carton. Compare that to 2007, our previous best lemon year, when we generated profits of \$11.8 million through the same 1.5 million cartons but at \$23/carton on average. This means our 2008 growth in lemon operating profit was a stellar 36 percent. Everyone on our lemon team deserves our thanks and admiration for their spectacular results, especially for their achieving the highest lemon packing-house returns in the Sunkist system.

AVOCADOS

The perfect storm that benefited Limoneira's lemon operations had a flip side in terms of avocados. Our 2008 crop suffered from a devastating freeze in 2007, allowing us to harvest and ship only 3.7 million pounds last year. Compare those results with 2006, when we generated operating profits of \$6 million on 18 million pounds of avocados. Thanks to dramatically reduced supply, operating profits last year slipped to \$427,000. But that was still up from the \$289,000 in 2007.

We continue to enjoy, and benefit from, a close affiliation with Calavo Growers, our go-to-market partner for avocados. We applaud Calavo's extraordinary 2008 results, which further ratify our bullishness on the global avocado industry and Limoneira's position as one of the largest investors in this, the largest U.S. avocado marketing company.

Further, as the top avocado producer in the country, our upbeat projections and expectations are based on the market's extraordinary growth potential. As supplies become available, new markets will open and existing markets will expand.

ORANGES

Despite an industry-wide surplus and resulting low prices, Limoneira enjoyed relatively favorable orange results in 2008. Our well-honed strategy of anticipating, and then targeting, undersupplied markets allows us to hold delivery of our navel varieties in a way that maximizes their price. Even so, operating profit of \$555,000 in 2008 for our Valencia and navel operations was down considerably from our \$2.1 million in 2007.

SPECIALTY CITRUS

Specialty citrus operations (cara cara navels, satsuma mandarins, oro blanco grapefruit, blood oranges, pummelos, and minneolas) enjoyed another year of solid growth in 2008, with gains in all varieties yielding operating profits of \$973,000—a 21 percent increase over 2007. We are extremely bullish on the future of this segment and over the next few years are scheduled to increase by 40 percent our planted-bearing acreage.

LEASED AGRICULTURAL LAND

Operating profit from our leased agricultural land operations grew 15 percent in 2008 to \$1.5 million. We now lease 586 acres to third-party agricultural tenants, who last

year produced 255 acres of strawberries, 40 acres of raspberries, 265 acres of celery and cabbage, and 26 acres of miscellaneous row crops. These tenants are some of the best producers in the industry, and we are deeply appreciative of our partnerships with them.

ORCHARD REMOVAL

One of the most fascinating parts of each agricultural year has been Limoneira's cherry harvest, when a number of variables (weather, market conditions, harvest labor availability, etc.) all have to go exactly right in order to hit a market jackpot: being the first cherries into Japan. Unfortunately, we have never hit the three-cherries-in-a-row jackpot, which means we have consistently lost money on both our cherry and pluot operations. So, with some reluctance, we removed 133 acres of cherries and pluots, and replanted the acreage with lemons and oranges, both of which we manage with far greater success. Our non-cash orchard write-off in 2008 was \$1.2 million.

REAL ESTATE

EAST AREA 1-SANTA PAULA

Limoneira's historic 83 percent approval of Measure G last June has paved the way for our East Area 1 community-development project to become a reality in Santa Paula. The 1,500-home development includes 35 acres of sports fields, 30 acres of new community parks, 15 acres for a new high school, 12 acres for a new elementary school, a new community center, a new fire station and police station, a quarter million square feet of commercial property, and 150,000 square feet of light industrial property. The final entitlement hurdle is property annexation into the City of Santa Paula through the Local Area Formation Commission (LAFCO), a process expected to conclude within the year. The current down markets for real estate and home building ratify the wisdom of our having negotiated a 30-year development agreement with the city that ties all development costs to home-building milestones. Our deal allows Limoneira to bootstrap most development costs by utilizing monies received from builders and property developers prior to incurring these costs. With the deal essentially financing itself, Limoneira can proceed with patience and wait for conditions to improve. Eventually the value Santa Paula East Area I creates for Limoneira's shareholders will be substantial. This is a spectacular piece of entitled property, unique to all of Southern California, with its stunning views of the Santa Clara Valley and proximity to the Pacific Ocean. Visiting the site is a sure antidote for the mistaken belief that the real-estate market is irreparably damaged. When standing there, it requires little imagination to picture a thriving community, one that every Limoneira shareholder can be proud of.

EAST AREA 2-SANTA PAULA

Directly across from East Area 1, on the south side of Highway 126, is a 25-acre parcel called East Area 2, which is currently in the process of being annexed into the City of Santa Paula. Entitled for commercial or light-industrial development, East Area 2 will generate significant value for Limoneira as a symbiotic development to East Area 1.

Limoneira has assembled a world-class team of real-estate professionals charged with bringing East Area 1 and East Area 2 to fruition. I would like to thank each of them for their outstanding contributions, but I call particular attention to the leadership and

expertise of Mike Penrod of Parkstone Companies, who has already made this journey rewarding—with the best yet to be.

SANTA MARIA

In 2008, Limoneira foreclosed on four residential and commercial real-estate development parcels in Santa Maria, California. This was unfortunately necessitated by the default of a developer on a \$20 million bridge loan provided by Limoneira and collateralized by these properties. At the time of the loan the properties appraised for \$40 million. As of December 31, 2008, with Santa Maria real estate having been particularly hard hit by bad sub-prime loans and the subsequent constriction of home-lending credit, the four non-contiguous parcels appraised for \$23 million. Limoneira has been moving each parcel through the development-mapping process in order to enhance their values for future buyers, whom we anticipate will be developers. As of this writing, we have successfully entered escrow on one of the four parcels and have received interest on each of the remaining three parcels.

PARADISE VALLEY, ARIZONA

Limoneira has invested \$5.7 million in the construction of two luxury homes in Paradise Valley, Arizona, a unique enclave of 6,000 homes typically owned by those for whom price is no object. Our partner in this venture is a highly reputable Arizona home builder, Bellagio Builders. The homes are nearing completion and will be ready for sale in 2009. As of 2008 fiscal year-end, it was determined that neither home's value had been impaired, vis-à-vis our investment basis, by market conditions. History is on our side. Paradise Valley homes normally hold their values even during volatile real estate markets.

WINDFALL FARMS-PASO ROBLES, CALIFORNIA

Limoneira is a partner in a 720-acre thoroughbred horse farm composed of 76 ten-acre (or less) parcels—a real Kentucky property in coastal California. Windfall offers 14 miles of roads, 37 miles of fencing, and an abundance of water. More than \$25 million worth of buildings and infrastructure (including a seven-furlong racetrack) have been invested in the property, which is located in central California's finest wine-grape production area. Given the downturn in equestrian investments and the relative stability of the wine market, we have already begun to subdivide the acreage, for future small-lot sales, into a combination of vineyard and equestrian properties. We envision that Windfall will one day be home to a winery, vineyards, equestrian facilities, and lifestyle country estates. The property is listed by Sotheby's and can be viewed at www.4710flyingpaster.com.

HOUSING & COMMERCIAL

In the rental market, Limoneira operates 215 residential units, as well as several commercial office buildings and properties. Because many of them are older, the maintenance expenses required to keep them rentable and habitable frequently exceed revenues from rent increases. This explains why our operating profit of \$887,000 represents a 5 percent decline from 2007. It should be noted that this business unit provides necessary and reliable cash flow for our company and a pleasant place to live for many of our employees.

FY2009 OUTLOOK

There is no way around the fact that 2009 promises to be a challenging year for Limoneira.

Lemon supplies around the world have been replenished, and global pricing has returned to normal levels. Current projections for our lemon sales are at an average price closer to pre-2007 levels, which should generate an operating profit lower than that experienced in 2008.

As for **avocados**, the California industry suffered an unusual heat wave last May that all but devastated the crop. This means that our 1,300 acres will be challenged to produce even one million pounds in 2009, so it's possible we will not break even.

Our **orange** crop looks promising. Though lighter overall than 2008, it should return higher sales prices. Our projected operating profit for 2009 is expected to be higher than last year's \$555,000.

Specialty crops are also projected to do better this year, with operating profits exceeding the level achieved in 2008.

Total **agribusiness** operating profit is projected to be significantly lower than 2008's record.

Operating profit from our housing and commercial business is forecast to achieve a modest increase over 2008.

In total we are forecasting 2009 operating profits to decrease significantly and, I hope you agree that this says more about the extraordinary year that was 2008 than the merely good year we expect 2009 to be.

In order to support Limoneira's current debt, we have implemented austerity measures throughout the company that will lead to a substantial reduction of overhead costs in 2009, achieved primarily through lower real-estate entitlement spending and reduced performance-based compensation. Rest assured, everyone in the organization is cutting costs and tightening their belts until the marketing of our real estate assets begins to, yes, bear fruit. In the meantime, Limoneira will cover our interest payments and work diligently to prepare East Area 1 and East Area 2 for both LAFCO annexation and development.

Limoneira's pretax earnings forecast for 2009 is expected to be lower than 2008, with cash flow from operations also projected to decline. The major factors that will determine whether we hit our targets are the summer lemon markets, our successfully selling some real estate, and, as usual, the excellent performance of our employees.

SUMMARY

Limoneira enjoyed a landmark year in 2008. We reported our highest-ever operating profits, achieved something truly historic with the entitlement of East Area 1, and both enhanced our reputation for sustainability and decreased our future energy costs with the installation of two megawatts of solar power.

Everyone on the Limoneira team understands that 2009 will be a challenging year for our company. However, I am convinced that we have put plans in place and the right team to carry out these plans for this current cycle. Teamwork, after all, was what made 2008 such a success. Our team is conditioned to manage during lean times and execute to achieve great results in others. As we continue to explore abundant opportunities for the expansion of our global agribusiness, I am confident that Limoneira's future is brighter than ever.

Respectfully submitted,



Harold S. Edwards

President & CEO

FORWARD-LOOKING STATEMENTS

This Annual Report contains statements relating to future results of Limoneira Company (including certain projections and business trends) that are “forward-looking statements”. Forward-looking statements frequently are identifiable by the use of words such as “believe,” “anticipate,” “expect,” “intend,” “will,” and other similar expressions. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, general economic and business conditions, energy costs and availability, pricing pressures on agricultural products, adverse weather and growing conditions confronting growers, new governmental regulations, as well as other risks and uncertainties. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Balance Sheets

October 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 90,000 | \$ 486,000 |
| Accounts receivable | 2,846,000 | 2,724,000 |
| Note receivable | 1,300,000 | 20,000,000 |
| Inventoried cultural costs | 1,146,000 | 1,178,000 |
| Supplies, prepaid expenses and other current assets | 1,104,000 | 637,000 |
| Income taxes receivable | 1,191,000 | 5,000 |
| Current assets of discontinued operations | 16,000 | 70,000 |
| Total current assets | <u>7,693,000</u> | <u>25,100,000</u> |
| Property, plant and equipment, net | 109,002,000 | 68,502,000 |
| Asset held for sale | 6,270,000 | - |
| Equity in investments | 1,698,000 | 1,886,000 |
| Investment in Calavo Growers, Inc. | 10,150,000 | 22,910,000 |
| Notes receivable | 1,806,000 | 4,495,000 |
| Other assets | 3,914,000 | 3,714,000 |
| Non-current assets of discontinued operations | 457,000 | 734,000 |
| Total Assets | <u>\$ 140,990,000</u> | <u>\$ 127,341,000</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,311,000 | \$ 1,198,000 |
| Growers payable | 808,000 | 1,281,000 |
| Accrued liabilities | 3,818,000 | 3,885,000 |
| Current portion of long-term debt | 382,000 | 20,359,000 |
| Current liabilities of discontinued operations | 26,000 | 145,000 |
| Total current liabilities | <u>7,345,000</u> | <u>26,868,000</u> |
| Long-term liabilities: | | |
| Long-term debt | 65,200,000 | 18,116,000 |
| Deferred income taxes | 12,160,000 | 17,188,000 |
| Pension and other long-term liabilities | 562,000 | 170,000 |
| Total long-term liabilities | <u>77,922,000</u> | <u>35,474,000</u> |
| Total liabilities | <u>85,267,000</u> | <u>62,342,000</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Series B Convertible Preferred Stock - \$100.00 par value (100,000 shares authorized: 30,000 shares issued and out- standing at October 31, 2008 and 2007) (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 October 31, 2008 and 2007) | - | - |
| Common Stock - \$.01 par value (3,000,000 shares authorized: 1,113,276 and 1,113,338 shares issued and outstanding at October 31, 2008 and 2007, respectively) | 11,000 | 11,000 |
| Additional paid-in capital | 34,211,000 | 34,757,000 |
| Retained earnings | 21,163,000 | 21,452,000 |
| Accumulated other comprehensive income (loss) | (2,662,000) | 5,779,000 |
| Total stockholders' equity | <u>55,723,000</u> | <u>64,999,000</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 140,990,000</u> | <u>\$ 127,341,000</u> |

See notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended October 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Revenues: | | |
| Ventura County Fruit Exchange lemon sales | \$ 40,290,000 | \$ 35,345,000 |
| Less: Limoneira packinghouse charges | (8,934,000) | (9,393,000) |
| Less: Payments to affiliated growers | (7,107,000) | (7,364,000) |
| Net lemon revenue | <u>24,249,000</u> | <u>18,588,000</u> |
| Other crops, net of outside packinghouse charges: | | |
| Avocados | 3,502,000 | 3,185,000 |
| Navels | 2,412,000 | 3,184,000 |
| Valencias | 663,000 | 776,000 |
| Specialty citrus crops | 1,881,000 | 1,609,000 |
| Other specialty crops | 1,046,000 | 652,000 |
| Leased land | 1,410,000 | 1,263,000 |
| Housing and commercial | 2,140,000 | 2,095,000 |
| Interest income | 902,000 | 2,300,000 |
| Other income | 848,000 | 788,000 |
| Total Revenues | <u>39,053,000</u> | <u>34,440,000</u> |
| Expenses: | | |
| Picking and hauling | 5,301,000 | 4,373,000 |
| Cultural costs | 11,996,000 | 9,881,000 |
| Housing and commercial | 1,822,000 | 1,692,000 |
| Real estate development | 991,000 | 1,160,000 |
| Impairment of real estate development | 1,341,000 | - |
| Selling, general and administrative | 8,016,000 | 9,430,000 |
| Depreciation and amortization expense | 2,434,000 | 2,267,000 |
| Interest expense | 1,419,000 | 2,102,000 |
| Total Expenses | <u>33,320,000</u> | <u>30,905,000</u> |
| Net loss on the sale of assets | <u>(11,000)</u> | <u>(56,000)</u> |
| Income from continuing operations before income taxes and equity in earnings of investments | 5,722,000 | 3,479,000 |
| Provision for income taxes | (2,228,000) | (1,284,000) |
| Equity in earnings of investments | 405,000 | 357,000 |
| Income from continuing operations | <u>3,899,000</u> | <u>2,552,000</u> |
| Loss from discontinued operations, net of income tax benefit of \$167,000 in 2008 and \$162,000 in 2007 | <u>(252,000)</u> | <u>(245,000)</u> |
| Net income | 3,647,000 | 2,307,000 |
| Preferred dividends | (262,000) | (262,000) |
| Net income applicable to common stock | <u>\$ 3,385,000</u> | <u>\$ 2,045,000</u> |
| Per common share-basic: | | |
| Continuing operations | \$ 3.27 | \$ 2.07 |
| Discontinued operations | (0.23) | (0.22) |
| Net income | <u>\$ 3.04</u> | <u>\$ 1.85</u> |
| Per common share-diluted: | | |
| Continuing operations | \$ 3.26 | \$ 2.07 |
| Discontinued operations | (0.23) | (0.22) |
| Net income | <u>\$ 3.03</u> | <u>\$ 1.85</u> |
| Dividends per common share | <u>\$ 3.25</u> | <u>\$ 2.25</u> |
| Weighted-average shares outstanding-basic | 1,113,000 | 1,107,000 |
| Weighted-average shares outstanding-diluted | 1,116,000 | 1,107,000 |

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended October 31, 2008 and 2007

| | Series B Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--|--------------------------------------|--------------|--------------|----------|----------------------------|-------------------|---|---------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at November 1, 2006 | 30,000 | \$ 3,000,000 | 1,106,288 | \$11,000 | \$ 31,683,000 | \$ 21,898,000 | \$ (3,427,000) | \$ 53,165,000 |
| Dividends - common | - | - | - | - | - | (2,491,000) | - | (2,491,000) |
| Dividends - preferred | - | - | - | - | - | (262,000) | - | (262,000) |
| Stock compensation expense | - | - | 7,500 | - | 3,187,000 | - | - | 3,187,000 |
| Repurchase of common stock | - | - | (450) | - | (113,000) | - | - | (113,000) |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | - | 2,307,000 | - | 2,307,000 |
| Minimum pension liability adjustment, net of tax provision of \$857,000 | - | - | - | - | - | - | 1,286,000 | 1,286,000 |
| Unrealized holding gain of security available-for-sale, net of tax provision of \$5,239,000 | - | - | - | - | - | - | 7,920,000 | 7,920,000 |
| Comprehensive income | | | | | | | | 11,513,000 |
| Balance at October 31, 2007 | 30,000 | 3,000,000 | 1,113,338 | 11,000 | 34,757,000 | 21,452,000 | 5,779,000 | 64,999,000 |
| Dividends - common | - | - | - | - | - | (3,619,000) | - | (3,619,000) |
| Dividends - preferred | - | - | - | - | - | (262,000) | - | (262,000) |
| Stock compensation expense | - | - | 4,524 | - | 600,000 | - | - | 600,000 |
| Repurchase of common stock | - | - | (4,586) | - | (1,146,000) | - | - | (1,146,000) |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | - | 3,647,000 | - | 3,647,000 |
| Minimum pension liability adjustment, net of tax benefit of \$253,000 | - | - | - | - | - | - | (381,000) | (381,000) |
| Unrealized holding loss of security available-for-sale, net of tax benefit of \$5,083,000 | - | - | - | - | - | - | (7,677,000) | (7,677,000) |
| Unrealized loss resulting from changes in fair values of derivative instruments, net of tax benefit of \$254,000 | - | - | - | - | - | - | (383,000) | (383,000) |
| Cumulative effect adjustment for uncertainty in income taxes | - | - | - | - | - | (55,000) | - | (55,000) |
| Comprehensive loss | | | | | | | | (4,849,000) |
| Balance at October 31, 2008 | 30,000 | \$ 3,000,000 | 1,113,276 | \$11,000 | \$ 34,211,000 | \$ 21,163,000 | \$ (2,662,000) | \$ 55,723,000 |

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended October 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|---------------|----------------|
| Cash flows from operating activities: | | |
| Net income from continuing operations | \$ 3,899,000 | \$ 2,552,000 |
| Adjustments to reconcile net income from continuing operations to cash provided by operating activities: | | |
| Depreciation and amortization | 2,434,000 | 2,267,000 |
| Loss on disposal/sale of fixed assets | 11,000 | 56,000 |
| Write-off of intangible asset | 34,000 | - |
| Impairment of real estate development | 1,341,000 | - |
| Orchard write-offs | 1,172,000 | 383,000 |
| Stock compensation expense | 600,000 | 3,187,000 |
| Equity in earnings of investments | (405,000) | (357,000) |
| Provision for deferred income taxes | 507,000 | 271,000 |
| Total adjustments | 5,694,000 | 5,807,000 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts and notes receivable | (122,000) | 137,000 |
| Decrease (increase) in inventoried cultural costs | 32,000 | (183,000) |
| (Increase) decrease in supplies, prepaids and other | (467,000) | 473,000 |
| Increase in income taxes receivable | (1,186,000) | (5,000) |
| Increase (decrease) in accounts payable and growers payable | 40,000 | (475,000) |
| (Decrease) increase in accrued liabilities | (67,000) | 1,934,000 |
| Decrease in other long-term liabilities | (878,000) | (602,000) |
| Total changes in operating assets and liabilities | (2,648,000) | 1,279,000 |
| Net cash provided by operating activities | 6,945,000 | 9,638,000 |
| Cash flows from investing activities: | | |
| Capital expenditures | (29,206,000) | (8,919,000) |
| Net proceeds from sale of assets | 19,000 | 4,000 |
| Cash distribution from Limco Del Mar, Ltd. | 623,000 | 362,000 |
| Investment contributions | (30,000) | (526,000) |
| Issuance of notes receivable | (540,000) | (23,195,000) |
| Collection of note receivable | - | 4,264,000 |
| (Increase) in other assets | (246,000) | (1,664,000) |
| Net cash used in investing activities | (29,380,000) | (29,674,000) |
| Cash flows from financing activities: | | |
| Issuance of long-term debt | 62,093,000 | 27,470,000 |
| Repayments of long-term debt | (34,986,000) | (3,510,000) |
| Dividends paid-Common | (3,619,000) | (2,491,000) |
| Dividends paid-Preferred | (262,000) | (262,000) |
| Repurchase of common shares | (1,146,000) | (113,000) |
| Net cash provided by financing activities | 22,080,000 | 21,094,000 |
| Net (decrease) increase in cash and cash equivalents | (355,000) | 1,058,000 |
| Net cash used in discontinued operations | (41,000) | (576,000) |
| Cash and cash equivalents at beginning of year | 486,000 | 4,000 |
| Cash and cash equivalents at end of year | \$ 90,000 | \$ 486,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | \$ 2,548,000 | \$ 2,557,000 |
| Cash paid during the year for income taxes, net of refunds received | \$ 2,935,000 | \$ 131,000 |
| Non-cash investing, financing and other comprehensive income (loss) transactions: | | |
| Minimum pension liability adjustment, net of tax benefit | \$ 381,000 | \$ (1,286,000) |
| Unrealized holding loss (gain) on security, net of tax benefit | \$ 7,677,000 | \$ (7,920,000) |
| Unrealized loss from derivatives, net of tax benefits | \$ 383,000 | \$ - |
| Write-off of intangible asset | \$ 34,000 | \$ - |
| Conversion of note receivable and interest from Templeton Santa Barbara, LLC to controlling equity interest | \$ 22,656,000 | \$ - |
| Capital expenditures accrued but not paid at year-end | \$ 600,000 | \$ - |

See notes to consolidated financial statements.

Limoneira Company

Notes to Consolidated Financial Statements

Years Ended October 31, 2008 and 2007

1. Business:

Limoneira Company, a Delaware Corporation (the “Corporation”), engages primarily in growing citrus and avocados, picking and hauling citrus, packing lemons, and housing and other real estate operations. The Corporation also packs lemons for other growers including certain members of the Board of Directors and their affiliated companies. Lemon packing expenses are allocated to the Corporation and others primarily based on volume. The Corporation is also engaged in real estate development and agri-tourism activities as well as leasing certain of its assets for filming activities related to feature films, television programs, commercials and advertisements.

The Corporation markets its products primarily through Sunkist Growers, Inc., (“Sunkist”) and Calavo Growers, Inc. (“Calavo”). The financial statements represent the consolidated financial position, results of operations and cash flows of Limoneira Company and its wholly owned subsidiaries, Limoneira Land Company, Limoneira Company International Division, LLC, Limoneira Mercantile, LLC (“Mercantile”), its controlling interest in Templeton Santa Barbara, LLC (“Templeton”) and all variable interest entities for which the Corporation is considered the primary beneficiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash Equivalents – The Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventoried Cultural Costs – Inventoried cultural costs represent those costs incurred during the year to grow crops in the San Joaquin Valley subsequent to the final harvest of the crop and thus are for the benefit of the following year’s crops.

Supplies – Supplies are stated at the lower of cost (principally first-in, first-out) or market.

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.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the application of SFAS No. 109, *Accounting for Income Taxes*, by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise’s financial statements and also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Corporation adopted the provisions of FIN 48 on November 1, 2007. The adoption of FIN 48 did not have a material effect on the Corporation’s financial position or results of operations.

Property, Plant and Equipment – Property, plant and equipment is stated at original cost, net of accumulated depreciation. Depreciation is computed using straight-line and accelerated methods at rates based upon the estimated useful lives of the related assets as follows:

| | |
|-------------------|---------|
| Land Improvements | 10 – 20 |
| Buildings | 10 – 50 |
| Equipment | 5 - 20 |
| Orchards | 20 – 40 |

Capitalized Interest – Capitalized interest is recorded on non-bearing orchards, real estate development projects and significant construction in progress using the average interest rate during the year. Interest of \$1,292,000 and \$367,000 was capitalized during the years ended October 31, 2008 and 2007, respectively, and is included in property, plant and equipment.

Real Estate Development – Expenditures for real estate development projects are capitalized at cost and include, but are not limited to, land purchases, interest, professional fees and construction costs. Capitalization of interest ceases when a project is substantially complete and available for sale. Other costs related to real estate development projects, but which are expensed as incurred; include campaign costs and certain consulting fees. Real estate development costs of \$48,464,000 and \$5,426,000 were capitalized (or reclassified to real estate development costs) for the years ended October 31, 2008 and 2007, respectively, and are included in property, plant and equipment and asset held for sale.

Investment in Calavo – In June 2005, the Corporation entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Corporation purchased 1,000,000 shares, or approximately 6.9%, of Calavo’s common stock for \$10,000,000 and Calavo purchased 172,857 shares, or approximately 15.1%, of the Corporation’s common stock for \$23,450,000. Under the terms of the agreement, the Corporation received net cash consideration of \$13,450,000. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Corporation has classified its investment as “available-for-sale securities”. Changes in the fair value of available-for-sale securities result in unrealized holding gains or losses. In 2008, the Corporation recorded an unrealized holding loss of \$12,760,000 to reflect a decrease in the market value of Calavo common stock. In 2007, the Corporation recorded an unrealized holding gain of \$13,159,000 to reflect an increase in the market value of Calavo common stock. In 2008 and 2007, the Corporation recorded dividend income of \$350,000 and \$320,000, respectively, on its investment in Calavo; which is included in other income in the Consolidated Statement of Operations. Subsequent to the agreement, and currently, the Corporation’s avocados are marketed by Calavo. Sales of the Corporation’s avocados totaled \$3,502,000 and \$3,185,000 for the years ended October 31, 2008 and 2007, respectively. There was no amount receivable by the Corporation from Calavo at October 31, 2008 or 2007. Additionally, the Corporation leases office space to Calavo and received annual rental income of \$220,000 in 2008 and 2007, respectively.

Other Assets – Other assets is comprised mainly of investments in water rights, mutual water companies, intangible assets and revolving funds. The investments in mutual water companies are recorded at cost. A member of the Corporation’s Board of Directors is currently a Director of a mutual water company in which the Corporation is an investor. The mutual water company provided water to the Corporation, for which the Corporation paid \$228,000 and \$157,000 in 2008 and 2007, respectively. Water payments due to the mutual water company were \$54,000 and \$14,000 at October 31, 2008 and 2007, respectively. Intangible assets not subject to amortization were \$36,000 at October 31, 2008 and 2007. Intangible assets subject to amortization were \$201,000 and \$247,000 net of accumulated amortization of \$21,000 and \$14,000, at October 31, 2008 and 2007, respectively. In 2003, the Corporation paid \$150,000 to obtain certain propagation rights (“the Patent”) for an agricultural variety. During 2005 and 2006, the Corporation incurred an additional \$72,000 in costs related to the Patent. The Patent was issued in 2007 and is being amortized over its legal life. Included in other assets at October 31, 2008 and 2007 were \$201,000 and \$214,000 respectively, of costs relating to the Patent.

Additionally, the Corporation has invested in the career of Charlie Kimball, a Formula 1 racing driver, who is related to a member of the Corporation's Board of Directors. Included in other assets at October 31, 2008 and 2007 were \$200,000 and \$100,000, respectively, of costs related to this investment. Other assets at October 31 are comprised of the following:

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|--------------------|
| Investments in water rights and mutual water companies | \$2,675,000 | \$2,558,000 |
| Intangible assets and other investments | 664,000 | 621,000 |
| Revolving funds and memberships | <u>575,000</u> | <u>535,000</u> |
| | <u>\$3,914,000</u> | <u>\$3,714,000</u> |

Intangible Assets – The Corporation evaluates its intangible assets annually or whenever events or changes in circumstances indicate an impairment of the assets' value may exist. During 2008, the Corporation wrote-off \$34,000 of franchise fees that were recorded with the purchase of a retail restaurant franchise in 2005. There were no impairments of intangible assets in 2007.

Revolving Funds and Memberships – Revolving funds and memberships represent the Corporation's investments in various cooperative associations. The Corporation pays to Sunkist and certain other cooperatives an annual assessment based on sales volume or other criteria. These funds are typically held for five years at which time they are refunded to the Corporation. Revolving funds related to the Corporation's fruit packed at outside packinghouses are withheld from payments made to the Corporation during the year and also refunded, typically in five years. These funds are recorded as long-term assets on the consolidated balance sheet until they are refunded.

Impairment of Long-Lived Assets – The Corporation evaluates long-lived assets, including finite-lived 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 cost to sell. In 2008, the Corporation wrote-off a \$65,000 note receivable related to the sale of a retail building associated with discontinued operations. In 2007, the Corporation wrote-down the carrying value of the same retail building by \$100,000 (see Note 7). Additionally in 2008, the Corporation wrote-down the carrying value of its Templeton Santa Barbara, LLC real estate development project by \$1,341,000 based on the results of an independent appraisal (see Note 4).

Self-Insurance Reserves – The Corporation was partially self-insured for workers' compensation claims and maintained insurance coverage that limits its exposure on an individual case and on a yearly aggregate basis. The Corporation accrues costs for actual reported claims and for claims incurred but not yet reported based on historical experience and other factors.

Fair Value of Financial Instruments – The October 31, 2008 and 2007 carrying amounts of the Corporation's cash and cash equivalents, accounts receivable, notes receivable, accounts payable and grower payable approximate their estimated fair values because of short maturities and/or interest rates that are comparable to those currently available to the Corporation for financial instruments with similar terms. Based on the borrowing rates currently available to the Corporation for bank loans with similar terms and average maturities, the fair value of long-term debt is approximately \$278,000 greater than its carrying amount as of October 31, 2008 and \$1,584,000 less than its carrying amount as of October 31, 2007.

Financial Instruments – The Corporation uses derivative financial instruments for purposes other than trading 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 Corporation has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

Contingencies – The Corporation is from time to time involved in various lawsuits and legal proceedings that arise in the ordinary course of business. At this time, the Corporation 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.

Per Common Share Information – Diluted net income per common share is computed based on the diluted weighted-average number of common shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of: 3,000 in 2008 and zero in 2007. The Series B convertible preferred shares are anti-dilutive.

Revenues and Cultural Costs – Revenues pertaining to crops being harvested during the fiscal year are generally recognized in that year. Cultural costs incurred are capitalized as inventory and expensed when the related crop is harvested. The Corporation’s citrus sales made through the Ventura County Fruit Exchange in 2008 and 2007 are reported gross of packinghouse charges. Citrus and other crops packed and sold by outside packinghouses in 2008 and 2007 are reported net of packinghouse charges. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable and collectability is reasonably assured.

Product Pools – The Corporation records income from products grade fruit based on actual quantities delivered to Sunkist valued at the expected return per ton as estimated by Sunkist.

Selling, General and Administrative – Selling, general and administrative costs (“SG&A”) were \$8,016,000 and \$9,430,000 for 2008 and 2007, respectively and primarily included the following:

| | <u>2008</u> | <u>2007</u> |
|------------------------|--------------------|--------------------|
| Labor and benefits | \$2,453,000 | \$2,308,000 |
| Incentives | 1,502,000 | 1,160,000 |
| Legal and professional | 1,240,000 | 834,000 |
| Consulting and other | 2,221,000 | 1,941,000 |
| Stock compensation | 600,000 | 3,187,000 |
| | <u>\$8,016,000</u> | <u>\$9,430,000</u> |

Incentives are comprised of costs related to the management and salaried incentive programs and the bonus plan for hourly employees.

Recent Accounting Pronouncements – In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Corporation will adopt SFAS 141(R) in fiscal 2010 and is currently assessing the impact the adoption will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Corporation will adopt SFAS 160 in fiscal 2010 and is currently assessing the impact the adoption will have on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. However, the application of SFAS 157 may change current practice for some entities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation will adopt SFAS 157 in fiscal 2009. The Corporation is currently assessing the impact that the adoption of SFAS 157 will have on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure at fair value eligible financial instruments and certain other items that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Corporation will adopt SFAS 159 in fiscal 2009. The Corporation is currently assessing the impact the adoption of SFAS 159 will have on its financial position and results of operations.

Reclassifications – Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

3. Property, Plant and Equipment

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

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|----------------------|---------------------|
| Land | \$70,060,000 | \$35,288,000 |
| Land improvements | 11,810,000 | 11,916,000 |
| Buildings | 11,752,000 | 11,661,000 |
| Equipment | 21,087,000 | 21,285,000 |
| Orchards | 18,375,000 | 17,805,000 |
| Construction in progress | 14,602,000 | 8,292,000 |
| | <u>147,686,000</u> | <u>106,247,000</u> |
| Less accumulated depreciation | <u>(38,684,000)</u> | <u>(37,745,000)</u> |
| | <u>\$109,002,000</u> | <u>\$68,502,000</u> |

Depreciation expense was \$2,421,000 and \$2,257,000 for 2008 and 2007, respectively and amortization expense was \$13,000 and \$10,000 for 2008 and 2007, respectively.

In 2004, the Corporation sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and as a result, the gain of \$161,000 was deferred. The remaining portion of the deferred gain is included in accrued liabilities at October 31, 2008 and 2007. In connection with the sale, the Corporation 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 principal balance and interest is payable in April 2009. Interest accrues at 7.0% on this remaining principal balance.

In 2007, the Corporation purchased a parcel of land adjacent to the Corporation's farming operations in Porterville, California. This 101 acre parcel was purchased for \$900,000, and consists of 88 acres of full-bearing Valencia and Navel oranges and 13 acres of unimproved land. Per the purchase agreement, Limoneira Company owns all of the crops on trees as of the date of purchase. The Corporation harvested these crops in fiscal year 2007.

In April of 2008, the Corporation assumed a 75% controlling interest in Templeton Santa Barbara, LLC ("Templeton"). As a result, the Corporation began consolidating Templeton. The \$20,000,000 note receivable from Templeton has been eliminated in consolidation and replaced with the Corporation's interest in land and the \$2,656,000 interest receivable previously recognized on the Bridge Loan balance at March 31, 2008 was capitalized into the development costs associated with the project (see Note 4).

In July of 2008, the Corporation purchased a parcel of land with a single family residence adjacent to the Corporation's farming operations in Ducor, California. The purchased price of \$128,000 was allocated as follows: land valued at \$37,000 and residence valued at \$91,000.

In September of 2008, the Corporation purchased a 63 acre parcel of land associated with the East Area 1 real estate development project (see Note 4). The parcel was purchased for \$22,000,000 and consists of lemon and avocado orchards. Per the purchase agreement, the Corporation did not harvest these crops in 2008.

4. Real Estate Development/Asset Held for Sale:

Real estate development costs included in property, plant and equipment at October 31:

| | <u>2008</u> | <u>2007</u> |
|---|----------------------------|----------------------------|
| East Areas 1 and 2: | | |
| Land | \$30,253,000 | \$8,253,000 |
| Construction in progress | 5,351,000 | 3,595,000 |
| Windfall Investors, LLC | - | - |
| Templeton Santa Barbara, LLC: | | |
| Land | 14,000,000 | - |
| Impairment charges | (1,265,000) | - |
| Construction in progress | 3,355,000 | - |
| Arizona Development Projects: | | |
| Land | 3,008,000 | 3,008,000 |
| Construction in progress | 2,710,000 | 362,000 |
| Sub-totals: | | |
| Land | <u>45,996,000</u> | <u>11,261,000</u> |
| Construction in progress | <u>11,416,000</u> | <u>3,957,000</u> |
| Total included in property, plant and equipment | <u><u>\$57,412,000</u></u> | <u><u>\$15,218,000</u></u> |

Real estate development costs included in asset held for sale at October 31:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|---------------------------|---------------------|
| Templeton Santa Barbara, LLC: | | |
| Land | \$5,000,000 | \$-0- |
| Impairment charge | (76,000) | - |
| Development costs | <u>1,346,000</u> | - |
| Total included in asset held for sale | <u><u>\$6,270,000</u></u> | <u><u>\$-0-</u></u> |

East Areas 1 and 2:

In 2005, the Corporation began capitalizing the costs of two real estate projects east of Santa Paula, California for the development of 550 acres of land into residential units, commercial buildings and civic facilities. During 2008 and 2007 the Corporation capitalized \$1,756,000 and \$2,056,000, respectively, of costs related to these real estate development projects. Additionally, in relation to this project, the Corporation has incurred expenses of \$966,000 and \$1,160,000 in fiscal years ended October 31, 2008 and 2007, respectfully. During 2008 the Corporation purchased a 63 acre parcel of land within the project boundary for \$22,000,000; which is included in property, plant and equipment at October 31, 2008. The net book value of the additional land associated with this project was \$8,253,000 at October 31, 2008 and 2007, respectively.

Windfall Investors, LLC:

In September of 2005, the Corporation, along with Windfall, LLC (“Windfall”), formed a partnership, Windfall Investors, LLC (“Investors”). Also, in September of 2005, Investors purchased a 724 acre ranch in Creston, California (the “Ranch”) for \$12,000,000. Investors is engaged in the management and operation of equestrian breeding and training facilities on the Ranch; the subdivision, re-parcelization, development and construction of improvements on all or a portion of the Ranch; the development, construction and marketing of residential lots and/or housing units on the Ranch; and such other activities as may be deemed appropriate and reasonable.

The Corporation and Windfall each made initial capital contributions to Investors of \$300 and \$1,700, respectively. The Corporation accounts for its investment in Investors under the historical cost method. To fund the purchase of the Ranch, Investors secured a long-term loan from Farm Credit West (the “Bank”) for \$9,750,000. The remaining \$2,250,000 of the purchase was provided from an \$8,000,000 revolving line of credit provided to Investors by the Bank under an agreement entered into between Investors and the Bank in September of 2005. The balance of the revolving line of credit will be used to fund the operations of Investors, including debt service costs. The \$12,000,000 in borrowings to purchase the Ranch is secured by the real property, buildings and equipment of the Ranch.

The indebtedness outstanding under the revolving line of credit is guaranteed, jointly and severally, by the Corporation and Windfall. This guarantee shall remain in effect for the entire four-year term of the revolving line of credit. Should Investors be in default at any time during that term, the Bank could declare the outstanding balance due and payable. The maximum amount of potential future payment for the Corporation and Windfall because of a default by Investors under the term of the agreement is \$8,000,000. Conditions of default include, among other things, failure to make scheduled payments, declaration of bankruptcy, material adverse change in financial condition and breach of any term or representation in the loan agreements. At October 31, 2008 and 2007, there was \$9,059,000 and \$7,056,000, respectively outstanding under the revolving line of credit that was guaranteed by the Corporation and Windfall.

In fiscal 2008, the Corporation and Windfall amended the Operating Agreement for Windfall Investors, LLC. Effective January 1, 2007; net profits or net losses from operation of the Ranch's equestrian facilities shall be shared by the Corporation and Windfall -0% and 100%, respectively. Net profits or net losses from the sale or disposition of the Ranch shall be shared by the Corporation and Windfall 15% and 85% respectively.

Templeton Santa Barbara, LLC:

In December of 2006, the Corporation entered into an agreement with Templeton Santa Barbara, LLC ("Templeton") whereby the Corporation provided a \$20,000,000 loan to Templeton ("the Bridge Loan"). The Bridge Loan was included in note receivable in the Consolidated Balance Sheets of the Corporation at October 31, 2007. Templeton used these funds to purchase four residential development parcels in Santa Maria, California. The Corporation obtained the funds for the Bridge Loan through a term loan allowed under its credit arrangement with City National Bank (the "Term Loan"). The Term Loan was included in the current portion of long-term debt in the Consolidated Balance Sheet of the Corporation at October 31, 2007. At October 31, 2007 the interest rate on the Term Loan was 6.4375%. The Term Loan matured on April 30, 2008. Interest on the Bridge Loan was equal to the Prime rate plus 2%. \$20,000,000 of the principal on the Bridge Loan was due and payable on March 31, 2008, with the remaining outstanding balance due on October 31, 2009. Interest on the Bridge Loan at October 31, 2007 was 9.50%. In addition, the Corporation is to receive a loan fee from Templeton equal to 1% of the Bridge Loan amount. Under the terms of the agreement with Templeton the Corporation has the option to participate in the real estate development projects as a 20% equity partner or participate as a lender receiving a preferred interest rate.

In December of 2008, the Corporation amended its credit arrangement with City National Bank to extend the maturity date of the Term Loan issued to the Corporation under that credit arrangement from December 31, 2007 to April 30, 2008. The Corporation then entered into an agreement (the "Agreement") with Templeton to extend the due date of the \$20,000,000 Bridge Loan issued to Templeton by the Corporation from December 31, 2007 to March 31, 2008. Interest payable to the Corporation by Templeton during the extension period was at a rate of Prime plus 2%. The Agreement calls for the "best efforts" to sell and/or refinance the four real estate development projects that were purchased by Templeton using the proceeds from the Bridge Loan. The Agreement also prioritizes the use of all funds received upon the sale or refinance of the four projects as well as defining the Corporation's participation in the ultimate disposition of the four projects.

At March 31, 2008 Templeton was unable to meet its obligation under the terms of the Agreement with the Corporation. As a result, the Corporation assumed a 75% controlling interest in Templeton and began consolidating Templeton in April of 2008. The \$2,656,000 interest recognized on the Bridge Loan balance at March 31, 2008 was capitalized into the development costs associated with the project. The Term Loan was repaid in 2008 with proceeds from the Rabobank credit facility.

On October 14, 2008 the Corporation received an offer to purchase one of the four projects from Templeton for \$6,500,000. This project is listed in the assets held for sale section of the Corporation's Consolidated Balance Sheets at October 31, 2008 consisting of land with a basis of \$4,924,000 and construction in process of \$1,346,000. At the time of this financial statement presentation, the purchaser is undergoing a due diligence period with escrow scheduled to close two weeks after the due diligence period is completed.

In accordance with Accounting Research Bulletin No. 51, the Corporation effectively accounts for Templeton as consolidated in its October 31, 2008 consolidated financial statements. The minority interest holder's basis in Templeton is zero. Since inception, Templeton generated \$50,000 of revenues and \$75,000 of expenses and the net loss of \$25,000 is included in the Corporation's October 31, 2008 consolidated financial statements. The Corporation wrote-down the carrying value of its Templeton real estate development project by \$1,341,000 in 2008 based on the results of an independent appraisal. The three remaining projects not included in asset held for sale are included in property, plant and equipment in the Corporation's October 31, 2008 consolidated financial statements. These projects consist of land with a basis of \$12,735,000 and construction in process of \$3,355,000. The Corporation continues to invest in this development project by incurring costs required to bring the four projects to final map status.

Arizona Development Projects:

In 2007 the Corporation and Bellagio Builders, LLC., an Arizona limited liability company formed a limited liability company, 6037 East Donna Circle, LLC ("Donna Circle") with the sole business purpose of constructing and marketing an approximately 7,500 square foot luxury home in Paradise Valley, Arizona. In February 2007, Donna Circle obtained an unsecured, non-revolving line of credit for \$3,200,000 with Mid-State Bank (the "Line"). The Line called for monthly, interest only payments with all unpaid principal due at maturity in February 2009. The interest rate for the Line was 7%. All principal and interest under the Line was guaranteed by the Corporation. The Line was repaid in 2008 with proceeds from the Rabobank credit facility.

Donna Circle used proceeds of \$1,368,000 from the Line to purchase property in Paradise Valley, Arizona for the construction of a luxury home. Additionally, Donna Circle has used proceeds of \$1,621,000 from borrowings for site preparation, architect fees and construction of the project. Costs to complete the project are estimated to be \$376,000 at October 31, 2008. Outstanding borrowings of \$2,989,000 and \$1,560,000 are included in long-term debt in the Consolidated Balance Sheets of the Corporation at October 31, 2008 and 2007, respectively. Capitalized costs of \$2,989,000 and \$1,560,000 are included in property, plant and equipment in the Consolidated Balance Sheets of the Corporation at October 31, 2008 and 2007, respectively.

During 2007 the Corporation and Bellagio Builders, LLC, an Arizona limited liability company formed a limited liability company, 6146 East Cactus Wren Road, LLC ("Cactus Wren") with the sole purpose of constructing and marketing an approximately 9,500 square-foot luxury home in Paradise Valley, Arizona. In March 2007 Cactus Wren obtained an unsecured, non-revolving line of credit for \$3,900,000 with Mid-State Bank (the "Line"). The Line called for monthly, interest only payments with all unpaid principal due at maturity in March 2009. The interest rate for the Line was 7%. All principal and interest under the Line was guaranteed by the Corporation. The Line was repaid in 2008 with proceeds from the Rabobank credit facility.

Cactus Wren used proceeds of \$1,640,000 from the Line to purchase property in Paradise Valley, Arizona for the construction of a luxury home. Additionally, Cactus Wren has used proceeds of \$1,089,000 from borrowings for site preparation, architect fees and construction of the project. Costs to complete the project are estimated to be \$1,171,000 at October 31, 2008. Outstanding borrowings of \$2,729,000 and \$1,810,000 are included in long-term debt in the Consolidated Balance Sheets of the Corporation at October 31, 2008 and 2007, respectively. Capitalized costs of \$2,729,000 and \$1,810,000 are included in property, plant and equipment in the Consolidated Balance Sheets of the Corporation at October 31, 2008 and 2007, respectively.

In accordance with FASB Interpretation No. 46R, the Corporation effectively accounts for both of the Arizona development LLC's as consolidated in its October 31, 2008 and 2007 consolidated financial statements as the entities were determined to be variable interest entities and the Corporation was determined to be the primary beneficiary. The Arizona development LLC's did not generate revenue or incur expenses in 2008 or 2007 as all expenditures were capitalized as costs of the development projects.

5. Equity Investments:

The Corporation has a 1.3% interest in Limco Del Mar, Ltd. (“Del Mar”) as a general partner and a 22.1% interest as a limited partner. The investment is recorded based on the equity method of accounting. During 2007 the Corporation increased its limited partner interest from 21.8% to 22.1% with the purchase of additional limited partnership units. The Corporation provided Del Mar with farm management, orchard land development and accounting services, which resulted in cash receipts of \$136,000 and \$128,000 in 2008 and 2007, respectively. The Corporation also performed contract lemon packing services for Del Mar in the amount of \$415,000 and \$528,000 in 2008 and 2007, respectively. Fruit proceeds due to Del Mar were \$354,000 and \$306,000 at October 31, 2008 and 2007, respectively. The Corporation borrowed \$500,000 from Del Mar during 2007. The interest rate on this borrowing was 5.50% and there was no amount outstanding at October 31, 2007. Additionally, the Corporation paid interest to Del Mar of \$16,000 in 2007. No amounts were borrowed during 2008.

The Corporation and Priske Jones, Inc. each owns a 50% interest in a limited liability corporation, Vista Pointe, LLC, which was formed in 1996 for the purpose of developing 9 estate lots and 28 single-family homes in Santa Paula. Limoneira Land Company made a capital contribution of land into Vista Pointe, LLC.

In May of 2007, the Corporation and an individual formed the Romney Property Partnership (“Romney”) for the purpose of owning an office building and adjacent lot in Santa Paula, California. The Corporation paid \$489,000 in 2007 for 75% interest in Romney and records its investment based on the equity method of accounting. The Corporation contributed an additional \$30,000 to Romney in 2008. Net profits, losses and cash flows of Romney are to be shared by the Corporation and the individual 75% and 25%, respectively. The Corporation does not consolidate Romney and effectively accounts for its investment as a joint venture based on the terms of the partnership agreement.

The following are condensed (unaudited) financial statements of the investees for the years ended October 31, 2008 and 2007:

| | 2008 | | | |
|------------------------------|--------------------|-------------------------|------------------|--------------------|
| | <u>Del Mar</u> | <u>Vista Pointe</u> | <u>Romney</u> | <u>Total</u> |
| Assets | <u>\$1,857,000</u> | <u>\$10,000</u> | <u>\$683,000</u> | <u>\$2,550,000</u> |
| Liabilities | \$-0- | \$-0- | \$-0- | \$-0- |
| Equity | <u>1,857,000</u> | <u>10,000</u> | <u>683,000</u> | <u>2,550,000</u> |
| Total Liabilities and Equity | <u>\$1,857,000</u> | <u>\$10,000</u> | <u>\$683,000</u> | <u>\$2,550,000</u> |
| Revenues | \$2,430,000 | \$-0- | \$21,000 | \$2,451,000 |
| Expenses | 698,000 | 2,000 | 19,000 | 719,000 |
| Net Income | <u>\$1,732,000</u> | <u>\$(2,000)</u> | <u>\$2,000</u> | <u>\$1,732,000</u> |
| | 2007 | | | |
| | <u>Del Mar</u> | <u>Vista Pointe</u> | <u>Romney</u> | <u>Total</u> |
| Assets | <u>\$2,781,000</u> | <u>\$12,000</u> | <u>\$652,000</u> | <u>\$3,445,000</u> |
| Liabilities | \$-0- | \$-0- | \$-0- | \$-0- |
| Equity | <u>2,781,000</u> | <u>12,000</u> | <u>652,000</u> | <u>3,445,000</u> |
| Total Liabilities and Equity | <u>\$2,781,000</u> | <u>\$12,000</u> | <u>\$652,000</u> | <u>\$3,445,000</u> |
| Revenues | \$2,172,000 | \$-0- | \$12,000 | \$2,184,000 |
| Expenses | 648,000 | 2,000 | 11,000 | 661,000 |
| Net Income | <u>\$1,524,000</u> | <u>\$(2,000)</u> | <u>\$1,000</u> | <u>\$1,523,000</u> |

Limoneira Company's investment and equity earnings of the investees are as follows:

| | <u>Del Mar</u> | <u>Vista Pointe</u> | <u>Romney</u> | <u>Total</u> |
|-----------------------------|--------------------|---------------------|------------------|--------------------|
| Investment Balance 10/31/06 | \$1,352,000 | \$13,000 | \$-0- | \$1,238,000 |
| Equity earnings | 357,000 | -0- | -0- | 217,000 |
| Cash distribution | <u>(362,000)</u> | <u>-0-</u> | <u>-0-</u> | <u>(90,000)</u> |
| Investment Balance 10/31/07 | \$1,384,000 | \$13,000 | \$489,000 | \$1,886,000 |
| Equity earnings | 405,000 | -0- | -0- | 405,000 |
| Cash distribution | <u>(623,000)</u> | <u>-0-</u> | <u>-0-</u> | <u>(623,000)</u> |
| Investment contributions | -0- | -0- | 30,000 | 30,000 |
| Investment Balance 10/31/08 | <u>\$1,166,000</u> | <u>\$13,000</u> | <u>\$519,000</u> | <u>\$1,698,000</u> |

6. Notes Receivable:

In connection with the sale of land in 2004 (see Note 3), the Corporation recorded a note receivable at October 31, 2004 of \$4,263,000. In April of 2005, the Corporation received the \$2,963,000 current portion of this note including interest at 5.00%. The remaining \$1,300,000 will become due and payable in April 2009 at an interest rate of 7.00% and is secured by real property.

The Corporation owned a 21% interest in Mission Produce, Inc. ("Mission"). In June of 2005, the Corporation sold its investment in Mission back to Mission for \$6,576,000. The sale to Mission consisted of \$1,000,000 cash, net settlement of shares repurchased by the Corporation of \$1,312,000 and a note receivable of \$4,264,000. This note was due and payable in June 2007 and was secured by 355,000 shares of Mission common stock. The terms of this note required quarterly, interest only payments at an interest rate equal to the Prime rate plus 1.00%. This note, plus interest, was paid in full in June of 2007.

In connection with the Templeton Santa Barbara, LLC development project the Corporation recorded a note receivable in 2007 of \$20,000,000. The note bore interest at the Prime rate plus 2.00% with interest and principal due December 31, 2007. In December of 2007, the due date was extended until March 31, 2008 at which time the Corporation converted the note to a controlling interest in Templeton Santa Barbara, LLC and began consolidating the entity in April of 2008.

In connection with the lease of a retail facility, the Corporation recorded a note receivable in May 2007 of \$350,000. The note bears interest at the Prime rate plus 2.00%, payable monthly. This note is unsecured and matures in May 2012.

In connection with the stock grant program (see Note 12), the Corporation recorded notes receivable from employees of \$1,456,000 and \$916,000 at October 31, 2008 and 2007, respectively.

7. Discontinued Operations:

In December 2005, Limoneira Company International Division, LLC entered into an agreement whereby it acquired substantially all of the assets, liabilities and operations of Movin' Mocha ("Mocha"), a California general partnership. The initial purchase price of \$1,000,000 was payable \$500,000 at closing, \$250,000 on the first anniversary of the closing and \$250,000 on the second anniversary of the closing. Mocha owned and operated coffee houses and coffee carts in seven locations in the Modesto-Fresno corridor. Additionally, Mocha owned and operated a bakery facility. This acquisition was accounted for as a purchase in accordance with SFAS No. 141, *Business Combinations*.

In October 2006, the Corporation decided, that because of continuing operational losses in its retail coffee and coffee distribution businesses, it would exit the coffee business. In connection with that decision, the Corporation approved a plan to exit the retail coffee and coffee distribution business. Sales and operating losses for 2008 were \$181,000 and (\$418,000), respectively. Sales and operating losses for 2007 were \$1,101,000 and (\$408,000), respectively. During 2007, as a result of an arbitration agreement, the Corporation finalized the purchase of Mocha with a cash payment of \$650,000. The remaining balances due on the purchase price, plus interest, were paid in full and the retail coffee and coffee distribution business incurred an additional charge to income of \$75,000 related to the final settlement. Additionally, in 2007 the Corporation wrote-down the carrying value of a retail building by \$100,000. In 2008, the Corporation ceased operations in all of Mocha's retail facilities; sold the business along with certain assets; then proceeded to sell or dispose of all of the remaining assets. At October 31, 2008 the purchaser of one of Mocha's retail buildings was in default on a note to the Corporation and the process of foreclosure has begun. As a result, the retail coffee and coffee distribution business incurred a charge to income of \$86,000. The assets and liabilities of the coffee business were comprised of the following at October 31, 2008 and 2007:

| | 2008 | 2007 |
|--------------------------------|------------------|------------------|
| Cash | \$1,000 | \$17,000 |
| Accounts Receivable | 14,000 | 9,000 |
| Supplies | -0- | 23,000 |
| Prepaid Expenses | 1,000 | 21,000 |
| Deferred Taxes | 301,000 | 365,000 |
| Fixed Assets, Net | -0- | 369,000 |
| Notes Receivable | 156,000 | -0- |
| Total Assets | <u>\$473,000</u> | <u>\$804,000</u> |
| Accounts Payable | \$5,000 | \$48,000 |
| Accrued Liabilities | 21,000 | -0- |
| Current Portion Long Term Debt | -0- | 97,000 |
| Long Term Debt | -0- | -0- |
| Total Liabilities | <u>\$26,000</u> | <u>\$145,000</u> |

8. Long-Term Debt:

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

| | <u>2008</u> | <u>2007</u> |
|---|----------------------------|----------------------------|
| Rabobank revolving credit facility secured by property with a net book value of \$7,618,000. The interest rate is variable based on the one-month London Interbank Offered Rate plus 1.50%. Interest is payable monthly and the principal is due in full in June of 2013. | \$57,123,000 | \$-0- |
| Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,674,000. The interest rate is fixed for the life of the loan at 5.5%. The loan is payable in quarterly installments through November 2022. | 7,483,000 | 7,738,000 |
| Central Coast Land Bank Association loan secured by property with a net book value of \$11,674,000. The interest rate is fixed for a period of five years at 6.60%, becoming variable for the remainder of the loan. The loan is payable in monthly installments through May 2032. | 976,000 | 992,000 |
| City National Bank loan secured by property with a net book value of \$8,335,000 as of October 31, 2007. The interest rate was fixed at 6.15% for the life of the loan. Interest only was payable until 2009. Thereafter, the loan was payable in monthly installments through November 2018. This loan was repaid in 2008 with proceeds from the Rabobank credit facility (see below). | -0- | 6,375,000 |
| City National Bank term loan bearing interest at the London Interbank Offered Rate plus 1.50%. Interest was payable monthly and the principal was payable in full in April 2008. This loan was repaid in 2008 with proceeds from the Rabobank credit facility (see below). | -0- | 20,000,000 |
| Mid-State Bank & Trust unsecured loan bearing interest at 7.00%. Interest was payable monthly and the principal was payable in full in February 2009. This loan was repaid in 2008 with proceeds from the Rabobank credit facility (see below). | -0- | 1,560,000 |
| Mid-State Bank & Trust unsecured loan bearing interest at 7.00%. Interest was payable monthly and the principal was payable in full in March 2009. This loan was repaid in 2008 with proceeds from the Rabobank credit facility (see below). | -0- | 1,810,000 |
| Sub-Total | <u>65,582,000</u> | <u>38,475,000</u> |
| Less Current Portion | <u>382,000</u> | <u>20,359,000</u> |
| Total Long-Term Debt | <u><u>\$65,200,000</u></u> | <u><u>\$18,116,000</u></u> |

In October of 2001, the Corporation entered into a credit arrangement with City National Bank whereby it could borrow up to \$10,000,000 on an unsecured line of credit, which was renewed in March of 2004 and May of 2006 and increased to \$15,000,000 in March of 2007. There were no amounts outstanding at October 31, 2008 or 2007 under this arrangement. Additionally, the credit arrangement allowed for an additional \$5,000,000 to be made available to the Corporation for equipment acquisition loans. Loans for equipment expenditures were payable in sixteen substantially equal quarterly installments. There were no amounts outstanding at October 31, 2008 or 2007 under this arrangement. The credit arrangement also allowed for a \$20,000,000 term loan, with interest payable monthly and principal payable in full on April 30, 2008 (see Note 3). At October 31, 2007 the Corporation had \$20,000,000 outstanding under this arrangement. This credit arrangement expired in 2008.

In August of 2008 the Corporation entered into a credit arrangement with Rabobank whereby it could borrow up to \$80,000,000 on a secured line of credit. All outstanding amounts due under the credit arrangement with City National Bank were repaid with proceeds from the Rabobank credit facility and the credit facility with City National Bank was allowed to expire.

The Corporation, under the terms of the Rabobank credit arrangement, is subject to various financial covenants. At October 31, 2008, the Corporation was in compliance with all of these covenants.

Principal payments on Long-Term Debt are due as follows:

| | |
|------------|---------------------|
| 2009 | \$382,000 |
| 2010 | 404,000 |
| 2011 | 426,000 |
| 2012 | 450,000 |
| 2013 | 57,598,000 |
| Thereafter | <u>6,322,000</u> |
| Total | <u>\$65,582,000</u> |

The Corporation enters into interest rate swaps to minimize the risks and costs associated with its financing activities. Derivative financial instruments designated for hedging at October 31:

| | Notional Amount | | Fair Value Net Liability | |
|---|---------------------|--------------|--------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2013 | \$22,000,000 | \$-0- | \$541,000 | \$-0- |
| Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2010 | 10,000,000 | -0- | 96,000 | -0- |
| Total | <u>\$32,000,000</u> | <u>\$-0-</u> | <u>\$637,000</u> | <u>\$-0-</u> |

These interest rate derivatives qualify for hedge accounting. Therefore, the fair value adjustments to the underlying debt are deferred and included in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets at October 31, 2008.

Beginning in 2004, the Corporation utilizes standby letters of credit to satisfy workers' compensation insurance security deposit requirements. At October 31, 2008, these outstanding letters of credit totaled \$512,000.

9. Income Taxes:

The components of the provisions for income taxes (from continuing operations) for 2008 and 2007 are as follows:

| | <u>2008</u> | <u>2007</u> |
|--------------------------|---------------------------|---------------------------|
| Current: | | |
| Federal | \$1,347,000 | \$663,000 |
| State | 528,000 | 208,000 |
| Total Current Provision | <u>1,875,000</u> | <u>871,000</u> |
| Deferred: | | |
| Federal | 260,000 | 313,000 |
| State | 93,000 | 100,000 |
| Total Deferred Provision | <u>353,000</u> | <u>413,000</u> |
| Total Provision | <u><u>\$2,228,000</u></u> | <u><u>\$1,284,000</u></u> |

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 result principally from differences between the financial and tax reporting of expense items such as depreciation, state income taxes, vacation accruals and pension liability. The liability relating to the acquired assets is the tax liability arising from the difference between the fair market value of the assets and the original tax basis due to the tax deferred treatment of certain mergers and exchanges.

The components of deferred income tax assets (liabilities) at October 31, 2008 and 2007 are as follows:

| | <u>2008</u> | <u>2007</u> |
|--|------------------------------|------------------------------|
| Short-Term Deferred Income Tax Assets (Liabilities): | | |
| Labor Accruals | \$150,000 | \$(37,000) |
| Property Taxes | (191,000) | (192,000) |
| State Income Taxes | 175,000 | 108,000 |
| Prepaid Insurance | (6,000) | (6,000) |
| Short-Term Deferred Income Tax Assets (Liabilities): | <u>\$128,000</u> | <u>\$(127,000)</u> |
| Long-Term Deferred Income Tax Assets (Liabilities): | | |
| Depreciation | \$(2,926,000) | \$(2,903,000) |
| Amortization | (1,000) | 144,000 |
| Impairment of Real Estate Development | 534,000 | -0- |
| Derivative Instruments | 254,000 | -0- |
| Pension | (30,000) | 67,000 |
| Other | 312,000 | 440,000 |
| Calavo Stock | (57,000) | (5,139,000) |
| Book and Tax Basis Difference of Acquired Assets (Primarily Land) | <u>(10,246,000)</u> | <u>(9,797,000)</u> |
| | <u>(12,160,000)</u> | <u>(17,188,000)</u> |
| Deferred Tax Asset related to loss on discontinued operations, goodwill and asset impairment | <u>301,000</u> | <u>365,000</u> |
| Total Deferred Income Tax Assets (Liabilities) | <u><u>\$(11,731,000)</u></u> | <u><u>\$(16,950,000)</u></u> |

The current deferred income tax asset is included in prepaid expenses at October 31, 2008 and the current deferred income tax liability is included in accrued liabilities at October 31, 2008. The deferred tax asset related to loss on discontinued operations is included in non-current assets of discontinued operations at October 31, 2008.

On November 1, 2007, the Corporation adopted the provisions of FIN 48. The Corporation recorded a cumulative effect adjustment of \$55,000 including interest and penalties, which was accounted for as an adjustment to the beginning balance of retained earnings.

A tabular reconciliation of the total amounts (in absolute values) of unrecognized tax benefits at the beginning and end of the period as follows:

| | |
|---|------------------|
| Unrecognized tax benefits at November 1, 2007 | \$121,000 |
| Increases in tax positions for current year | 55,000 |
| Settlements | -0- |
| Lapse in statute of limitations | -0- |
| Unrecognized tax benefits at October 31, 2008 | <u>\$176,000</u> |

Approximately \$159,000 of the unrecognized tax liabilities at October 31, 2008, if recognized, would affect the effective tax rate. The Corporation does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Corporation files income tax returns in the U.S. and California. The Corporation is no longer subject to US income tax examinations for the fiscal years prior to fiscal year October 31, 2004 and is no longer subject to state income tax examinations for years prior to October 31, 2003. The Corporation's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. There was \$37,000 of accrued interest and penalties associated with uncertain tax positions as of October 31, 2008.

10. Retirement Plans:

Effective December 31, 1991, the Corporation merged the Limoneira Hourly and Piece Rated Pension Plan and their salaried plan, into the Sunkist Retirement Plan, Plan L (the "Plan"). All participants became members of the Plan at that time, and all assets became part of the Sunkist Retirement Plan L Trust. Until January 2006 the Plan was administered by the Sunkist Retirement Investment Board. Since January 2006 the Plan has been administered by City National Bank and Mercer Human Resource Consulting.

The Plan is a noncontributory, defined benefit, single employer pension plan, which provides retirement benefits for all eligible employees of the Corporation. Since Limoneira Company's Defined Benefit Pension Plan is a single employer plan within the Sunkist Master Trust, its liability was not commingled with that of the other plans holding assets in the Master Trust. Limoneira Company has an undivided interest in its assets.

Benefits paid by the Plan are calculated based on years of service, highest five-year average earnings, primary Social Security benefit and retirement age.

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of \$1,200,000 and \$1,226,000, respectively for 2008 and 2007. Plan assets are invested in a group trust consisting primarily of stocks (domestic and international), bonds, real estate trust funds, short-term investment funds and cash. The weighted average asset allocations at October 31, 2008 and 2007, by asset category, are as follows:

| Asset Category | 2008 | 2007 |
|----------------|-------------|-------------|
| Equity | 49% | 60% |
| Fixed income | 47 | 38 |
| Cash | 4 | 2 |
| Total | <u>100%</u> | <u>100%</u> |

The investment policy 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 Corporation's plan funding at a reasonable level. The primary asset classes utilized to attain these objectives are equity securities, fixed income securities and all other, with target allocations of 60%, 35% and 5%, respectively.

Effective October 31, 2007 the Corporation adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 amends SFAS No. 87 *Employers' Accounting for Pensions*. Under the provisions of SFAS No. 158 the Corporation is required to report the net over-or-under-funded position of its defined benefit plan as an asset or liability in its consolidated balance Sheet. Additionally, any unrecognized prior service costs, transition obligations or actuarial gains/losses are reported as other comprehensive income in shareholders' equity. There was no additional impact to other comprehensive income as a result of the adoption of SFAS No. 158. The following tables set forth the Plan's net periodic cost, changes in benefit obligation and Plan assets, funded status, amounts recognized in the Statements of Financial Position, additional year-end information and assumptions used in determining the benefit obligations and periodic benefit cost.

The net periodic pension costs for the Corporation's Defined Benefit Pension Plan for 2008 and 2007 were as follows:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|------------------|------------------|
| Service Cost | \$85,000 | \$85,000 |
| Interest Cost | 847,000 | 814,000 |
| Expected return on plan assets | (969,000) | (825,000) |
| Recognized actuarial loss | 358,000 | 550,000 |
| Net periodic pension cost | <u>\$321,000</u> | <u>\$624,000</u> |

Following is a summary of the Plan's funded status as of October 31, 2008 and October 31, 2007:

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$13,963,000 | \$14,618,000 |
| Service cost | 85,000 | 85,000 |
| Interest cost | 847,000 | 814,000 |
| Benefits paid | (884,000) | (830,000) |
| Actuarial (gain) loss | (2,836,000) | 724,000 |
| Benefit obligation at end of year | <u>\$11,175,000</u> | <u>\$13,963,000</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$13,794,000 | \$11,703,000 |
| Actual return on plan assets | (2,860,000) | 1,694,000 |
| Employer contributions | 1,200,000 | 1,226,000 |
| Benefits paid | (884,000) | (830,000) |
| Fair value of plan assets at end of year | <u>\$11,250,000</u> | <u>\$13,793,000</u> |
| Funded status: | | |
| Funded (unfunded) status at end of year | <u>\$75,000</u> | <u>\$(170,000)</u> |
| Amounts recognized in statements of financial position: | | |
| Noncurrent assets | \$75,000 | \$-0- |
| Current liabilities | -0- | -0- |
| Noncurrent liabilities | -0- | (170,000) |
| Net amount recognized in statement of financial position | <u>\$75,000</u> | <u>\$(170,000)</u> |
| Additional year-end information: | | |
| | <u>2008</u> | <u>2007</u> |
| Accumulated benefit obligation | \$11,175,000 | \$13,963,000 |
| Projected benefit obligation | \$11,175,000 | \$13,963,000 |
| Fair value of plan assets | \$11,250,000 | \$13,793,000 |
| Weighted-average assumptions as of October 31, 2008 and 2007 used to determine benefit obligations | | |
| Discount rate | 8.25% | 6.25% |
| Expected long-term return on plan assets | 7.50% | 7.50% |
| Weighted-average assumption used to determine net periodic benefit cost | | |
| Discount rate | 6.25% | 5.75% |
| Expected long-term return on plan assets | 7.50% | 7.25% |

The Corporation expects to contribute \$1,200,000 to the Plan in 2009. Additionally, the following benefit payments are expected to be paid as follows:

| | |
|-----------|---------------------------|
| 2009 | \$831,000 |
| 2010 | 867,000 |
| 2011 | 888,000 |
| 2012 | 894,000 |
| 2013 | 899,000 |
| 2014-2018 | <u>4,805,000</u> |
| Total | <u><u>\$9,184,000</u></u> |

Effective June 30, 2004, the Corporation froze the Plan and no additional benefit will accrue to participants subsequent to that date. Freezing the Plan resulted in a curtailment gain and related reduction in the projected benefit obligation of \$840,000.

Additionally in 2004, the Corporation replaced its existing qualified cash or deferred compensation plan maintained under Section 401(k) of the Internal Revenue Code (“IRC”) with a new plan also maintained under Section 401(k) of the IRC. Under this new plan the Corporation, beginning in January 2005, will contribute an amount equal to 4% of an employees’ annual earnings beginning after one year of employment. Employees may elect to defer up to 100% of their annual earnings subject to IRC limits. The Corporation will make an additional “dollar for dollar” matching contribution on these deferrals up to 4% of an employee’s annual earnings. Employees are 100% vested in the Corporation’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 2008 and 2007, the Corporation contributed to the new plan and recognized expense of \$463,000 and \$424,000, respectively.

11. Commitments and Contingencies:

During 2008, the Corporation was the lessee in three operating leases for agricultural land totaling 490 acres for purposes of expanding the Corporation’s production of citrus and avocados. One lease provides for an adjustment to rent for inflation. The Corporation also has an operating lease for pollinating equipment and for some of its packinghouse equipment. Total lease expense for 2008 and 2007 was \$449,000 and \$377,000, respectively. In addition, the Corporation has made prepayments for the lease of the pollination equipment totaling \$159,000. These prepayments are included in the consolidated assets of the Corporation at October 31, 2008 and will be expensed over the last year of the lease.

During 2008, the Corporation 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 Corporation’s lemon packinghouse operations. The facility became operational in October of 2008. Farm Credit West provided financing for the generator and upon completion of the construction Perpetual sold the generator to Farm Credit West. The Corporation then signed a 10 year operating lease agreement with Farm Credit West. During the 10 year lease term, Perpetual will warrant that the generator is free from defects in material and workmanship. At the end of the 10 year lease term, the Corporation will have an option to purchase the generator from Farm Credit West. Additionally in 2008, the Corporation entered into a contract with Perpetual to install a second 1,000 KW photovoltaic generator in order to provide electrical power for the Corporation’s farming operations in Ducor, California. Farm Credit West provided the financing for the generator and upon completion of the construction Perpetual will sell the generator to Farm Credit West. The Corporation entered into a 10 year operating lease agreement with Farm Credit West for this facility. The generator in Ducor is scheduled to become operational prior to December 31, 2008.

Minimum future lease payments are as follows:

| | |
|------------|----------------------------|
| 2009 | \$1,513,000 |
| 2010 | 1,593,000 |
| 2011 | 1,602,000 |
| 2012 | 1,530,000 |
| 2013 | 1,345,000 |
| Thereafter | <u>4,300,000</u> |
| Total | <u><u>\$11,883,000</u></u> |

12. Stockholders' Equity:

Series B Convertible Preferred Stock:

In 1997 in connection with the acquisition of Ronald Michaelis Ranches, Inc. the Corporation issued 30,000 shares of Series B Convertible Preferred Stock at \$100 par value (the "Series B Stock").

Dividends: The holders of shares of Series B Stock shall be 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 share of Series B Stock shall be entitled to one vote on all matters submitted to a vote of the stockholders of the Corporation

Redemption: The Corporation, 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 July 1, 2017 and before June 30, 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 shall have the right, at their option, to convert such shares into shares of Common Stock of the Corporation at any time prior to redemption. The conversion price shall initially be \$80.00 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 Corporation, the subdivision of the Common Stock of the Corporation into a greater number of shares of Common Stock of the Corporation or upon the advice of legal counsel.

Series A Junior Participating Preferred Stock:

On October 31, 2006 the Corporation authorized 20,000 shares of Series A Junior Participating Preferred Stock at \$.01 par value (the "Series A Stock"). Additionally, on October 31, 2006, the Corporation declared a dividend to be distributed on December 20, 2006 to each holder of record of the Corporation's Common Stock the right to purchase one one-hundredth of a share of Series A Stock. If a triggering event occurs, the Board of Directors has the option to allow rights holders to exercise their rights (see Shareholder Rights Agreement below).

Dividends: The holders of shares of Series A Stock shall be entitled to receive cash dividends in an amount per share equal to the greater of (a) \$1.00 or (b) 100 times the aggregate per share amount of all cash dividends and 100 times the aggregate per share amounts of all non-cash dividends, other than a dividend payable in Common Stock, declared on the Common Stock. Such dividends are payable quarterly on the fifteenth day of January, April, July and October in each year commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of shares of the Series A Stock.

Voting Rights: Each share of Series A Stock shall be entitled to one hundred votes on all matters submitted to a vote of the stockholders of the Corporation.

Redemption: The shares of Series A Stock shall not be redeemable.

Conversion: The shares of Series A Stock shall not be convertible.

Stock Option Plan/Stock Grant Program:

In 2002, the Corporation adopted a stock grant program for key employees, which replaced its stock option and stock appreciation rights plan for key employees. As of October 31, 2008 and 2007, there were no stock options outstanding. There are currently 5,143 shares outstanding that are subject to repurchase by the Corporation with an estimated repurchase price value of \$104,000 at October 31, 2008. The Corporation adopted FAS No. 123R under the prospective method in accounting for its stock grant programs.

In August 2007, the Corporation adopted a stock grant performance bonus program (the "Program") for senior management. In 2008, 3,750 shares of Common Stock were granted to senior management in recognition of the achievement of certain performance goals during 2007. In 2007, 7,500 shares of Common Stock were granted to senior management in recognition of

performance in years prior to 2007. All shares granted under the Program were fully vested as of the date of issuance. In 2007, the Corporation recognized compensation expense of \$3,187,000 in connection with the grants. This expense is included in selling, general and administrative expense in the Consolidated Statements of Operations. A mark-to-market reduction of expenses of approximately \$78,000 was recorded in fiscal 2008 for the shares granted in fiscal 2008 but having been authorized in 2007.

Shares issued under the Program shall be subject to a right-of-first refusal by the Corporation during the first two years following issuance of such shares. The Corporation, upon request by the grantee, in its sole discretion, may repurchase from the grantee a number of shares granted that, when multiplied by the repurchase price will enable the grantee to pay the state and federal income tax liabilities associated with the compensation to the employee in connection with the grant. Alternatively, the Corporation, in its sole discretion, may make loans to the grantees in amounts sufficient to pay the income tax liabilities associated with the grants. Each loan will be evidenced by a promissory note bearing interest at the mid-term applicable federal rate then in effect, with principle and accrued interest due and payable within 24 months from the date of the note. The note will be secured by delivery to the Corporation of a share certificate having a value equal to 120% of the amount of the loan. Loans totaling \$1,456,000 were issued to the grantees for income tax liabilities associated with the grants. The loans have a maturity date of November 19, 2009 with an interest rate of 4.26%. These loans are included in notes receivable in the Consolidated Balance Sheets at October 31, 2008.

On an ongoing basis the Board of Directors will establish performance goals during the first quarter of a fiscal year and at the end of that fiscal year a determination will be made as to the level of attainment of those established goals. Based on that level of attainment, up to 3,750 shares may be granted. In lieu of not attaining the performance goals, the Board of Directors, in its sole discretion, may grant the shares for special achievements that fall outside of the established performance goals. Additionally, the Board of Directors may in the future amend the Program to, among other things, increase or decrease the shares available to be granted under the Program, terminate the Program or include additional participants in the Program.

During 2008, the Corporation adopted a compensation program for its Board of Directors providing for, among other things, stock-based compensation. In 2008, 774 shares were granted to the Board of Directors and the Corporation recognized \$180,000 of expense in connection with the grants.

Additionally in 2008, the Corporation adjusted its stock grant performance bonus program to include additional members of management. In 2008, the Corporation recognized \$498,000 of expense in connection with the program for the achievement of certain performance goals during 2008. One-third of the shares granted under the program vested as of the December 2008 grant date, with the remaining shares vesting in fiscal years 2010 and 2011.

Shareholder Rights Agreement:

During 2007 the Corporation 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 Corporation's Board of Directors adopted a resolution creating a series of 20,000 shares of Preferred Stock designated as Series A Junior Participating Preferred Stock, \$.01 Par Value. There were no shares of this stock issued and/or outstanding at October 31, 2008 and 2007, respectively. Also in connection with this agreement, on October 31, 2006 the Corporation's Board of Directors authorized and declared a dividend distribution of one "Right" (as defined by the agreement) for each share of common stock outstanding on December 20, 2006. Each "Right" represents the right to purchase one one-hundredth of a share of the above referenced Junior Preferred Stock. If a triggering event (as defined by the agreement) occurs, the Board of Directors has the option to allow rights holders to exercise their rights under the agreement.

13. Segment Information:

During 2008, the Corporation operated and tracked results in three reportable operating segments; agri-business, housing and commercial operations, and real estate and investments. During 2007, the Corporation operated and tracked results in three reportable segments; agri-business, housing and commercial operations, and interest income and investments. The reportable operating segments of the Corporation are strategic business units with different products and services, distribution processes and customer bases. The agri-business segment includes farming, leased land, organic recycling and citrus packing operations. The housing and commercial segment includes Mercantile and housing and commercial operations. The real estate and investments segment includes real estate operations, interest income and income from various investments. The Corporation measures operating performance, including revenues and earnings before interest, taxes and depreciation, of its operating segments and allocates resources based on its evaluation. The Corporation does not allocate selling, general and administrative expense, depreciation and amortization expense, interest expense, income tax expense and assets, or specifically identify them to its operating segments. Revenues from one customer of the Corporation's agri-business segment represent \$24,249,000 of the Corporation's consolidated revenues for 2008.

Segment information for year ended October 31, 2008:

| | Agri-Business | Housing & Commercial | Real Estate & Investments | Corporate & Other | Total |
|--|---------------------|----------------------|---------------------------|-----------------------|--------------------|
| Revenues | \$35,331,000 | \$2,140,000 | \$1,582,000 | \$-0- | \$39,053,000 |
| Operating expenses | (17,020,000) | (1,822,000) | (1,268,000) | (8,016,000) | (28,126,000) |
| Impairment charges | - | - | (1,341,000) | - | (1,341,000) |
| Depreciation and amortization expenses | - | - | - | (2,434,000) | (2,434,000) |
| Interest expense | - | - | - | (1,419,000) | (1,419,000) |
| Gain (loss) on sale of assets | - | - | - | (11,000) | (11,000) |
| Income taxes | - | - | - | (2,228,000) | (2,228,000) |
| Equity in earnings from investments | - | - | 405,000 | - | 405,000 |
| Income from continuing operations | <u>\$18,311,000</u> | <u>\$318,000</u> | <u>\$(622,000)</u> | <u>\$(14,108,000)</u> | <u>\$3,899,000</u> |

14. Fruit Growers Supply Cooperative:

Limoneira Company is a member of Fruit Growers Supply ("FGS"), a cooperative. FGS sells supplies to non-members. The profits made by these transactions are allocated to all members based on carton purchases. The profits are then distributed to the members through a dividend five to seven years after they are allocated. Limoneira Company currently has been allocated \$1,270,000 for future payments, however, the allocation of profits is subject to approval by the FGS Board of Directors and members may receive amounts less than those originally allocated. The Corporation will record the amounts ultimately disbursed by FGS as dividend income when received. The Corporation recognized dividend income of \$62,000 and \$170,000 in 2008 and 2007, respectively.

15. Subsequent Events (unaudited):

In November of 2008 the Corporation entered into an interest rate swap agreement maturing in 2010. This cash flow hedge is hedging a notional amount of \$10,000,000 of the \$80,000,000 Rabobank credit facility. The hedging instrument is pay-fixed (2.36%) and receive-floating (1 month LIBOR) with monthly settlements and the counterparty is Rabobank International.

In December of 2008, Perpetual Power, LLC ("Perpetual") completed construction of the 1,000 KW photovoltaic generator in Ducor, California (see Note 11). The Corporation's 10 year operating lease agreement with Farm Credit West commenced upon completion and Perpetual will warrant that the generator is free from defects in material and workmanship for the duration of the lease term. At the end of the 10 year lease term, the Corporation will have an option to purchase the generator from Farm Credit West.

In December of 2008, the 6037 East Donna Circle, LLC development project was completed and listed for sale with a real estate broker. At the time of this financial statement presentation, the listing price is \$4,600,000 and the Corporation's basis in the project is \$3,389,000; consisting of land with a basis of \$1,368,000 and development costs of \$2,021,000.

Report of Independent Auditors

The Board of Directors and Stockholders of Limoneira Company

We have audited the accompanying consolidated balance sheets of Limoneira Company (the “Company”) as of October 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limoneira Company at October 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 12, 2009

Crop and Financial Comparisons

Limoneira Company Member of Sunkist Growers, Inc.; Calavo Growers, Inc.

2008 Utilization Acreage Consolidated

| | Producing | Non-Bearing | Total |
|------------------------------|--------------|--------------|--------------|
| Lemons | 1,700 | 124 | 1,824 |
| Valencias | 231 | -0- | 231 |
| Navels | 678 | 23 | 701 |
| Avocados | 1,232 | 110 | 1,342 |
| Specialty Crops | 388 | 240 | 628 |
| Total Planted Acreage | <u>4,229</u> | <u>497</u> | <u>4,726</u> |
| Land Leased to Third Parties | 586 | -0- | 586 |
| Pastures and Other | -0- | 1,977 | 1,977 |
| Total Acreage | <u>4,815</u> | <u>2,474</u> | <u>7,289</u> |

Crop Production Consolidated (in 000's)

| | Field Boxes | |
|----------------------------|----------------|-------------------|
| | 2008 Actual | 2009 Estimates |
| Lemons | 1,131 | 1,219 |
| Valencias | 121 | 130 |
| Navels | 296 | 231 |
| Specialty Citrus | 157 | 123 |
| All Varieties | 1,705 | 1,703 |
| Affiliated Growers' Citrus | 356 | 413 |
| Total Citrus | <u>2,061</u> | <u>2,116</u> |
| Avocados (Pounds) | <u>3,729</u> | <u>1,344</u> |

Included in the above amounts are 490 acres of land leased by Limoneira under long-term leases.

Results of Agricultural Operations Operating Profit

| | 2008 | 2007 |
|------------------------|---------------------|---------------------|
| Lemons | \$16,036,000 | \$11,753,000 |
| Oranges | | |
| Valencias | (28,000) | 193,000 |
| Navels | 583,000 | 1,866,000 |
| Avocados | 427,000 | 289,000 |
| Specialty citrus crops | 813,000 | 882,000 |
| Pistachios and other | 160,000 | (76,000) |
| Other sources | 1,492,000 | 1,302,000 |
| Orchard write-offs | (1,172,000) | (383,000) |
| Total | <u>\$18,311,000</u> | <u>\$15,826,000</u> |



LIMONEIRA

Since



1893

COMPANY

UP, UP AND AWAY

The success of Limoneira and the Santa Clara Valley oil fields helped increase economic development of Santa Paula in the late nineteenth century. The arrival of the Southern Pacific Railroad in 1887, with a spur to Limoneira in 1910, helped showcase our valley. Tourism continues to be an economic driver for our community and Limoneira is at the forefront. Hot air balloon rides, international sized bocce ball courts among the orchards, and gourmet dining overlooking the valley are just a few of the pleasurable pastimes which bring revenue for our community and let us highlight our area's natural beauty. This August, Moonlight at the Ranch III revelers will gather for a good time at the Limoniera Ranch. Last year, over 1200 people throughout Ventura County attended this great event to raise funds for Santa Paula's new Police and Fire Foundation. Limoneira is also a major supporter of the Santa Paula Citrus Festival, the Citrus Balloon Classic and the Faulkner Farms Pumpkin Patch.



NOTHING GETS THE CIRCULATION GOING LIKE BIKING THROUGH THE ORCHARDS

LIMONEIRA TOURS energizes corporate events and team building exercises. This division offers unique venues such as our 12 international sized bocce courts and native vegetation observation deck above our new solar orchard. In addition to corporate events, Limoneira Tours provides venues for weddings where brides and grooms say “I do” to a special day in a variety of delightful Limoneira Ranch settings.

FROM TREE TO PLATE

Limoneira’s top quality citrus is served at restaurants and homes around the world. Our Company is the largest grower of lemons in North America and one of the largest growers of avocados in the United States. Limoneira’s specialty citrus such as our Pummelos, Moro Blood Oranges, Cara Cara Oranges, Satsuma Mandarins, Sweet Meyer Lemons, Proprietary Seedless Lemons, Pink Variegated Lemons, Minneola Tangelos and Rio Red Grapefruit continue to grow in volume. Many agricultural innovations have been introduced over Limoneira’s 116 year history to ensure that the highest quality products are delivered to our customers. These innovations continue today, and our Company is proud of our continued commitment to sustainable growing, harvesting and packing practices.

FIRST IN FRESHNESS AND CONVENIENCE, DELICIOUS ENERGY TO YOUR DOOR

Limoneira’s **ORCHARD FRESH GIFT BASKETS** are shipped throughout the United States and make the perfect nutritious gift for corporate clients, friends and family. Limoneira’s Orchard Fresh Gift Baskets are a great value, they’re delicious and nutritious, and many of them contain unique historical items, handy gadgets and fun trinkets.



LIMONEIRA

SINCE 1893



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