

REGISTRATION NO.

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

AMENDMENT No. 1
to

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934

Limoneira Company
(Name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1141 Cummings Road, Santa Paula, CA 93060

(Address of principal executive offices, including zip code)

(805) 525-5541

(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS
TO BE SO REGISTERED

NAME OF EACH EXCHANGE ON WHICH
EACH CLASS IS TO BE REGISTERED

None

None

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

TITLE OF CLASS

Common Stock, \$0.01 par value

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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EXPLANATORY NOTE

We are filing this General Form for Registration of Securities on Form 10 to register voluntarily our common stock, par value \$0.01 per share, pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

Once this registration statement is deemed effective, we will be subject to the requirements of Regulation 13A under the Exchange Act, which will require us to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and we will be required to comply with all other obligations of the Exchange Act applicable to issuers filing registration statements pursuant to Section 12(g) of the Exchange Act.

On March 23, 2010, our stockholders approved a proposal that we split our shares on a ten-for-one basis. Consequently, unless otherwise noted all references to, and descriptions of, our common stock have been adjusted to reflect the stock split, which became effective on March 24, 2010. Moreover, following the effectiveness of this registration statement and after addressing any comments from the Division of Corporation Finance of the Securities and Exchange Commission, which we refer to as the SEC, we expect that our common stock will be accepted for listing on The NASDAQ Stock Market LLC under the ticker symbol "LMNR."

All references to "we," "us," "our," "our company," "the company," or "Limoneira" in this registration statement on Form 10 mean Limoneira Company, a Delaware corporation, and its wholly owned subsidiaries.

FORWARD-LOOKING STATEMENTS

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

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

- changes in laws, regulations, rules, quotas, tariffs, and import laws;
- weather conditions, including freezes, that affect the production, transportation, storage, import and export of fresh produce;
- market responses to industry volume pressures;
- increased pressure from disease, insects and other pests;
- disruption of water supplies or changes in water allocations;
- product and raw materials supplies and pricing;
- energy supply and pricing;
- changes in interest and currency exchange rates;
- availability of financing for land development activities;
- political changes and economic crises;
- international conflict;
- acts of terrorism;

- labor disruptions, strikes or work stoppages;
- loss of important intellectual property rights; and
- other factors disclosed in this registration statement.

In addition, this registration statement on Form 10 contains industry data related to our business and the markets in which we operate. This data includes projections that are based on a number of assumptions. If these assumptions turn out to be incorrect, actual results could differ from the projections.

We urge you to carefully review this registration statement on Form 10, particularly the section “Risk Factors,” for a complete discussion of the risks of an investment in our common stock.

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

ITEM 1. BUSINESS

Limoneira Company was incorporated in Delaware in 1990 as the successor to several businesses with operations in California since 1893. Our operations are described below. For detailed financial information with respect to our business and our operations, see our consolidated financial statements and the related notes to consolidated financial statements, which are included in this registration statement beginning on page F-1. In addition, general information concerning our Company can be found on our website, the internet address of which is www.limoneira.com.

Overview

We are an agribusiness and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 7300 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production and marketing, real estate development and capital investment activities.

We are one of California's oldest citrus growers and, according to Sunkist Growers, Inc., we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of other specialty citrus and other crops. We have agricultural plantings throughout Ventura, Santa Barbara and Tulare Counties in California, which plantings consist of approximately 1839 acres of lemons, 1372 acres of avocados, 1062 acres of oranges and 403 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons that we grow as well as lemons grown by others.

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

For more than 100 years, we have been making strategic investments in California agricultural and development real estate, and more recently, in Arizona real estate. As of the date of this registration statement, we have six active real estate development projects in California and two in Arizona. Our real estate developments range from apartments to luxury single-family homes and in California include approximately 200 completed units and another approximately 2,000 units in various stages of planning and entitlement. Our real estate developments in Arizona consist of two luxury homes in Paradise Valley, which is adjacent to Phoenix and Scottsdale.

Business Segments

We have three business segments: agribusiness, rental operations, and real estate development. The agribusiness segment includes our farming and lemon packing operations. The rental operations segment includes our housing, organic recycling, commercial and leased land operations. The real estate development segment includes our real estate projects and development.

Agribusiness

Our agribusiness segment includes our operations for farming and lemon packing. The agribusiness segment represented approximately 89%, 93% and 93% of our fiscal 2009, fiscal 2008 and fiscal 2007 consolidated revenues, respectively.

Farming

We are one of California's oldest citrus growers and one of the largest growers of lemons and the largest grower of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of specialty citrus and other crops. We have agricultural plantings throughout Ventura, Santa Barbara and Tulare Counties in California, which consist of approximately 1839 acres of lemons, 1372 acres of avocados, 1062 acres of oranges and 403 acres of specialty citrus and other crops. We also operate our own packinghouse in Santa Paula, California, where we process and pack lemons we grow as well as lemons grown by others.

Lemons. We are one of the largest lemon growers in the United States with approximately 1839 acres of lemons planted throughout Ventura County, California and Tulare County in the San Joaquin Valley in Central California. In California, the lemon growing area stretches from the Coachella Valley to Fresno and Monterey Counties, with the majority of the growing areas being located in the coastal areas from Ventura County to Monterey County. Ventura County is California's top lemon producing county. Approximately 87% of our lemons are grown in Ventura County and approximately 13% are grown in Tulare County in Central California's San Joaquin Valley.

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

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

Most of our lemons, including our packinghouse branded lemons, are marketed and sold under the Sunkist brand to the food service industry, wholesalers and retail operations throughout North America, Asia and certain other countries primarily through Sunkist Growers, Inc., which we refer to as Sunkist, an agricultural marketing cooperative of which we are a member. As an agricultural cooperative, Sunkist coordinates the sales and marketing of our lemons and we process orders through our packinghouse for direct shipment to customers worldwide.

Avocados. We are the largest avocado grower in the United States with approximately 1372 acres of avocados planted throughout Ventura and Santa Barbara counties. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County.

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

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

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

Oranges. While we are primarily known for our high quality lemons, we also grow oranges. We have approximately 1062 acres of oranges planted throughout Tulare County in the San Joaquin Valley in Central California. In California, the growing area stretches from Imperial County to Yolo County.

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

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

Sunkist markets and sells our oranges under the Sunkist brand to the food service industry, wholesalers and retail operations throughout the world. As an agricultural cooperative, Sunkist coordinates the sales and marketing of our oranges and orders are processed by a packinghouse for direct shipment to customers. We typically partner with outside packers to process and ship our oranges. Approximately 70% of our oranges are sold to retail outlets and approximately 30% are sold to the food service industry.

Specialty Citrus and Other Crops. A few decades ago in response to an ever changing marketplace, we began growing specialty citrus varieties and other crops that we believed would appeal to changing North American and worldwide demand. As a result, we currently have approximately 403 acres of specialty citrus and other crops planted such as pummelos, Moro blood oranges, Cara Cara oranges, Satsuma mandarins, sweet Meyer lemons, proprietary seedless lemons, pink variegated lemons, Minneola tangelos, pistachios, cherries and Star Ruby grapefruit.

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

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

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

Limoneira/Olivelands Ranch. The Limoneira/Olivelands Ranch is the original site of the company and consists of approximately 1,744 contiguous acres located just west of Santa Paula, California. The company's headquarters, lemon packing operations and storage facilities are located on this property. There are approximately 1,189 acres of agricultural plantings on this property which consist of approximately 544 acres of lemons, 643 acres of avocados and 2 acres of specialty citrus and other crops. The company leases approximately 199 acres to third party agricultural tenants who grow a variety of row crops. The company also leases to Calavo office space located on this property.

Orchard Farm Ranch. The Orchard Farm Ranch consists of approximately 1,119 acres located just west of Santa Paula, California. There are approximately 805 acres of agricultural plantings on this property which consist of approximately 417 acres of lemons, 29 acres of avocados and 7 acres of specialty citrus and other crops planted by the company and approximately 352 acres leased to third party agricultural tenants who grow a variety of row crops. The Orchard Farm Ranch is directly adjacent to the Limoneira/Olivelands Ranch, which together comprise nearly 2,900 contiguous acres approximately eight miles from the Pacific Ocean.

Teague McKeveitt Ranch. The Teague McKeveitt Ranch consists of approximately 523 acres located just east of Santa Paula, California. There are approximately 414 acres of agricultural plantings on this property which consist of approximately 213 acres of lemons and 181 acres of avocados planted by the company and approximately 20 acres leased to third party tenants who grow a variety of row crops. As described in "Real Estate Development" below, the Teague McKeveitt Ranch comprises all of East Area 1.

La Cuesta Ranch. The La Cuesta Ranch consists of approximately 222 acres located between Santa Paula, California and Ojai, California. The company has approximately 126 acres of agricultural plantings on this property which consist of approximately 87 acres of lemons, 27 acres of avocados and 12 acres of specialty citrus and other crops.

San Cayetano Ranch. The San Cayetano Ranch consists of approximately 86 acres located between Santa Paula, California and Fillmore, California. The company has approximately 74 acres of agricultural plantings on this property which consist of approximately 6 acres of lemons and 68 acres of avocados.

Sawyer Ranch. The Sawyer Ranch consists of approximately 31 acres located between Santa Paula, California and Fillmore, California. The company leases this property and has approximately 29 acres of agricultural plantings consisting of approximately 12 acres of lemons and 17 acres of avocados.

La Campana Ranch. The La Campana Ranch consists of approximately 324 acres located between Santa Paula, California and Fillmore, California. The company has approximately 289 acres of agricultural plantings on this property which consists of approximately 107 acres of lemons and 182 acres of avocados.

Wilson Ranch. The Wilson Ranch consists of approximately 52 acres located between Santa Paula, California and Fillmore, California. The company has approximately 33 acres of avocado plantings on this property.

Limco Del Mar Ranch. The Limco Del Mar Ranch consists of approximately 208 acres located on the east end of Ventura, California. As described in "Real Estate Development" below, this property is owned by a limited partnership of which the company is the general partner and owns an interest of approximately 23%. This property has approximately 187 acres of agricultural plantings consisting of 118 acres of lemons and 69 acres of avocados. The company manages the agricultural operations on this property.

Rancho Refugio/Caldwell Ranch. The Rancho Refugio/Caldwell Ranch consists of approximately 449 acres located north of Santa Barbara on the California Coast. The company leases this property and has an option to purchase the property at any time prior to the expiration of the lease term in early 2012. This property is currently for sale and has approximately 209 acres of agricultural plantings consisting of approximately 92 acres of lemons, 115 acres of avocados and 2 acres of specialty citrus and other crops.

Porterville Ranch. The Porterville Ranch consists of approximately 669 acres located about 50 miles north of Bakersfield, California. The company has approximately 650 acres of agricultural plantings on this property which consist of approximately 145 acres of lemons, 376 acres of Navel oranges, 27 acres of Valencia oranges, and 102 acres of specialty citrus and other crops.

Jencks Ranch. The Jencks Ranch consists of approximately 101 acres located about 50 miles north of Bakersfield, California. This property is adjacent to our Porterville Ranch. The company has approximately 60 acres of agricultural plantings on this property which consists of approximately 53 acres of Navel oranges and 7 acres of Valencia oranges.

Ducor Ranch. The Ducor Ranch consists of approximately 1,027 acres located about 50 miles north of Bakersfield, California. The company has approximately 974 acres of agricultural plantings on this property which consist of approximately 97 acres of lemons, 431 acres of Navel oranges, 168 acres of Valencia oranges and 278 acres of specialty citrus and other crops.

Lemon Packing

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

A significant portion of the costs related to our lemon packing operation are fixed. Our strategy calls for optimizing fresh utilization and procuring a larger percentage of the California lemon crop.

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

Rental Operations

Our rental operations segment includes our housing, organic recycling, commercial and leased land operations. The rental operations segment represented approximately 11%, 7% and 7% of our fiscal 2009, 2008, and 2007 consolidated revenues, respectively.

Housing

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

Commercial

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

Leased Land

As of October 31, 2009 the company leases approximately 586 acres of its land to third party agricultural tenants who grow a variety of row crops such as strawberries, raspberries, celery and cabbage. Our leased land business typically provides us with a profitable method to diversify the use of our land.

Organic Recycling

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

Real Estate Development

Our real estate development segment includes our real estate development operations. The real estate development segment represented less than 1% of our consolidated revenues in fiscal 2009 and did not generate any significant revenues during fiscal 2008 and fiscal 2007.

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

East Area I - Santa Paula, California. Santa Paula East Area I consists of 523 acres that we presently use as agricultural land and is located in Santa Paula approximately ten miles from Ventura and the Pacific Ocean. This property is also known as our Teague McKeveatt Ranch. We believe East Area I is an ideal location for a master planned community of commercial and residential properties designed to satisfy expected demand in a region that we believe will have few other developments in this coming decade. In 2008, after completing a process of community planning and environmental review, the citizens of Santa Paula voted to approve the annexation of East Area I into Santa Paula. This vote was a requirement of the Save Open-Space and Agricultural Resources, or SOAR, ordinance which mandates a public vote of the City of Santa Paula for land use conversion. We are currently in the process of obtaining final documentation to complete the entitlement and have executed a 30-year pre-annexation and development agreement with Santa Paula. The development agreement with the City of Santa Paula related to East Area I was approved by ordinance No. 1191 on March 17, 2008 (which ordinance became effective by its terms on April 17, 2008) and contemplates a development project consisting of up to 1,500 residential units and an estimated 810,800 square feet of office, retail, light industrial and civic facilities, together with schools, park sites and open spaces. The final discretionary approval required prior to construction of the project is the annexation of the land into the City of Santa Paula. The action is taken by the Local Agency Formation Commission, which we refer to as LAFCO, and is due to be approved through this agency by the end of summer 2010. The remaining permits are non-discretionary and include a final tract map, complete "Site Civil Construction Drawings" and offsite construction drawings. We anticipate that these permits will be issued by spring 2011. We expect to develop this property with financial and development partners, outside consultants and our own internal resources. If current U.S. economic conditions continue to deteriorate, however, we are prepared to continue using this land for agricultural purposes until attractive development opportunities present themselves.

East Area II - Santa Paula, California. We and our design associates are in the process of formulating plans for East Area II, a parcel of approximately 25 acres adjacent to East Area I, also a part of our Teague McKeveatt Ranch, that we believe is suited to commercial and/or industrial development along the south side of California Highway 126, a heavily traveled corridor that connects Highway 101 at Ventura on the west with Interstate 5 at Santa Clarita on the east. When completed, we expect that the development will contribute to the economic vitality of the region and allow residents to work and shop within close proximity to their homes.

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

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

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

- Centennial Square has been approved for 72 condominiums on 5 acres, is close to medical facilities, shopping and transportation, and includes one acre suitable for commercial development.
- The Terraces at Pacific Crest is an approximately eight-acre parcel approved for 112 attached-housing units.
- Sevilla is approved for 69 single-family homes adjacent to shopping, transportation, schools, parks, and medical facilities, with a parcel of approximately three-acres zoned for commercial use.
- Eastridge is approved for 120 single family homes on approximately 37 acres. Approximately three acres are zoned for commercial use. We have recently partnered with a developer to develop this property.

Donna Circle and Cactus Wren - Paradise Valley, Arizona. We have partnered with an Arizona home developer, to construct two luxury homes in Paradise Valley, Arizona. The first home was completed in December 2008 and listed for sale. In June 2009, the company decided not to sell the home and instead executed a two year lease agreement with a third party. The agreement contains an option to extend the lease an additional year and the third-party may purchase the home during the option period. The second home was completed in June 2009 and is listed for sale with a real estate broker.

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

Competitive Strengths

Agribusiness

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

- Our agricultural properties in Ventura County are located near the Pacific ocean, which provides an ideal environment for growing lemons, avocados and other row crops. Our agricultural properties in Tulare County, which is in the San Joaquin Valley in Central California, are also located in areas that are well-suited for growing citrus crops.
- Historically, a high percentage of our crops go to the fresh market, which is commonly referred to as fresh utilization, relative to other growers and packers.
- We have contiguous and nearby land resources that permit us to efficiently use our agricultural land and resources.
- In all but one of our properties, we are not dependent on State or Federal water projects to support our agribusiness or real estate development operations.
- We own approximately 90% of our agricultural land and can take a long view on fruit production practices.
- We have a well-trained and retentive labor force with many employees remaining with the company for more than 30 years.
- Our lemon packing operations allow us to enter into marketing alignments with successful companies in their respective products, such as Sunkist for lemons and other citrus crops and Calavo for avocados.

- We have achieved GLOBALGAP Certification by successfully demonstrating our adherence to specific GLOBALGAP standards. GLOBALGAP is an internationally recognized set of farm standards dedicated to “Good Agricultural Practices” or GAP. We believe that GLOBALGAP Certification differentiates us from our competitors and serves as reassurance to consumers and retailers that food reaches acceptable levels of safety and quality, and has been produced sustainably, respecting the health, safety and welfare of workers, the environment, and in consideration of animal welfare issues.
- In 2008, we entered into an operating lease agreement and completed the installation of a 5.5 acre, one-megawatt ground-based photovoltaic solar generator. This system provides us with a majority of the electricity required to operate our packinghouse and cold storage facilities located in Santa Paula, California. In 2009, we completed the installation of a one-megawatt solar array (which we also lease through an operating lease agreement), which provides us with a majority of the electricity required to operate four deep water well pumps at one of our ranches in Tulare County, which is in the San Joaquin Valley in Central California. These investments in ground-based solar projects are new and provide us with tangible and intangible non-revenue generating benefits. In addition to the cost-savings associated with the electricity generated by these investments, they support our sustainable agricultural practices, reduce our dependence on fossil-based electricity generation and lower our carbon footprint. Moreover, power that we generate and do not use is conveyed seamlessly back to the investor-owned utilities operating in these two markets. Finally, over time, we expect that our customers and the end consumers of our fruit will value the investments that we have made in renewable energy as a part of our farming and packing operations. We believe this dynamic may help us differentiate our products from similar commodities.
- We have made various other investments in water rights, mutual water companies and cooperative memberships. We own shares in the following mutual water companies: Thermal Belt Mutual Water Co., Farmers Irrigation Co., Canyon Irrigation Co., San Cayetano Mutual Water Co. and the Middle Road Mutual Water Co. In 2007, we acquired additional water rights in the adjudicated Santa Paula Basin (aquifer). We are a member of the Sunkist, Fruit Growers Supply and certain other cooperatives. We pay Sunkist and certain other cooperatives annual assessments into revolving funds based on sales volume or other criteria, with such funds typically being held by the applicable cooperative for a period of five years at which time they are refunded to us. We also pay into revolving funds related to fruit that we have packed by outside packing houses, with such funds typically being refunded after a period of five years.

Rental Operations

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

- Our housing and land rentals provide a consistent, dependable source of cash flow that helps to counter the volatility typically associated with an agricultural business.
- Our housing rental business allows us to offer a unique benefit to our employees, which in turn helps to provide us with a dependable, long-term employee base.
- Our organic recycling business provides us with a low cost, environmentally friendly solution to weed and erosion control.
- Our leased land business allows us to partner with other producers that can serve as a typically profitable alternative to under-producing tree crop acreage.

Real Estate Development

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

- Our real estate development activities are primarily focused in coastal areas north of Los Angeles and south of Santa Barbara, which we believe has a desirable climate for lifestyle families, retirees, and athletic and sports enthusiasts.

- We have entitlements to build approximately 1,500 residential units in our Santa Paula East Area I development.
- Several of our agricultural and real estate investment properties are unique and carry longer term development potential. These include Limco Del Mar and Windfall Farms, both as discussed above in “Business Segments - Real Estate Development.”
- Our East Area II property has approximately 25 acres of land commercially zoned, which is adjacent to our East Area I property, and our Santa Maria properties have approximately 7 acres zoned for mixed use retail, commercial and light manufacturing.

Business Strategy

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

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

Agribusiness

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

- *Expand International Production and Marketing of Lemons.* We estimate that we currently have approximately 5% of the fresh lemon market in the United States and a larger share of the United States lemon export market. We intend to explore opportunities to expand our international production and marketing of lemons. We have the ability to supply a wide range of customers and markets and, because we produce high quality lemons, we can export our lemons to international customers which many of our competitors are unable to supply.
- *Acquire Additional Lemon Producing Properties.* To the extent attractive opportunities arise and our capital availability permits, we intend to consider the acquisition of additional lemon producing properties. In order to be considered, such properties would need to have certain characteristics to provide acceptable returns, such as an adequate source of water, a warm micro-climate and well-drained soils. We anticipate that the most attractive opportunities to acquire lemon producing properties will be in the San Joaquin Valley near our existing operations in Tulare County.
- *Increase the Volume of our Lemon Packing Operations.* We regularly monitor our costs for redundancies and opportunities for cost reductions. In this regard, cost per carton is a function of throughput. We continually seek to acquire additional lemons from outside growers to pack through our plant. Growers are only added if their fruit is of good quality and can be cost effective for both Limoneira and the outside grower. Of most importance is the overall fresh utilization rate for our fruit, which is directly related to quality.
- *Explore the Construction of a New Lemon Packinghouse.* Over the years new machinery and equipment along with upgrades have been added to our nearly 80 year old packinghouse and cold storage facilities. This, along with an aggressive and proactive maintenance program has allowed us to operate an efficient, competitive lemon packing operation. We are currently considering the construction of a new packinghouse that may have the potential to lower our packing costs by reducing labor and handling inputs.

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

Rental Operations

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

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

Real Estate

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

- *Selectively and Responsibly Develop Our Agricultural Land.* We recognize that long-term strategies are required for successful real estate development activities. We thus intend to maintain our position as a responsible agricultural land owner and major employer in Ventura County while focusing our real estate development activities on those agricultural land parcels that we believe offer the best opportunities to demonstrate our long term vision for our community.

· *Opportunistically Increase Our Real Estate Holdings.* We intend to redeploy our future financial gains to acquire additional income-producing real estate investments and agricultural properties.

Customers

During the fiscal year ended October 31, 2009, Sunkist marketed and sold nearly all of our lemon production and a majority of our orange production and Calavo marketed and sold through all of our avocado production. Our lemons are packed in our own packinghouse, our avocados are packed using Calavo and a majority of our oranges are packed using other third-party, Sunkist-affiliated packinghouses. We directly sell certain of our specialty citrus and other crops, which for the fiscal year ended October 31, 2009, accounted for less than 1% of our revenues. Sunkist and Calavo market and sell our fruit to a wide range of retail and food service customers throughout North America, Asia and certain other countries. While we are dependent on the success of Sunkist and Calavo, none of their respective customers to our knowledge account for more than 10% of the sales of either organization.

Seasonal Nature of Business

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

Competition

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

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

Employees

At October 31, 2009 we had 207 employees, 55 of which were salaried and 152 of which were hourly. None of our employees are subject to a collective bargaining agreement. We believe our relations with our employees are good.

Research and Development

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

Environmental and Regulatory Matters

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

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

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

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses. Nevertheless, there is no guarantee that we will be able to comply with any future laws and regulations for necessary permits and licenses. Our failure to comply with applicable laws and regulations or obtain any necessary permits and licenses could subject us to civil remedies including fines, injunctions, recalls or seizures, as well as potential criminal sanctions.

Capital Structure Changes

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

ITEM 1A. RISK FACTORS

If any of the following risks occurs, our business, financial condition, results of operations or future prospects could be materially adversely affected.

Risks Related to Our Agribusiness

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

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

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

Fresh produce is also vulnerable to crop disease and to pests, which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. For example, the Mediterranean Fruit Fly and the Asian Citrus Psyllid. The costs to control these diseases and other infestations vary depending on the severity of the damage and the extent of the plantings affected. Moreover, there can be no assurance that available technologies to control such infestations will continue to be effective. These infestations can increase costs, decrease revenues and lead to additional charges to earnings which may have a material adverse effect on our business, results of operations and financial condition.

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

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

Important factors with respect to our competitors include the following:

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

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

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

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

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

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

Our earnings are subject to seasonal variability.

Our earnings may be affected by seasonal factors, including:

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

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

Currency exchange fluctuation may impact the results of our operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to transportation risks.

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

Events or rumors relating to the LIMONEIRA brand could significantly impact our business.

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

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

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

Inflation can have a significant adverse effect on our operations.

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

Risks Related to Our Indebtedness

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

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

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

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

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

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

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

Our revolving credit facility with Rabobank contains a financial covenant that requires us to maintain compliance with a specified debt service coverage ratio on an annual basis. At October 31, 2009, we were not in compliance with such debt service coverage ratio and we may not be able to comply with such covenant in the future. Although this prior noncompliance with the covenant was waived by Rabobank and the next compliance measurement date of this covenant is October 31, 2010 (which will cover fiscal 2010), our failure to comply with this covenant in the future may result in the declaration of an event of default under our revolving credit facility with Rabobank.

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

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

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

Subject to the restrictions in our credit facilities, we and our subsidiaries may incur significant additional indebtedness. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we now face could increase.

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

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

Risks Related to Our Real Estate Development Business

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

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

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

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

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

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

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

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

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

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

In planning and developing our land, we are subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, infrastructure design, subdivision of land, and construction. All of our new developments require amending existing general plan and zoning designations, so it is possible that our entitlement applications could be denied. In addition, the zoning that ultimately is approved could include density provisions that would limit the number of homes and other structures that could be built within the boundaries of a particular area, which could adversely impact the financial returns from a given project. In addition, many states, cities and counties (including Ventura County) have in the past approved various “slow growth” or “urban limit line” measures.

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

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

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

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

Our developable land is concentrated entirely in California.

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

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

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

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

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

- Natural risks, such as geological and soil problems, earthquakes, fire, heavy rains and flooding, and heavy winds;
- Shortages of qualified trades people;

- Reliance on local contractors, who may be inadequately capitalized;
- Shortages of materials; and
- Increases in the cost of certain materials.

Risks Relating to Our Common Stock

There has been a limited public market for our shares and a more active market may not develop or be maintained, which could limit your ability to sell shares of our common stock.

Before this registration, there has been a limited public market for our shares of common stock. Although we intend to apply to list the common stock on The Nasdaq Stock Market LLC, which we refer to as Nasdaq, a more active public market for our shares may not develop or be sustained after this registration. In particular, we cannot assure you that you will be able to resell our shares at or above the current market price.

The value of our common stock could be volatile.

The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

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

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

As of December 31, 2009, directors and members of our executive management team beneficially owned or controlled approximately 16% of our common stock. Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large shareholders of a significant portion of that shareholder's holdings could have a material adverse effect on the market price of our common stock. In addition, the registration of any significant amount of additional shares of our common stock will have the immediate effect of increasing the public float of our common stock and any such increase may cause the market price of our common stock to decline or fluctuate significantly.

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

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

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

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

As a company with publicly traded securities, we could incur significant legal, accounting and other expenses not presently incurred. In addition, the Sarbanes-Oxley Act of 2002, which we refer to as SOX, as well as rules promulgated by the U.S. Securities and Exchange Commission, which we refer to as the SEC, and Nasdaq, require us to adopt corporate governance practices applicable to U.S. public companies. These rules and regulations may increase our legal and financial compliance costs.

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

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

ITEM 2. FINANCIAL INFORMATION

Selected Financial Data for the Respective Years Ended October 31

	2009	2008	2007	2006	2005
Net operating revenues	\$ 34,838,000	\$ 53,512,000	\$ 48,267,000	\$ 51,619,000	\$ 39,394,000
Loss (income) from continuing operations	\$ (2,865,000)	\$ 3,747,000	\$ 2,391,000	\$ 3,791,000	\$ 2,343,000
Basic net (loss) income from continuing operations per share of common stock	\$ (0.28)	\$ 0.31	\$ 0.19	\$ 0.36	\$ 0.20
Total assets	\$ 141,868,000	\$ 140,990,000	\$ 127,341,000	\$ 86,961,000	\$ 90,935,000
Long term debt	\$ 69,716,000	\$ 65,582,000	\$ 38,475,000	\$ 14,515,000	\$ 14,929,000
Redeemable preferred stock	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Cash dividends declared per share of common stock	\$ 0.06	\$ 0.33	\$ 0.23	\$ 0.23	\$ 0.23

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the company's financial condition and results of operations should be read in conjunction with the company's consolidated financial statements and the notes to those statements included elsewhere in this registration statement on Form 10. The following discussion and analysis contains forward-looking statements. Forward-looking statements in this registration statement on Form 10 are subject to a number of risks and uncertainties, some of which are beyond the company's control. The company's actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which the company is not currently aware or which the company currently deems immaterial could also cause the company's actual results to differ, including those discussed in the sections entitled "Forward-Looking Statements" and "Risk Factors" included elsewhere in this registration statement on Form 10.

Summary

We have three business segments: agribusiness, rental operations, and real estate development. Our agribusiness segment generates revenue from our farming and lemon packing operations, our rental operations segment generates revenues from our housing, organic recycling, and commercial and leased land operations, and our real estate development segment has not yet generated any significant revenues to-date.

From a general view, we see the company as a land and farming company that generates annual cash flows to support its progress into diversified real estate development activities. As real estate developments are monetized our agribusiness will then be able to expand more rapidly into new regions and markets.

We are one of the largest growers of lemons and the largest grower of avocados in the United States and, as a result, our agribusiness segment is the largest of our three segments, representing approximately 89%, 93% and 93% of our fiscal 2009, fiscal 2008 and fiscal 2007 consolidated revenues, respectively. Our lemons are primarily marketed by Sunkist, with a vast majority of our domestic lemon and specialty citrus orders processed through the Sunkist network. Approximately 85% of our domestic lemon orders are repeat weekly/monthly customers and approximately 95% of those orders are FOB shipping dock. Approximately 70% of our lemons are shipped to food service and wholesale customers with the remaining 30% shipped to retail customers. Our export orders are placed through the Sunkist system with long-standing United States exporters. All orders placed through the Sunkist network are priced, invoiced and collected by Sunkist with payment to the company guaranteed by Sunkist beginning 24 hours after acceptance of our fruit by the customer. All commercial lemon by-products, such as juice, oils and essences, are processed by Sunkist with payment to us within approximately 12 to 18 months after the customer's receipt of the product.

The industry average on-tree price for fresh lemons has ranged from a low of \$14.90 per 40-pound box in 2004 to a high of \$29.00 per 40-pound box in 2008. Fluctuations in price are a function of global supply and demand with weather conditions, such as unusually low temperatures, typically having the most dramatic effect on the amount of lemons supplied in any individual growing season.

We believe we have a competitive advantage by maintaining our own lemon packing operation, and though a significant portion of the costs related to our lemon packing operations are fixed. As a result, cost per carton is a function of fruit throughput. While we regularly monitor our costs for redundancies and opportunities for cost reductions, we also supplement the number of lemons we pack in our packinghouse with additional lemons from outside growers. Because the fresh utilization rate for our lemons, or percentage of lemons we harvest and pack that go to the fresh market, is directly related to the quality of lemons we pack and, consequently, the price we receive per 40-pound box, we only pack lemons from outside growers if we determine their lemons are of good quality.

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

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

Our rental operations segment represented approximately 11%, 7% and 7% of our fiscal 2009, fiscal 2008 and fiscal 2007 consolidated revenues, respectively. Our rental housing units generate reliable cash flows which we use to partially fund the operations of all three of our business segments, and provide affordable housing to many of our employees, including our agribusiness employees, a unique employment benefit that helps us maintain a dependable, long-term employee base. In addition, our leased land business provides us with a typically profitable diversification.

Our real estate development segment has not yet generated any significant revenues to-date. We recognize that long-term strategies are required for successful real estate development activities. We plan to redeploy any financial gains into other income producing real estate as well as additional agricultural properties.

Recent Developments

Dividend Payment

On March 23, 2010, the company declared a \$0.3125 per share dividend in the aggregate approximate amount of \$0.4 million to stockholders of record on March 23, 2010. After adjusting for the stock split approved by our stockholders on March 23, 2010, the per share dividend is \$0.03125.

Windfall Investors, LLC

In September of 2005, the Company, along with Windfall, LLC, formed Windfall Investors, LLC, which we refer to as Windfall Investors, to acquire Windfall Farms, an approximately 720 acre former equestrian breeding and training farm located near Paso Robles, California. Initially, the company owned 15% of the equity interests in Windfall Investors and Windfall, LLC, the managing partner, held 85% of the equity interests in Windfall Investors. Windfall Investors purchased Windfall Farms for \$12.0 million, which was financed using a \$9.8 million secured long-term loan from Farm Credit West, which we refer to as the Windfall term loan, and \$2.3 million from an \$8.0 million unsecured revolving line of credit also with Farm Credit West, which we refer to as the Windfall revolving line of credit. In 2008, the Windfall revolving line of credit was increased to \$10.5 million. The company and the equity holders of Windfall initially guaranteed, jointly and severally, the indebtedness outstanding under the Windfall term loan and Windfall revolving line of credit.

Subsequent to October 31, 2009 the managing partner of Windfall Investors resigned its position and assigned all of its rights and interest in Windfall Investors to the company and the company released Windfall, LLC and its equity holders from certain liabilities associated with Windfall Investors. Pursuant to its terms, the guarantee will remain in effect for the entire term of the Windfall term loan and Windfall revolving line of credit. Should Windfall Investors be in default at any time during that term, Farm Credit West could declare the outstanding balance due and payable. The maximum amount of potential future payment for us due to a default by Windfall Investors under the term of the guarantee is \$20.3 million. 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.

Beginning on November 15, 2009, the results of operations and all of the assets and liabilities of Windfall Investors are included in the consolidated financial statements of the company. In addition, the audited financial statements of Windfall Investors for the year ended December 31, 2008 are included in this Form 10 beginning on page F-79. The outstanding debt on the Windfall Investors balance sheet at October 31, 2009 consisted of approximately \$9.2 million under the Windfall term loan, and approximately \$10.0 million under the Windfall revolving line of credit. The Windfall term loan has monthly principal and interest payments of \$63,000 through October 2011. We expect that in November 2011, the interest rate for the Windfall term loan will be renegotiated and quarterly principal and interest payments will continue through October 2035. The Windfall revolving line of credit has monthly interest only payments and originally matured in November, 2009. The maturity date, however, was extended to March 1, 2010 and subsequently extended by Farm Credit West until May 1, 2010. The company is in the process of refinancing the Windfall revolving line of credit on a long-term basis through amendment to the Windfall revolving line of credit agreement or alternatively through its existing facility with Rabobank.

Results of Operations

Selected Results for Fiscal Years 2009, 2008 and 2007

Selected results of operations for the fiscal years ended October 31, 2009, 2008 and 2007 and for the quarter ended January 31, 2010 and 2009 were as follows:

	Year Ended October 31			Three Months Ended January 31,	
	2009	2008	2007	2010	2009
Revenues:					
Agriculture	\$ 31,033,000	\$ 49,794,000	\$ 44,751,000	\$ 5,272,000	\$ 4,005,000
Rental	3,766,000	3,718,000	3,516,000	955,000	911,000
Other	39,000	-	-	135,000	-
Total revenues	34,838,000	53,512,000	48,267,000	6,362,000	4,916,000
Costs and expenses:					
Agriculture	27,281,000	34,805,000	32,036,000	6,893,000	6,639,000
Rental	2,061,000	2,236,000	2,073,000	507,000	580,000
Other	318,000	991,000	1,160,000	327,000	83,000
Selling, general and administrative	6,469,000	8,292,000	9,627,000	3,416,000	1,478,000
Asset impairments	6,203,000	1,341,000	-	-	-
Loss on sale of assets	10,000	11,000	56,000	-	-
Total cost and expenses	42,342,000	47,676,000	44,952,000	11,143,000	8,780,000
Operating (loss) income	(7,504,000)	5,836,000	3,315,000	(4,781,000)	(3,864,000)
Other income (expense):					
Gain on sale of stock in Calavo Growers, Inc.	2,729,000	-	-	-	-
Other income (loss), net	256,000	403,000	(34,000)	363,000	336,000
Interest income	225,000	902,000	2,300,000	29,000	37,000
Interest expense	(692,000)	(1,419,000)	(2,102,000)	(428,000)	(213,000)
Total other income (expense)	2,518,000	(114,000)	164,000	(36,000)	160,000
(Loss) income from continuing operations before income taxes and equity (losses) earnings					
	(4,986,000)	5,722,000	3,479,000	(4,817,000)	(3,704,000)
Income tax benefit (provision)	2,291,000	(2,128,000)	(1,177,000)	1,709,000	1,652,000
Equity in (losses) earnings of investments	(170,000)	153,000	89,000	(16,000)	(24,000)
(Loss) income from continuing operations	(2,865,000)	3,747,000	2,391,000	(3,124,000)	(2,076,000)
Loss from discontinued operations, net of income taxes	(12,000)	(252,000)	(245,000)	(8,000)	(1,000)
Net (loss) income	(2,877,000)	3,495,000	2,146,000	(3,132,000)	(2,077,000)
Preferred dividends	(262,000)	(262,000)	(262,000)	(66,000)	(66,000)
Net (loss) income applicable to common stock	\$ (3,139,000)	\$ 3,233,000	\$ 1,884,000	\$ (3,198,000)	\$ (2,143,000)
Per common share-basic:					
Continuing operations	\$ (0.28)	\$ 0.31	\$ 0.19	\$ (0.28)	\$ (0.19)
Discontinued operations	(0.00)	(0.02)	(0.02)	-	-
Basic net (loss) income per share	\$ (0.28)	\$ 0.29	\$ 0.17	\$ (0.28)	\$ (0.19)
Per common share-diluted:					
Continuing operations	\$ (0.28)	\$ 0.31	\$ 0.19	\$ (0.28)	\$ (0.19)
Discontinued operations	(0.00)	(0.02)	(0.02)	-	-
Diluted net (loss) income per share	\$ (0.28)	\$ 0.29	\$ 0.17	\$ (0.28)	\$ (0.19)
Dividends per common share	\$ 0.06	\$ 0.33	\$ 0.23	\$ 0.03	\$ 0.03
Weighted-average shares outstanding-basic	11,242,000	11,128,000	11,068,000	11,246,000	11,195,000
Weighted-average shares outstanding-diluted	11,254,000	11,158,000	11,068,000	11,246,000	11,234,000

See Notes to Consolidated Financial Statements. All shares and per share amounts have been adjusted to reflect the capital structure changes effective as of March 24, 2010.

First Quarter Fiscal 2010 Compared to First Quarter Fiscal 2009

Revenues

Total revenue for the first quarter of fiscal 2010 was \$6.4 million compared to \$4.9 million for the first quarter of fiscal 2009. The \$1.5 million increase was primarily the result of a \$1.3 million increase in our agriculture revenue. With lower volume of fruit available for sale in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, our average per carton sales price for our lemons was substantially higher in our 2010 first fiscal quarter resulting in a \$0.2 increase in lemon revenue for the first three months of fiscal 2010 compared to the first three months of fiscal 2009. An unseasonable heat event in 2008 had an adverse impact on our 2009 Navel and Valencia orange, Avocado and specialty citrus crops resulting in significantly less production in these crops in the first quarter of fiscal 2009 compared to the first quarter of fiscal 2010. Revenue in the first quarter of fiscal 2010 for our Navel and Valencia oranges, our avocados and our specialty citrus was \$0.7 million, \$0.2 and \$0.9 million, respectively compared to the first quarter of fiscal 2009 revenues of \$0.4 million, \$0.0 million and \$0.3 million for our Navel and Valencia, Avocado and specialty citrus crops, respectively.

Costs and Expenses

Our total costs and expenses for the first quarter of fiscal 2010 were \$11.1 million compared to \$8.8 million for the first quarter of fiscal 2009. A \$0.3 million increase in our agricultural expenses in the first fiscal quarter of 2010 over the first fiscal quarter of 2009 was the result of higher payments to our affiliated growers in the 2010 period compared to the 2009 period resulting from higher per carton sales prices in 2010 compared to 2009 and the timing of certain of our cultural costs in 2010 compared to when those costs were incurred in 2009. Partially offsetting these increases were less inventoried cultural costs being expensed in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. See footnote 2 to our consolidated financial statements for the three months ended and as of January 31, 2010 for an explanation of the accounting treatment of certain of our cultural costs.

Costs for our rental business were \$0.5 million in the first quarter of fiscal 2010 compared to \$0.6 million in the first quarter of fiscal 2009 the result of lower repair costs for our residential housing business in 2010 compared to 2009. Other costs amounted to \$0.3 million in the first quarter of fiscal 2010 and \$0.1 million in the first quarter of fiscal 2009. This increase was attributable to costs associated to Windfall Farms which we assumed control of in November 2009.

Selling, general and administrative costs for the three months ended January 31, 2010 were \$3.4 million compared to \$1.5 million for the three months ended January 31, 2009. This \$1.9 million increase was primarily attributable to a \$1.3 million non-cash charge related to our stock grant performance bonus plan. At October 31, 2009 we had notes receivable from our three senior executive officers totaling \$1.7 million. These notes were issued in connection with loans issued to these officers to allow them to pay the taxes associated with the compensation to the officers for the shares issued to them in prior years under this bonus plan. During the first quarter of fiscal 2010 the outstanding balances for these loans were repaid by the officers by returning 6,758 of the shares issued to them with a current market value on the date they were returned of \$150.98 per share and loan forgiveness by Limoneira totaling \$0.7 million. The loan forgiveness resulted in additional compensation to the officers and Limoneira paid on their behalf \$0.6 million in taxes associated with this compensation. This \$1.3 million non-cash charge is included in selling, general and administrative expenses in the first quarter of fiscal 2010. Costs in the first quarter of 2010 in connection with the preparation of our fiscal 2009 audited financial statements and the filing of our Form 10 with the Securities and Exchange Commission totaled \$0.6 million. Costs in the first quarter of 2009 in connection with the preparation of our fiscal 2008 audited financial statements were \$0.1 million. Additionally, the 2010 first quarter also includes \$0.1 million of employee incentive accruals. There were no employee incentive accruals recorded during the first quarter of fiscal 2009.

Other Income/Expense

Our other income (expense) consists of interest income, interest expense and other miscellaneous income/expense. For the first quarter of fiscal 2010 our other income (expense), net totaled \$0.04 million and included \$0.03 million of interest income, (\$0.43) million of interest expense and \$0.36 million of other miscellaneous income. This compares to interest income of \$0.04 million, interest expense of (\$0.21) and \$0.34 million of other miscellaneous income for the first quarter of fiscal 2009. The \$0.22 million increase in interest expense in 2010 is the result of our assumption of debt as part of the Windfall Investors, LLC acquisition in November 2009.

Income Taxes

The company recorded an estimated income tax benefit of \$1.7 million in the first quarter of fiscal 2010 on pre-tax losses from continuing operations of \$4.8 million compared to an estimated income tax benefit of \$1.6 million on pre-tax losses from continuing operations of \$3.7 million in the first quarter of fiscal 2009. Our estimated effective tax rate was 35.3% for the first quarter of 2010 compared to an estimated rate of 44.3% for the first quarter of 2009. The primary reason for this decrease in our estimated effective tax rate was a 50% increase in the allowable domestic production deduction in 2010 over the 2009 allowable deduction.

Revenues

For fiscal 2009 the company had revenues of \$34.8 million compared to revenues of \$53.5 million in fiscal 2008, a decline of approximately 35%. The decline in revenues primarily resulted from a decrease in fresh lemon cartons sold in 2009 compared to 2008 and reduced pricing for the lemons sold. In 2009 we sold approximately 1.3 million fresh cartons at an average price of \$15.72 per carton compared to approximately 1.4 million fresh cartons sold in 2008 at an average price of \$27.15 per carton. The decline in the number of cartons sold was primarily attributable to a decline in the food service market for lemons, which we believe was related to decreases in restaurant business because of pressures on consumers' disposable income due to the recession in the United States. Current short and long term projections for lemon sales point to increased demand in the food service category which is the dominant category for lemon sales. The decline in pricing for fresh lemons was primarily attributable to a significant oversupply of product resulting from simultaneous production recoveries in California, Argentina, Chile and Spain from the damaging freezes in 2007. In 2009, we harvested 2.4 million pounds of avocados compared to 3.7 million pounds in 2008, with the decrease attributable to an unseasonable heat event experienced during bloom and set. Total avocado revenue however was slightly higher in 2009 compared to 2008 primarily because of the estimated crop insurance claim settlement we recorded in 2009 related to the unseasonable heat event experienced during bloom and set in 2008 which adversely impacted our 2009 avocado production. Revenue in our rental and real estate businesses was \$3.8 million and \$3.7 million in 2009 and 2008, respectively.

Costs and Expenses

For fiscal 2009 the company had agricultural costs and expenses of \$27.3 million compared to expenses of \$34.8 million in fiscal 2008. The \$7.5 million decrease was attributable to lower fresh utilization and per carton sales prices for lemons in 2009 compared to 2008 resulting in \$3.4 million lower payments to our affiliated growers in 2009 compared to 2008. Electricity costs related to our lemon packing operations were substantially lower in 2009 compared to 2008 as a direct result of the completion in late 2008 of our one-megawatt solar generator used to provide power for our lemon packing operations. Lower oil prices and pesticide costs in 2009 compared to 2008 also contributed to the decrease. Additionally, we recorded a \$1.2 million non-cash write-off in connection with the removal of 133 acres of specialty crops in 2008. Other expenses, which are comprised of the costs related to our rental and real estate development businesses, were \$2.4 million in 2009 compared to \$3.2 million in 2008. This \$0.8 million decrease was attributable to lower expenses in 2009 related to our East Area I project in Santa Paula, California. The majority of the cost for planning and entitlement related to this project were incurred in 2008 and prior years. Expenses related to our rental business decreased by \$0.1 million from \$2.2 million in 2008 to \$2.1 million in 2009 primarily due to higher repair and maintenance costs incurred in 2008 related to our residential housing units. Depreciation expense in our agricultural, rental and real estate development businesses was \$1.6 million, \$0.4 million and \$0.04 million, respectively in 2009 compared to \$1.7 million, \$0.4 million and \$0.0 million, respectively in 2008.

Selling, general and administrative expenses in 2009 were \$6.5 million compared to \$8.3 million in 2008. This \$1.8 million net decrease was primarily the result of lower incentive costs in 2009 related to the company's management incentive bonus program, which we refer to as the MIP. In 2008 participants in the MIP were awarded incentive payments of \$1.5 million compared to no awards earned in 2009. Additionally, the company spent \$0.5 million less in 2009 compared to 2008 for consulting, travel, promotions and other costs. Partially offsetting these decreases were \$0.2 million of higher legal, audit and compliance costs in 2009 compared to 2008.

In 2009 we recorded impairment charges related to certain of our real estate assets totaling \$6.2 million compared to \$1.3 million in 2008. As a result of the continuing downturn in the overall real estate market during the past year we reduced the basis in our Santa Maria development projects by \$4.6 million to their appraised value of \$18.8 million. Additionally, in 2009 we reduced the basis in our Paradise Valley luxury home developments by \$1.6 million to their appraised value of \$6.2 million. In 2008 we recorded an impairment charge of \$1.3 million related to our Santa Maria development projects.

Other Income, Expense

The company's other income, expense consists of interest income, interest expense, gain on the sale of securities and other miscellaneous income/expense. Our interest income in 2009 was \$0.2 million compared to \$0.9 million in 2008. This decrease was the result of \$0.7 million of interest income recognized during the first five months of 2008 on loans receivable from Templeton Santa Barbara, LLC, which we refer to as Templeton, prior to the consolidation of Templeton. Our interest expense was \$0.7 million in 2009 compared to \$1.4 million in 2008. This \$0.7 million decrease was primarily the result of a lower cost of borrowing in 2009 as compared to 2008 as well as additional capitalization of interest related to real estate projects. During 2009 the weighted average interest rate on our debt was 3.96% compared to a weighted average interest rate of 5.22% in 2008. In 2009, other income, expense includes a \$2.7 million profit on the sale of 335,000 shares of Calavo common stock that we sold in October, 2009. These shares were a part of the 1,000,000 shares of Calavo common stock that we purchased in 2005.

Income Taxes

The company recorded an income tax benefit of \$2.3 million in 2009 on pre-tax losses from continuing operations of \$5.0 million compared to an income tax provision of \$2.1 million on pre-tax income from continuing operations of \$5.7 million in 2008. Our effective tax rate for 2009 was 44.3% compared to 36.1% for 2008. The change in the effective tax rate from 2008 to 2009 was attributable to a change in the domestic production deduction related to our sales through the Sunkist cooperative and a change in certain unrecognized income tax benefits. Deferred income taxes result principally from differences between the financial and tax reporting expense items such as depreciation, state income taxes, vacation accruals and mark-to-market adjustments. Long term deferred tax liabilities net of long term deferred tax assets at October 31, 2009 were \$8.8 million compared to \$11.5 million at October 31, 2008. This decrease was primarily attributable to the deferred tax assets recorded in connection with the impairment charges related to our real estate projects mark-to-market adjustments related to available-for-sale securities and the minimum pension liability adjustment recorded in 2009.

Fiscal Year Ended October 31, 2008 Compared to Fiscal Year Ended October 31, 2007

Revenues

For fiscal 2008 the company had revenues of \$53.5 million compared to revenues of \$48.3 million in fiscal 2007, an increase of approximately 11%. The increase in revenues resulted from the company experiencing minimal impact from global climate conditions in 2007 that dramatically reduced lemon production in California, Argentina, Chile and Europe. This circumstance enabled the company to achieve over 70% fresh utilization at record sales prices for lemons in fiscal 2008. These same conditions, however, had the opposite effect on our avocado crops in both fiscal 2008 and fiscal 2007 with production falling to under 4 million pounds in fiscal 2008 and fiscal 2007 from a record 17.7 million pounds in fiscal 2006. Production of both Navel and Valencia orange varieties also declined in fiscal 2008 compared to fiscal 2007 resulting in a decrease in revenue for these varieties of \$0.9 million. Specialty crop revenue increased nearly \$0.7 million in fiscal 2008 compared to fiscal 2007. This increase was attributable to more production of Cara Cara Navel oranges, pluots, minneolas and Meyer lemons, and resulted from a larger number of planted acres becoming full bearing in 2008. Revenue for our rental and real estate development businesses was \$3.7 million and \$3.5 million in 2008 and 2007, respectively.

Costs and Expenses

For fiscal 2008 the company's agricultural costs were \$34.8 million compared to \$32.0 million in 2007. This \$2.8 million increase was attributable to a \$1.2 million non-cash write-off in 2008 in connection with tree removals. Additionally, higher oil prices in fiscal 2008 directly impacted our cost of certain of the pesticides and herbicides used in our farming operations. Other expense consists of the costs and expenses related to our rental and real estate development businesses and were \$3.2 million in 2008 and 2007.

Our selling, general and administrative costs in 2008 were \$8.3 million compared to \$9.6 million in 2007. This \$1.3 million decrease was attributable to lower costs related to our stock compensation program in 2008. In 2008, The Company recorded compensation expense of \$0.6 million related to its stock grant performance bonus program compared to \$3.2 million of compensation expense related to this program in 2007. Partially offsetting this decrease in expense were increases in our legal and professional fees, primarily related to audit and tax work and consulting fees primarily related to company structure analysis work.

In 2008 we recorded a \$1.3 million impairment charge to write down the carrying value of our Santa Maria development project to its then appraised value. This appraised value reflected the downturn in the economy in general and the housing market in particular.

Other income and expenses include interest income, interest expense and other miscellaneous income and expenses. Interest income for 2008 was \$0.9 million compared to \$2.3 million in 2007. The 2007 interest income included \$1.9 million of interest income on loans to Templeton which represents a full year as compared to five months of interest income in 2008 prior to the consolidation of Templeton. Interest expense for 2008 was \$1.4 million compared to \$2.1 million in 2007. This reduction was primarily attributable to lower overall borrowing costs in 2008 compared to 2007. During 2008 our weighted average interest rate on our debt was 5.22% compared to a weighted average interest rate of 6.54% in 2007. Additionally, because of the changing nature of one of our real estate development projects, a greater portion of the interest cost associated with the debt incurred for that project was capitalized in 2008 as compared to 2007.

Income Taxes

The company recorded an income tax provision of \$2.1 million in 2008 on pre-tax income from continuing operations of \$5.7 million compared to a \$1.2 million provision on pre-tax earnings from continuing operations of \$3.5 million in 2007. Our effective tax rate for 2008 was 36.1% compared to 32.9% for 2007. The change in the effective tax rate from 2007 to 2008 was attributable to a change in the domestic production deduction related to our sales through Sunkist, dividend income exclusions and changes in certain unrecognized income tax benefits. Deferred income taxes result principally from differences between the financial and tax reporting expense items such as depreciation, state income taxes, vacation accruals and mark-to-market adjustments. Long term deferred tax liabilities net of long term deferred tax assets at October 31, 2008 were \$11.5 million compared to \$16.7 million at October 31, 2007. This decrease was primarily attributable to mark-to-market adjustments related to available-for-sale securities.

Segment Results of Operations

We evaluate the performance of our agribusiness, rental operations, and real estate development segments separately to monitor the different factors affecting financial results and each segment is subject to review and evaluation as we monitor current market conditions, market opportunities, and available resources.

Selected segment results of operations for the fiscal years ended October 31, 2009, 2008 and 2007 and the quarters ended January 31, 2010 and 2009 were as follows:

	Quarter Ended January 31,				
	2009	2008	2007	2010	2009
Revenues					
Agribusiness	\$31,033,000	\$49,794,000	\$44,751,000	\$ 5,272,000	\$ 4,005,000
Rental operations	3,766,000	3,718,000	3,516,000	955,000	911,000
Real estate development	39,000	—	—	135,000	—
Total revenues	34,838,000	53,512,000	48,267,000	6,362,000	4,916,000
Costs and expenses					
Agribusiness	27,281,000	34,805,000	32,036,000	6,893,000	6,639,000
Rental operations	2,061,000	2,236,000	2,073,000	507,000	580,000
Real estate development	318,000	991,000	1,160,000	327,000	83,000
Corporate and other	6,469,000	8,292,000	9,627,000	3,416,000	1,478,000
Impairment charges					
Real estate development	6,203,000	1,341,000	—	—	—
Loss on sale of assets					
Corporate and other	10,000	11,000	56,000	—	—
Total costs and expenses	42,342,000	47,676,000	44,952,000	11,143,000	8,780,000
Operating income (loss)					
Agribusiness	3,752,000	14,989,000	12,715,000	(1,621,000)	(2,634,000)
Rental operations	1,705,000	1,482,000	1,443,000	448,000	331,000
Real estate development	(6,482,000)	(2,332,000)	(1,160,000)	(192,000)	(83,000)
Corporate and other	(6,479,000)	(8,303,000)	(9,683,000)	(3,416,000)	(1,478,000)
Total operating income (loss)	\$ (7,504,000)	\$ 5,836,000	\$ 3,315,000	\$ (4,781,000)	\$ (3,864,000)

First Quarter of Fiscal 2010 Compared to the First Quarter of Fiscal 2009

Agribusiness

For the first three months of 2010 our agribusiness segment revenue was \$5.3 million compared to \$4.0 million for the first three months of 2009. The \$1.3 million increase reflected higher revenue in all varieties of our crops for the fiscal 2010 first quarter compared to the fiscal 2009 first quarter. Revenue from lemon sales increased by \$0.2 million, from \$3.2 million in the first quarter of fiscal 2009 to \$3.4 million in the first quarter of fiscal 2010. This increase resulted from substantially higher per carton sales prices in 2010 compared to 2009 partially offset by lower volume in 2010 compared to 2009. In the first quarter of fiscal 2010 we sold approximately 187,000 fresh lemon cartons at an average per carton sales price of \$18.07 compared to 205,000 fresh cartons at an average per carton price of \$14.74 in the first quarter of fiscal 2009. This 22.6% increase in the average sales price was attributable to lower industry volume of available fruit in the 2010 first quarter compared to the 2009 first quarter which allowed us to maintain higher prices in 2010. Our avocado revenue was \$0.2 million in the first quarter of fiscal 2010 compared to zero in the first quarter of fiscal 2009. The absence of avocado revenue in the first quarter of 2009 reflected our efforts to manage our very small 2009 avocado crop by delaying the harvest to capture higher prices later in the year. The small 2009 avocado crop was the result of unseasonable heat in the Spring of 2008 that adversely impacted the bloom and set of the 2009 crop. Our Navel and Valencia orange revenue was \$0.7 million for the first quarter of 2010 compared to \$0.4 million for the first quarter of 2009. This \$0.3 million increase was attributable to our navel orange crop which produced approximately 100,000 cartons in the first quarter of 2010 compared to approximately 54,000 cartons in the first quarter of 2009. As with our avocados, the lower production in 2009 resulted from the unseasonable heat event in the Spring of 2008 adversely impacting the 2009 crop. Our specialty citrus revenue was \$0.9 million for the first quarter of 2010 compared to \$0.3 million for the first quarter of 2009 on lower volume in 2009 compared to 2010 caused by the 2008 heat event.

For the first three months of 2010 our agribusiness costs and expenses were \$6.9 million compared to \$6.6 million for the first three months of 2009. The \$0.3 increase was attributable to higher per carton sales prices for lemons in 2010 which resulted in a \$0.5 million increase in payments to our affiliated growers in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. Our cultural costs for the first quarter of 2010 were \$2.6 million compared to \$2.0 million for the first quarter of 2009. This \$0.6 increase was attributable to the timing of certain fertilization, pest control and other tree care costs in 2010 compared to when those costs were incurred in 2009. Additionally, weather related incidents caused higher frost protection costs in the first quarter of 2010 compared to the first quarter of 2009. Partially offsetting these increases were lower costs associated with our lemon packing operations. In the first quarter of 2010 we had \$0.1 million lower electricity costs for our packinghouse compared to the first quarter of 2009 as a result of our solar energy production and the associated rebate payments received under the California Solar Initiative. First quarter 2010 labor and benefit costs in our packinghouse were \$0.3 million lower than the first quarter of 2009 because of excess labor costs in the first quarter of 2009 related to our custom pack program. We also received payments under a pallet expense reimbursement program with Sunkist Growers. During the first quarter of 2010 we received payments totaling \$0.2 million compared to \$0.1 million in the first quarter of 2009. Additionally, with approximately 18,000 fewer fresh cartons sold in the first quarter of 2010 compared to the first quarter of 2009 our combined carton expense and selling and advertising costs, both of which are carton volume driven, our first quarter 2010 costs were \$0.1 million lower than the first quarter of 2009. Depreciation expense in our agribusiness amounted to \$0.4 million in the first quarter of 2010 and 2009.

Rental Operations

Our rental operations had revenue of \$0.95 million in the first quarter of 2010 compared to \$0.91 million in the first quarter of 2009. All three areas of this segment, housing and commercial, leased land and organic recycling, had small increases in revenues in the 2010 first quarter compared to the 2009 first quarter. Our occupancy rate in our residential housing business was slightly better in the first quarter of 2010 compared to the first quarter of 2009 however, because of the downturn in the economy we chose not to institute any rent increases in the first quarter of 2010 and all of 2009. Revenue from the housing and commercial component of this segment was \$0.53 million for the first quarter of 2010 compared to \$0.51 million for the first quarter of 2009. The revenue from the leased land component of this segment was \$0.38 million for the first quarter of 2010 compared to \$0.36 million for the first quarter of 2009. This slight increase was the result of scheduled rent increases on four of our leases.

Total expenses in our rental operations segment were \$0.5 million in the first quarter of 2010 compared to \$0.6 million in the first quarter of 2009 reflecting lower costs for repairs in our residential business. Depreciation expense in our rental operations segment was \$0.1 million in the first quarter of 2010 and 2009.

Real Estate Development

Our real estate development segment had revenue of \$0.1 million in the first quarter of 2010 and no revenue in the first quarter of 2009. The 2010 revenue represented lease income from some of the facilities at Windfall Farms and from one of our Paradise Valley, Arizona real estate properties. As a means of offsetting some of the costs at our Windfall Farms development project during its development stage we are leasing some of the equestrian facilities to independent horse trainers and some of the acreage to alfalfa growers. In June 2009 we entered into a lease for one of our Paradise Valley homes. The lease has an initial term of two years with an option for a third year. The lessee has an option to purchase the property during the option period.

Costs and expenses in our real estate development segment were \$0.3 million in the first quarter of 2010 compared to \$0.1 million in the first quarter of 2009. The 2010 costs are primarily maintenance costs, property taxes and utility costs incurred at our Windfall Farms project and to a lesser extent, costs for our East Area 1 project that are not capitalized. The 2009 costs consist entirely of costs at our East Area 1 project that are not capitalized.

Corporate and Other

Corporate costs and expenses include selling, general and administrative costs and other costs not allocated to the operating segments. For the first quarter of 2010 corporate and other costs were \$3.4 million compared to \$1.5 million for the first quarter of 2009. The \$1.9 million increase was attributable to a \$1.3 million non-cash charge related to our stock grant performance bonus program. At October 31, 2009 we had notes receivable from our three senior executive officers totaling \$1.7 million. These notes were issued in connection with loans issued to these officers to allow them to pay the taxes associated with the compensation to the officers for the shares issued to them in prior years under this bonus plan. During the first quarter of 2010 the outstanding balances of these loans were repaid by the officers by returning 6,758 of the shares issued to them valued at \$150.98 per share which was the current market value on the date they were returned and loan forgiveness by Limoneira totaling \$0.7 million. The loan forgiveness resulted in additional compensation to the officers and Limoneira paid on their behalf \$0.6 million in taxes associated with this compensation. The \$1.3 million non-cash charge is included in selling, general and administrative expense for the first quarter of 2010. Costs in the first quarter of 2010 in connection with the preparation of our fiscal 2009 audited financial statements and the filing of our Form 10 with the Securities and Exchange Commission in February 2010 totaled \$0.6 million. Costs in the first

quarter of 2009 in connection with the preparation of our 2008 audited financial statements were \$0.1 million. Additionally, the first quarter of 2010 also includes \$0.1 million in employee incentive accruals. There were no employee incentive accruals recorded during the first quarter of fiscal 2009.

Fiscal Year Ended October 31, 2009 Compared to Fiscal Year Ended October 31, 2008

Agribusiness

For fiscal 2009 agribusiness revenues were \$31.0 million compared to agribusiness revenues of \$49.8 million in fiscal 2008, a decline of approximately 38%. The decline in agribusiness revenues resulted primarily from lower lemon revenue. In 2009 we had \$22.3 million of lemon revenue compared to \$40.3 million in 2008. In 2009 we sold 1.3 million fresh cartons of lemons at an average selling price of \$15.72 per carton compared to 1.4 million fresh cartons at an average price of \$27.15 per carton in 2008. Somewhat offsetting this reduction in fresh lemon sales were substantially higher prices for lemon juice products. In 2009 our total lemon revenue includes sales of juice products at approximately \$70 per ton compared to approximately \$40 per ton in 2008.

For fiscal 2009 agribusiness operating expenses were \$27.3 million compared to \$34.8 million in fiscal 2008. The decrease was primarily due to lower fresh utilization and per carton sales prices in 2009 resulting in lower payments to our affiliated growers. Additionally, lower oil prices in 2009 resulting in lower pesticide costs; lower electricity costs in 2009 for our lemon packinghouse attributable to the completion in late 2008 of our one-megawatt solar generator and a \$1.2 million write-off in 2008 related to tree removals contributed the balance of the decrease. Depreciation expense related to our agribusiness segment was \$1.6 million in 2009 compared to \$1.7 million in 2008.

Rental Operations

For fiscal 2009 rental operations revenues were \$3.8 million compared to rental operations revenues of \$3.7 million in fiscal 2008. Revenues for our housing and commercial units were \$2.1 for 2009 and 2008, which accounted for approximately 57% and 58% of this segment's revenue, respectively, with our land leases accounting for the majority of the balance in each year. Costs for our rental segment in 2009 were \$2.1 million compared to \$2.2 million in 2008 and were primarily incurred in connection with repairs and maintenance of the 193 housing units. Depreciation expense in our rental segment was \$0.4 million in 2009 and 2008.

Real Estate Development

For fiscal 2009 real estate revenues were \$0.04 million of lease income related to certain of our other real estate investments. Our real estate development revenue in 2008 was \$0.0 million.

Real estate development costs and expenses in 2009 were \$0.3 million compared to \$1.0 million in 2008. This reduction was primarily attributable to lower costs associated with our East Area 1 development project. The majority of the costs for planning and entitlement for this project were incurred in 2008 and prior years. Depreciation expense in our real estate development segment was \$0.04 million in 2009 and \$0 in 2008. Additionally, in 2009 we recorded a \$6.2 million non-cash impairment charge to write down the carrying costs of our Santa Maria and Paradise Valley real estate projects to their appraised values reflecting the continuing economic downturn in 2009. In 2008 we recorded a \$1.3 million non-cash impairment charge to write down the carrying cost of our Santa Maria real estate project to its then appraised values.

Corporate

Corporate operating expense includes selling, general and administrative and other costs not allocated to the operating segments. Corporate operating expenses in fiscal 2009 were \$6.5 million compared to \$8.3 million in 2008. This \$1.8 million decrease was primarily attributable to lower employee incentive costs in 2009 and to a lesser extent, lower overall legal and professional costs in 2009 compared to 2008 primarily related to work done in 2008 related to Company organizational matters.

Fiscal Year Ended October 31, 2008 Compared to Fiscal Year Ended October 31, 2007

Agribusiness

For fiscal 2008 agribusiness revenues were \$49.8 million compared to agribusiness revenues of \$44.8 million in fiscal 2007, an increase of approximately 11%. The increase in agribusiness revenues resulted from a perfect storm of events that produced favorable results for the company's agribusiness segment, particularly the company's lemon operations. In 2007, devastating freezes destroyed lemon crops in California, Argentina, Chile and Europe, dramatically reducing global supplies. Our lemon operations were largely unaffected by the freeze which enabled us to generate operating profits in 2008 of approximately \$14 million through sales of approximately 1.4 million cartons of fresh lemons at an average price of \$27.15 per carton. In comparison, in 2007, the company's previous best lemon year, the company generated operating profits of approximately \$10 million through the sale of 1.5 million cartons of fresh lemons at an average price of \$23.45 per carton.

In contrast, the perfect storm that benefited our lemon operations had a devastating affect on our avocado operations with the freeze destroying much of our avocado crop in 2007 and 2008. In 2008, we generated operating profits of \$0.2 million on 3.7 million pounds of avocados, while in 2007 we generated operating profits of \$0.1 million on approximately 4 million pounds of avocados.

In 2008, despite industry-wide surplus and resulting low prices, we enjoyed relatively favorable Valencia and Navel orange results. Our well-honed strategy of anticipating, and then targeting, undersupplied markets allowed us to maximize the price for our Navel varieties. Even so, operating profit of \$0.9 million in 2008 for our orange operations was down considerably from our operating profit of \$2.1 million in 2007.

Our specialty citrus operations enjoyed another year of solid growth in 2008 with improvements in all varieties yielding operating profit of \$1.4 million before a \$1.2 million non-cash write-off recorded in connection with the removal of approximately 166 acres of underperforming cherries and pluots and representing a 58% increase in operating profit over 2007.

For fiscal 2008 agribusiness operating expenses were \$34.8 million compared to agribusiness operating expenses of \$32.0 million in fiscal 2007. The change was primarily due to the company's removal of 133 acres of cherries and pluots and replanting the acreage with lemons and oranges. Our non-cash orchard write-off in 2008 was \$1.2 million.

Rental Operations

For fiscal 2008 our rental operations revenues were relatively flat compared to fiscal 2007. The 2008 revenues consisted of \$2.1 million of housing and commercial revenue, \$1.4 million of leased land revenue and \$0.2 million of organic recycling revenue. For 2007 the revenues from housing and commercial, leased land and organic recycling were \$2.1 million, \$1.3 million and \$0.1 million, respectively. Higher maintenance costs in 2008 compared to 2007 for our housing units resulted in an approximately \$0.1 million decline in operating profit in our housing and commercial operations which was offset by an increase in leased land revenue in 2008 compared to 2007. During 2007 we increased our leased land acreage to 586 acres. Our organic recycling operations contributed a consistent, reliable revenue stream in both fiscal 2008 and fiscal 2007.

For fiscal 2008 housing and commercial operating expenses were \$2.2 million compared to housing and commercial operating expenses of \$2.1 million in fiscal 2007. The change was primarily due to an increase in maintenance expenses for our rental properties. During 2007 we increased the number of acres we lease to third party agricultural tenants from 509 in 2006 to 586 in 2007. Because of enjoying a full year of revenue on this increased acreage in 2008, our leased land operating profit was \$1.4 million in 2008 compared to \$1.2 million in 2007.

Real Estate Development

For fiscal 2008 and 2007 the real estate development segment had no revenue. Costs and expenses were \$1.0 million in 2008 compared to \$1.2 million in 2007. The costs in both years were attributable to the planning and entitlement costs associated with our East Area 1 development project. Additionally, during 2008 and 2007, we incurred costs of \$1.8 million and \$2.1 million, respectively that were capitalized into the carrying value of this project. In 2008, as a result of the down turn in the overall housing market we recorded a \$1.3 million non-cash impairment charge to write down the carrying value of our real estate project in Santa Maria, California to its appraised value.

Corporate

Corporate operating expense includes selling, general and administrative costs not allocated to the operating segments. Corporate operating expense in fiscal 2008 were \$8.3 million compared to \$9.6 million in fiscal 2007. This \$1.3 million decrease was primarily attributable to lower costs associated with our stock grant performance bonus program in 2008 partially offset by higher employee incentive costs and legal and consulting costs in 2008 compared to 2007. In 2008, we incurred costs of \$0.6 million related to our stock grant performance bonus plan compared to costs of \$3.2 million in 2007.

Liquidity and Capital Resources

Overview

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

Accordingly, we have established well-defined priorities for our available cash, including investing in core business segments to achieve profitable future growth. To enhance shareholder value, we will continue to make investments in our real estate segments to secure land entitlement approvals, build infrastructure for our developments, ensure adequate future water supplies, and provide funds for general land development activities. Within our farming segment, we will make investments as needed to improve efficiency and add capacity to its operations when it is profitable to do so.

Cash Flows from Operating Activities

For the first three months of fiscal 2010 cash used in our operating activities totaled \$5.5 million compared to using \$7.2 million in the first three months of fiscal 2009. Our net loss for the first quarter of 2010 was \$3.1 million compared to a net loss of \$2.1 million in the first quarter of 2009. Included in the net loss for the first quarter of 2010 was a \$1.5 million non-cash charge related to our stock grant performance bonus and Director compensation programs. This compares to a non-cash charge of \$0.2 million for these programs in the first quarter of 2009. Operating cash flow impacts resulting from changes in accounts payable and growers payable balances provided \$0.5 of operating cash flows in the first quarter of 2010 compared to using \$1.2 million of cash in the first quarter of 2009. Significant costs related to our lemon packing and Southern farming operations that were included in accounts payable at October 31, 2008 were paid in the first quarter of 2009. Operating cash flow impacts resulting from changes in accrued liabilities balances used \$0.05 million in operating cash flows in the first quarter of 2010 compared to using \$1.7 million in the first quarter of 2009. Accrued bonuses of \$1.3 million for fiscal 2008 were included in accrued liabilities at October 31, 2008 and paid in the first quarter of 2009. There were no accrued bonuses at October 31, 2009 for fiscal 2009. Operating cash flow impacts resulting from changes in accounts and notes receivable balances used \$2.9 million in operating cash flows in the first quarter of 2010 compared to using \$1.4 million in operating cash flows in the first quarter of 2009. This increase was primarily the result of an increase in accounts receivable in the first quarter of 2010 of \$2.8 million compared to an increase of \$1.4 million in the first quarter of 2009. Higher agricultural revenues in the first quarter of 2010 compared to the first quarter of 2009 was the primary reason for this increase.

For fiscal 2009, the company's operating activities used approximately \$1.0 million compared to providing approximately \$6.8 million in fiscal 2008. The decrease in cash provided by operating activities in 2009 was primarily due to lower net income in 2009 compared to 2008. Additionally, certain decreases in our net long term deferred tax liabilities in 2009 resulted in a reduction in cash provided by operating activities of \$2.2 million compared to an increase in cash from operating activities of \$0.4 million in 2008. The primary causes for the decrease in our net long term deferred tax liabilities were long term deferred tax assets generated from the non-cash impairment charges recorded in 2009 related to certain of our real estate development projects, mark-to-market adjustments related to available-for-sale securities and adjustments recorded related to our pension plan. Significant non-cash charges reflected in fiscal 2009 operating cash flow include: (i) depreciation and amortization charges totaling \$2.3 million, (ii) impairment of real estate development projects totaling \$6.2 million, and (iii) stock compensation expense totaling \$0.8 million.

Cash Flows from Investing Activities

For the first three months of 2010 cash used in investing activities was \$1.4 million compared to \$2.8 million used in investing activities in the first three months of 2009. Capital expenditures in the first quarter of 2010 were \$1.3 million compared to \$2.4 million in the first quarter of 2009. Included in the 2010 first quarter expenditures were \$0.8 million for our real estate development projects and included \$0.5 million for entitlement costs on our East Area 1 development project, \$0.2 million for entitlement costs on our Santa Maria development project and \$0.1 million on improvements at our Windfall Farms project. In the first quarter of 2009 we spent \$1.8 million on these real estate development projects which included \$0.5 million for our East Area 1 project, \$0.4 million for our Santa Maria project and \$0.9 million for the completion of our Paradise Valley development projects.

Cash flows used in investing activities were approximately \$1.5 million for fiscal 2009, compared to cash flows used in investing activities of \$29.1 million for fiscal 2008. The change was primarily due to capital expenditures of \$7.2 million for 2009 compared to \$29.2 million for 2008. Our 2008 capital expenditures include the approximately \$22 million cost to purchase approximately 63 acres of land that will be a part of our East Area 1 development project. Our cash flows from investing activities in fiscal 2009 include proceeds of \$6.1 million from our sale of 335,000 shares of the 1,000,000 shares of Calavo common stock that we purchased in 2005.

We expect capital expenditures in 2010 to be approximately \$3.7 million. As noted above, we are evaluating the construction within the next five years of a new packinghouse that has the potential to reduce our packing costs by reducing labor and handling inputs.

Cash Flows from Financing Activities

Cash provided by financing activities in the first three months of 2010 was \$6.3 million in the first three months of 2010 compared to \$9.9 million provided by financing activities in the first three months of 2009. The decrease in cash provided from financing activities in the first quarter of 2010 compared to the first quarter of 2009 was primarily the result of lower borrowings under our Rabobank revolving credit facility in the first quarter of 2010 compared to the first quarter of 2009. During the first quarter of 2010 we borrowed \$8.1 million under our Rabobank revolving credit facility to fund operating and other costs. This compares to \$11.5 million borrowed in the first quarter of 2009. Additionally \$0.4 million was borrowed under the Windfall Investors revolving line of credit in the first quarter of 2010. Partially offsetting the these borrowings were repayments of debt. In the first quarter of 2010 we repaid \$1.7 million of debt compared to \$1.1 million in the first quarter of 2009.

Cash flows provided by financing activities were approximately \$3.0 million for fiscal 2009, compared to cash flows provided by financing activities of approximately \$22.0 million for fiscal 2008. Net cash provided from the issuance and payments of debt was \$4.1 million and \$27.1 million in 2009 and 2008, respectively. The 2008 net cash provided from the issuance and payments of debt includes the \$22 million of debt used to purchase the approximately 63 acres that will be a part of our East Area 1 development project. In addition, we used cash of \$1.0 million and \$3.9 million in fiscal 2009 and fiscal 2008, respectively, for dividends to holders of our common and preferred stock.

Transactions Affecting Liquidity and Capital Resources

We have a revolving credit facility with Rabobank, NA, which we refer to as Rabobank, that permits us to borrow up to \$80.0 million and two term loans with Farm Credit West, FLCA, as successor by merger to Central Coast Federal Land Bank, which we refer to as Farm Credit, for an aggregate amount of approximately \$10.0 million.

As of January 31, 2010, we had \$95.8 million of long-term debt under credit facilities of which \$11.0 million is payable in fiscal 2010. In addition, beginning on November 15, 2009 we are consolidating Windfall Investors which resulted in an additional \$19.2 million of debt being recorded by the company, of which \$10.1 is payable in fiscal 2010. We anticipate being able to extend on a long-term basis with Farm Credit West, \$10.0 million of Windfall Investors revolving line of credit debt that currently matures on May 1, 2010. In addition, as of January 31, 2010 our borrowing capacity under our existing credit facility with Rabobank was approximately \$11.8 million.

We believe that the cash flows from operations and available borrow capacity from our existing credit facilities will be sufficient to satisfy our future capital expenditures, debt service, working capital needs and of other contractual obligations for fiscal 2010. In addition we have the ability to control the timing of our investing cash flows to the extent necessary based on our liquidity demands.

Rabobank Revolving Credit Facility

As of January 31, 2010 we had \$68.2 million outstanding under our Rabobank revolving credit facility and we had \$11.8 million of availability under the facility. The interest rates on our borrowings under the Rabobank revolving credit facility were not materially different at January 31, 2010 than at October 31, 2009.

As of October 31, 2009, we had \$61.7 million outstanding under our Rabobank revolving credit facility, \$22.5 million of which bears interest at a variable rate equal to the one month London Interbank Offer Rate, or LIBOR, plus a spread of 1.5%. At December 31, 2009 the interest rate on \$22.5 million outstanding balance was 1.73%. The variable interest rate resets on the first of each month. At October 31, 2009 we had \$8.3 million of availability under this facility.

Under the Rabobank revolving credit facility, the company has the option of fixing the interest rate on any portion of outstanding borrowings using interest rate swaps. The fixed interest rate is calculated using the two, three or five year LIBOR rates plus a spread of 1.5%. The Company has utilized interest rate swaps to fix interest rates on three separate outstanding balances under the Rabobank revolving credit facility, one for \$22.0 million at 5.75% for a five year term, one for \$10.0 million at 4.7% for a two year term and one for \$10.0 million at 3.86% for a two year term. The five year interest rate swap matures in June 2013 and the two year interest rate swaps mature in November and December 2010. Interest is payable monthly and all outstanding principal is due in full in June 2013.

The Rabobank revolving credit facility is secured by certain of our agricultural properties and all of our equity interest in the San Cayetano Mutual Water Company, and subjects us to affirmative and restrictive covenants including, among other customary covenants, financial reporting requirements, requirements to maintain and repair any collateral, restrictions on the sale of assets, restrictions on the use of proceeds, prohibitions on the incurrence of additional debt, and restrictions on the purchase or sale of major assets. We also are subject to covenant that the company maintain a debt service coverage ratio (as defined in the Rabobank revolving credit facility) of less than 1.25 to 1.0 measured annually. We were unable to comply with the debt service coverage ratio for fiscal 2009 and in December 2009 received a waiver of such non-compliance from Rabobank for fiscal 2009. Under the terms of our agreement with Rabobank, the debt service coverage ratio is measured annually and as such the next compliance measurement date of this covenant is October 31, 2010 which will cover fiscal 2010. Based upon our results of operations for the first quarter of fiscal 2010 and our anticipated debt service coverage for the full year, combined with other performance estimates available to management in our agricultural and rental operations, we currently anticipate to be in compliance with all covenants under our agreement with Rabobank for fiscal 2010.

Under the terms of the Rabobank revolving credit facility, no "Event of Default" occurred as a result of the failure of the Company to meet the debt service coverage ratio, as Rabobank never elected to provide the notice contemplated by Section 12.01(j) thereof, which would have created a ten (10) day grace period for compliance. Instead, during the period contemplated by Section 9.02, Rabobank provided the waiver filed herewith. The Farm Credit term loan documentation provides that the company would be in default only if declared to be in default or in breach of a loan with another lender. The Rabobank revolving credit facility was not declared to be in default by Rabobank and, as a result of the waiver, the company is not in breach of any term thereof. Finally, the Windfall revolving line of credit has been extended through May 1, 2010 and a copy of the extension has been filed herewith.



Unless waived, our breach of any of these covenants would be an event of default under the Rabobank revolving credit facility, among other customary events of default. Upon the occurrence of an event of default, Rabobank would have the right to accelerate the maturity of any debt outstanding under the revolving credit facility and we would be subject to additional restrictions, prohibitions and limitations.

We have the ability to voluntarily prepay any amounts outstanding under the Rabobank revolving credit facility without penalty.

Farm Credit Term Loans

As of January 31, 2010 we had \$7.9 million outstanding under our terms loans with Farm Credit. We had \$7.0 million outstanding under the first loan from Farm Credit and \$0.9 million outstanding under the second loan from Farm Credit. The interest rates on our borrowings under both of the Farm Credit term loans were not materially different at January 31, 2010 than at October 31, 2009.

As of October 31, 2009, we had \$8.1 million outstanding under our term loans with Farm Credit. We had \$7.1 million outstanding under the first loan with Farm Credit which is a term loan in an original principal amount of approximately \$9 million and bears interest at a variable rate currently at to 3.25%. Quarterly principal and interest payments are due through November 2022, when the note matures. This term loan is secured by certain of our agricultural properties and includes certain affirmative covenants including, among other customary covenants, financial reporting requirements and restrictions on the sale of assets.

The second loan with Farm Credit is a term loan in an original principal amount of \$1.0 million and bears interest at a variable rate currently at 3.25%. Monthly principal and interest payments are due through May 2032, when the note matures. This term loan is secured by the same agricultural properties that are securing the first Farm Credit term loan and includes certain affirmative and restrictive covenants including, among other customary covenants, financial reporting requirements, restrictions on the sale of assets, and prohibitions on the incurrence of additional debt.

Windfall Investors, LLC Revolving Line of Credit and Term Loan

As described in "Recent Developments - Windfall Investors, LLC" above and "Off-Balance Sheet Arrangements" below, we guaranteed, jointly and severally, with Windfall, all amounts outstanding under the Windfall revolving line of credit and the Windfall term loan. Beginning on November 15, 2009 the results of operations and all of the assets and liabilities of Windfall Investors are included in the consolidated financial statements of the company.

The outstanding debt on the Windfall Investors balance sheet at January 31, 2010 consisted of approximately \$10.4 million under the Windfall term loan and approximately \$9.2 million under the Windfall revolving line of credit. The interest rates on our borrowings under both the Windfall term loan and Windfall revolving line of credit were not materially different at January 31, 2010 than at October 31, 2009.

The outstanding debt on the Windfall Investors balance sheet at October 31, 2009 consisted of approximately \$9.2 million under the Windfall term loan and approximately \$10.0 million under the Windfall revolving line of credit. The Windfall term loan has monthly principal and interest payments of \$63,000 with interest fixed at 6.73% until October 31, 2011. On November 1, 2011 we have the option of continuing with a fixed rate until the maturity date of the Windfall term loan on October 1, 2035 or switching to a variable rate for the remaining term of the loan. The Windfall revolving line of credit has monthly interest only payments and at October 31, 2009 approximately \$5.0 million was at a fixed interest rate of 6.67% and approximately \$5.0 million was at a variable interest rate of 3.25%. On November 1, 2009 the outstanding balance of the Windfall revolving line of credit that was at the fixed interest rate was switched to a variable interest rate which at November 1, 2009 was 3.50%. The variable interest rate on borrowings from Farm Credit is an internally calculated rate based on their internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25%. The Windfall revolving line of credit matured on November 1, 2009 and was extended to March 1, 2010 and then subsequently extended to May 1, 2010. We are in the process of refinancing the Windfall revolving line of credit on a long-term basis through an amendment to the Windfall revolving line of credit agreement.

In addition, the audited financial statements of Windfall Investors for the year ended December 31, 2008 are included in this Form 10 beginning on page F-79.

Interest Rate Swaps

We enter into interest rate swaps (derivatives) to minimize the risks and costs associated with our financing activities. Our interest rate swaps (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, 2009 and 2008. See Note 12 in the notes to the consolidated financial statements for the year ended October 31, 2009 included elsewhere in this registration statement for more information about our interest rate swaps (derivatives).

Contractual Obligations

The following table presents the company's total contractual obligations at October 31, 2009 for which cash flows are fixed or determinable:

Contractual Obligations:	Payments due by Period				
	Total	< 1 year	1-3 years	3-5 years	5+ years
Fixed rate debt (principal)	\$ 42,000,000	—	—	\$ 42,000,000	—
Variable rate debt (principal)	\$ 27,716,000	\$ 465,000	\$ 976,000	\$ 20,712,000	\$ 5,563,000
Operating lease obligations	\$ 10,176,000	\$ 1,620,000	3,023,000	\$ 2,192,000	\$ 3,341,000
Total contractual obligations	\$ 79,892,000	\$ 2,085,000	\$ 3,999,000	\$ 64,904,000	\$ 8,904,000
Interest payments on fixed and variable rate debt	\$ 12,727,000	\$ 2,725,000	\$ 5,449,000	\$ 2,165,000	\$ 2,388,000

Fixed Rate and Variable Rate Debt

Details of amounts included in long-term debt can be found above and in Note 11 in the notes to the consolidated financial statements for the year ended October 31, 2009 included elsewhere in this registration statement. The above table assumes that long-term debt is held to maturity.

Subsequent to October 31, 2009, as described above in "Recent Developments - Windfall Investors, LLC," the company acquired all rights and interests in Windfall Investors and the results of operations and all of the assets and liabilities of Windfall Investors are included in our consolidated financial statements beginning on November 15, 2009. Our total contractual obligations, including those of Windfall Investors as of October 31, 2009, would be \$13.3 million for less than one year, \$5.5 million for one to three years, \$66.4 million for three to five years and \$24.8 million for over five years. Interest payments on fixed and variable debt would be \$3.5 for one year or less, \$6.7 for one to three years, \$3.3 for three to five year and \$9.8 over five years.

Operating Lease Obligations

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

Interest Payments on Fixed and Variable Debt

The above table assumes that our fixed rate and long term debt is held to maturity and the interest rates on our variable rate debt remains unchanged for the remaining life of the debt from those in effect at October 31, 2009.

Real Estate Development Activities and Related Capital Resources

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

Defined Benefit Plan Contributions

As more fully described below in Note 15 to our consolidated financial statements for the year ended October 31, 2009, the company’s Defined Benefit Pension Plan was frozen as of June 30, 2004. During the first quarter of 2010, the company made a \$300,000 contribution to such plan and expects to make similar contributions to such plan for the second, third and fourth quarters of fiscal 2010.

Other Obligations and Commitments

As described in “Recent Developments - Windfall Investors LLC” above and “Off-Balance Sheet Arrangements” below, we guaranteed, jointly and severally, with Windfall, all amounts outstanding under the Windfall revolving line of credit and the Windfall term loan.

Off-Balance Sheet Arrangements

For fiscal 2009 and each prior applicable period, the results and operations and all of the assets and liabilities of Windfall Investors has been treated as an Off-Balance Sheet Arrangement. As described in “Recent Developments - Windfall Investors, LLC” above, beginning on November 15, 2009 the results of operations and all of the assets and liabilities of Windfall Investors are included in the consolidated financial statements of the Company. In addition, the audited financial statements of Windfall Investors for the year ended December 31, 2008 are included in this Form 10 beginning on page F-79.

Critical Accounting Policies and Estimates

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

Revenue Recognition - Sales of products and related costs are recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price can reasonably be determined, and collectability is reasonably assured. We accrue monthly revenue from the sales of certain of our agricultural products based on estimated proceeds provided by our sales and marketing partners due to the timing differences between when the product is sold by the company and the closing of the pools for such fruits at the end of each month. Historically, these estimates have not differed materially from actual results.

For citrus products processed through our packinghouse and sold by Sunkist on our behalf, we (i) have the general and physical inventory risk, (ii) have the discretion in supplier selection, and (iii) are involved in the determination of the product that is ultimately sold to the customer. In addition, Sunkist earns a fixed amount for its sales and marketing services. We record the revenues related to these citrus sales on a gross basis.

For avocados, oranges, specialty citrus and other specialty crops packed and sold through by Calavo and other third-party packinghouses, Calavo and the other third-party packinghouses are (a) the primary obligor in the arrangement, (b) have general inventory risk once the product is provided to them and (c) bear the credit risk related to the orders that are fulfilled; as such, we record the revenues related to these arrangements with Calavo and other third-party packinghouses on a net basis.

For rental revenues, minimum rent revenues are generally recognized on a straight-line basis over the respective initial lease term. Contingent rental revenues are contractually defined as to the percentage of rent to be received and are tied to fees collected by our lessee. Our contingent rental arrangements generally require payment on a monthly basis with the payment based on the previous month’s activity. We accrue contingent rental revenues based upon estimates and adjust to actual as we receive payments. Organic recycling percentage rents range from 5% to 10%.

Capitalization of Costs - We capitalize the planning, entitlement and certain development costs associated with our various real estate development projects. Costs that are not properly capitalized are expensed as incurred. Based on potential changes in the nature of these projects, future costs incurred could not be properly capitalized and would be expensed as incurred. For fiscal 2009, we capitalized approximately \$3.3 million of costs related to our real estate projects and expensed approximately \$0.3 million of costs.

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

Tax benefits from an uncertain tax position are only recognized if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

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

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

Defined Benefit Retirement Plan - As discussed in Note 15 to our consolidated financial statements, we sponsor a defined benefit retirement plan that was frozen in June, 2004, and no future benefits accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715 provides guidance as to, among other things, future estimated pension expense, minimum pension liability and future minimum funding requirements. This information is provided to us by third party actuarial consultants. In developing this data, certain estimates and assumptions are used including, among other things, discount rate, long term rates of return, and mortality tables. Changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

Qualitative and Quantitative Disclosures about Market Risk

Interest Rate Risk

Borrowings under each of our Rabobank revolving credit facility, Farm Credit term loans and Windfall revolving line of credit are subject to variable interest rates. These variable interest rates subject us to the risk of increased interest costs associated with any upward movements in interest rates. Under each of our Rabobank revolving credit facility and Farm Credit term loans, our borrowing interest rate is a LIBOR-based rate plus a spread. Under the Windfall revolving line of credit, our borrowing interest rate is an internally calculated rate based on Farm Credit’s internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25%. At January 31, 2010 our total debt outstanding under the Robobank revolving credit facility and the Farm Credit term loans was approximately \$68.2 million, \$6.9 million and \$0.9 million, respectively. At January 31, 2010 our total debt outstanding under the Windfall term loan and the Windfall revolving line of credit was \$9.2 million and \$10.4 million, respectively. At October 31, 2009 our total debt outstanding under the Robobank revolving credit facility and the Farm Credit term loans was approximately \$61.7 million, \$7.1 million and \$1 million, respectively.

We manage our exposure to interest rate movements by utilizing interest rate swaps (derivatives). We fixed \$42 million of our outstanding borrowings with three “fixed-to-floating” interest rate swaps as described in the following table:

	Notional Amount		Fair Value Net Liability	
	2009	2008	2009	2008
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2013	\$ 22,000,000	\$ 22,000,000	\$ 1,678,000	\$ 541,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2010	10,000,000	10,000,000	287,000	96,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2010	10,000,000	—	206,000	—
Total	\$ 42,000,000	\$ 32,000,000	\$ 2,171,000	\$ 637,000

Based on our level of borrowings at October 31, 2009, after taking into consideration the effects of our interest rate swaps (derivatives), a 1% increase in interest rates would increase our interest expense annually by \$0.28 million for fiscal 2010 and decrease our interest expense an average of \$0.1 million for the three subsequent fiscal years and decrease our net income by \$0.17 million for fiscal 2010 and increase our net income an average of \$0.06 million for the three subsequent fiscal years.

Subsequent to October 31, 2009, the managing partner of Windfall Investors resigned its position and assigned all of its rights and interest in Windfall Investors to the Company. Therefore, on November 15, 2009 the results of operations and all of the assets and liabilities of Windfall Investors are included in the consolidated financial statements of the company. Consequently, with respect to fiscal 2010 and based on the level of borrowings of both the company and Windfall Investors, after taking into consideration the effects of our interest rate swaps (derivatives), a 1% increase in interest rates would increase our interest expense annually by \$0.38 million for fiscal 2010 and an average of \$0.001 million for the three subsequent fiscal years and decrease our net income by \$0.23 million for fiscal 2010 and an average of less than \$0.001 million for the three subsequent fiscal years.

Commodity Sales Price Risk

Commodity pricing exposures include the potential impacts of weather phenomena and their effect on industry volumes, prices, product quality and costs. We manage our exposure to commodity price risk primarily through our regular operating activities, however, significant commodity price fluctuations, particularly for lemons, avocados and oranges could have a material impact on our results of operations.

ITEM 3. PROPERTIES

Real Estate

We own our corporate headquarters in Santa Paula, California. We own approximately 5,867 acres of land in California with approximately 4,070 acres located in Ventura County and approximately 1797 acres located in Tulare County, which is in the San Joaquin Valley. We lease approximately 31 acres of land located in Ventura County and approximately 449 acres of land located in Santa Barbara County. We also have an interest in a partnership that owns approximately 208 acres of land in Ventura County. Our agricultural plantings consist of approximately 1839 acres of lemons, approximately 1372 acres of avocados, approximately 1062 acres of oranges and approximately 403 acres of specialty citrus and other crops.

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

Additionally, we own 193 residential units that we lease to our employees, former employees and outside tenants as well as several commercial office buildings and properties that are leased to various tenants.

Water Rights

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

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

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

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

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

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common stock as of December 31, 2009, as adjusted to reflect the stock split approved by our stockholders on March 23, 2010, by (i) each person who is known to us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, (ii) each director and nominee for director, (iii) our chief executive officer and our other executive officers, which we collectively refer to as the named executive officers, and (iv) all of our directors and named executive officers as a group. The applicable percentage ownership is based on 11,194,460 shares of common stock outstanding as of December 31, 2009, plus, in the case of Mr. Michaelis, the number of shares of common stock to be issued upon the conversion of Series B Convertible Preferred Stock. All holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of holders of share of common stock.

The number of shares beneficially owned by each entity or individual is determined pursuant to Rule 13d-3 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under Rule 13d-3 of the Exchange Act, "beneficial ownership" includes any shares as to which the entity or individual has sole or shared voting power or investment power and also any shares that the entity or individual has the right to acquire within 60 days through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table. We also note that all the share amounts in the following table have been adjusted to reflect the ten-for-one stock split effective as of March 24, 2010.

Name and Address of Beneficial Owner(1)	Common Stock Beneficially Owned(2)	
	Number	Percentage
5% Beneficial Owners		
Calavo Growers, Inc.	1,728,570	15.4%
Directors and Officers		
John W. Blanchard(3)	136,390	1.2%
Lecil E. Cole(4)	4,150	*
Don P. Delmatoff(5)	45,360	*
Peter W. Dinkler	41,630	*
Harold S. Edwards(6)	112,410	1.0%
Gordon E. Kimball	11,030	*
John W.H. Merriman	1,110	*
Ronald L. Michaelis (7)	572,360	4.9%
Allan M. Pinkerton(8)	623,490	5.5%
Keith W. Renken(9)	2,000	*
Robert M. Sawyer(10)	35,880	*
Alan M. Teague(11)	176,710	1.6%
Alex M. Teague(12)	68,030	*
Limoneira Company Officers and Directors as a Group (13 persons)(13)	1,830,550	16.4%

* Less than 1%.

(1) Except as set forth in the footnotes to this table, the business address of each director and executive officer listed is c/o Limoneira Company, 1141 Cummings Road, Santa Paula, California 93060.

- (2) The information provided in this table is based on the company's records and information supplied by officers and directors.
- (3) Shares are owned beneficially by Mr. Blanchard as a beneficiary of two trusts. Mr. Blanchard shares voting and investment power over these shares.
- (4) Mr. Cole disclaims beneficial ownership of any shares of our common stock that are owned by Calavo Growers, Inc.
- (5) Includes 15,240 restricted shares of which 7,620 vest in 2010 and 7,620 vest in 2011. Mr. Delmatoff has voting and regular dividend rights with respect to the restricted shares, but no right to dispose of such shares.
- (6) Includes 31,890 restricted shares of which 15,950 vest in 2010 and 15,940 vest in 2011. Mr. Edwards has voting and regular dividend rights with respect to the restricted shares, but no right to dispose of such shares. All shares are owned beneficially by Mr. Edwards as a beneficiary of a trust. Mr. Edwards shares voting and investment power over these shares.
- (7) Number of shares includes 184,880 shares issuable upon conversion of Series B Convertible Preferred Stock. Shares are owned beneficially by Mr. Michaelis as a beneficiary of a trust. Mr. Michaelis shares voting and investment power over these shares.
- (8) Shares are owned beneficially by Mr. Pinkerton as a beneficiary of a trust. Mr. Pinkerton shares voting and investment power over these shares.
- (9) Shares are owned beneficially by Mr. Renken as a beneficiary of a trust. Mr. Renken shares voting and investment power over these shares.
- (10) Shares are owned beneficially by Mr. Sawyer as a beneficiary of a trust. Mr. Sawyer shares voting and investment power over these shares.
- (11) Shares are owned beneficially by Mr. Teague through his interest in a limited partnership.
- (12) Includes 17,720 restricted shares of which 8,860 vest in 2010 and 8,860 vest in 2011. Mr. Teague has voting and regular dividend rights with respect to the restricted shares, but no right to dispose of such shares.
- (13) Amount of outstanding shares used to determine the percentage ownership includes 375,000 shares issuable upon conversion of Series B Convertible Preferred Stock.

There are no arrangements currently known to the Company, the operation of which may at a subsequent date result in a change of control.

ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS

Our board of directors is grouped into three classes: (1) Class I Directors, who will serve until the 2012 Annual Meeting, (2) Class II Directors, who will serve until the 2010 Annual Meeting, and (3) Class III Directors, who will serve until the 2011 Annual Meeting. Our board of directors currently consists of ten directors.

The name and age of each director and executive officer and the positions held by each of them as of October 31, 2009 are as follows:

<u>Name</u>	<u>Age</u>	<u>Class</u>	<u>Position</u>
Harold S. Edwards	44	Class I	Director, President and Chief Executive Officer
Don P. Delmatoff	61	—	Vice President of Finance & Administration, Chief Financial Officer and Secretary
Alex M. Teague	45	—	Senior Vice President
Peter Dinkler	64	—	Vice President of Lemon Packing
John W. Blanchard	66	Class I	Director
Lecil E. Cole	69	Class II	Director
Gordon E. Kimball	57	Class II	Director
John W.H. Merriman	57	Class I	Director
Ronald Michaelis	72	Class I	Director
Allan Pinkerton	66	Class III	Director
Keith W. Renken	75	Class II	Director
Robert M. Sawyer	60	Class III	Director
Alan M. Teague	71	Class III	Chairman, Director

John W. Blanchard. Mr. Blanchard has served as a director of the company since 1990. Mr. Blanchard retired in 2009 as the president and chief executive officer of Santa Paula Chamber of Commerce, which position he has held since 2007. Prior to that, he was employed as a realtor at Prudential California Realty in Camarillo, California from 2002 to 2007. Mr. Blanchard is also a director of Ventura County Fruit Exchange and is a trustee of Limoneira Foundation. He also serves on the boards of directors for several non-profit organizations. Mr. Blanchard attended Stanford University and graduated from the University of Southern California, where he earned his Bachelor of Arts degree in finance, and his Master of Business Administration degree.

Lecil E. Cole. Mr. Cole has served as a director of the company since 2006. Mr. Cole is currently chairman of the board of directors, chief executive officer and president of Calavo Growers, Inc., a NASDAQ listed company. He has held that position since February 1999. Mr. Cole has also been the president of Hawaiian Sweet Inc. since 1996. Prior to that, Mr. Cole was an executive of Safeway Stores from 1986 to 1996. Mr. Cole farms a total of 4,430 acres in California and Hawaii on which avocados, papayas and cattle are produced and raised.

Don P. Delmatoff. Mr. Delmatoff has served as vice president of finance & administration, chief financial officer and secretary of the company since 2004. Mr. Delmatoff previously served the Company as corporate controller, from 2000 to 2004. Mr. Delmatoff is a graduate of California State University at Long Beach, where he earned a Bachelor of Arts degree in Accounting.

Harold S. Edwards. Mr. Edwards has served as a director of the company since 2009. Mr. Edwards has been the president and chief executive officer of the company since November 2004. Previously, Mr. Edwards was the president of Puritan Medical Products, a division of Airgas Inc. Prior to that, Mr. Edwards held management positions with Fisher Scientific International, Inc., Cargill, Inc., Agribands International and the Ralston Purina Company. Mr. Edwards is currently a member of the board of directors of Compass Group Diversified Holdings LLC, a NASDAQ listed company and Calavo Growers, Inc., also a NASDAQ listed company. Mr. Edwards is a graduate of Lewis and Clark College and The American Graduate School of International Management (Thunderbird) where he earned a Masters of Business Administration.

Gordon E. Kimball. Mr. Kimball has served as a director of the company since 1995. Mr. Kimball has been president of Kimball Engineering, Inc., which provides race car design and production services, since 1992. He is also managing partner of Kimball Ranches, a 110 acre avocado ranch near Santa Paula, California. Prior to that, Mr. Kimball designed Formula One race cars in England and Italy for McLaren International, Ferrari and Benetton Racing, from 1984 to 1991. Prior to that, he designed Indianapolis race cars for Parnelli Jones, Chaparral and Patrick Racing teams, from 1976 to 1983. Mr. Kimball is a director of Rincon Investment Company. Mr. Kimball graduated from Stanford University where he earned his Bachelor of Science and Master of Science degrees in mechanical engineering.

John W.H. Merriman. Mr. Merriman has served as a director of the company since 1991. Mr. Merriman currently serves as an SAS consultant at Wells Fargo Bank Risk Management, San Francisco, manager of Blanchard Equity, LLC., and president of Spyglass Ridge Association. Mr. Merriman served as a SAS consultant for Macys.com from 2006 to 2009 and Wells Fargo Bank Risk Management from 1996 to 2005. Mr. Merriman is a Vietnam War Veteran where he served in the United States Marine Corps as an IBM systems programmer. Mr. Merriman graduated from Computer Science School, Quantico, Virginia, in 1973. He majored in viticulture at Santa Rosa Junior College in 1978, and studied enology at Edmeades Vineyards in 1979.

Ronald Michaelis. Mr. Michaelis has served as a director of the company since 1997. Mr. Michaelis farmed for 40 years, and managed the last 20 years, the family citrus properties, growing from 20 to 1,500 acres. He owned and managed Michaelis Citrus Nursery, Inc., growing up to 300,000 trees annually. Mr. Michaelis' past positions included director and president of Tulare County Lemon Association and Tulare County Fruit Exchange, director of Grand View Heights Association, Tulare-Kern County Citrus Exchange, Tulare County Farm Bureau and president of Tulare County Farm Bureau, president of Ronald Michaelis Ranches, Inc., Martin Michaelis Groves, Inc. and Michaelis Citrus Nursery, Inc., director and vice president of Teapot Dome Water district, and director and president of Strathmore Packing House. Mr. Michaelis currently is a director of Ventura County Fruit Exchange, and trustee of Limoneira Foundation. He is also active on many boards at Grand Avenue United Methodist Church. Mr. Michaelis attended Porterville College and California State Polytechnic University Pomona majoring in fruit production.

Allan M. Pinkerton. Mr. Pinkerton has served as a director of the company since 1990. Mr. Pinkerton is the owner and manager of Pinkerton Ranches, which engages in citrus and avocado production. He is currently a director of Saticoy Lemon Association, Ventura County Fruit Exchange, Alta Mutual Water Company and Farmers Irrigation Company. Mr. Pinkerton was formerly a director and the vice chairman of Sunkist Growers, Inc. and Fruit Growers Supply Company. Mr. Pinkerton graduated from California State Polytechnic University at Pomona, earning a Bachelor of Science degree in agricultural business management in 1966.

Keith W. Renken. Mr. Renken has served as a director of the Company since 2009. Mr. Renken retired in 1992 as a Senior Partner and Chairman, Executive Committee of Southern California, for the public accounting firm of Deloitte & Touche. From 1992 through 1996 he was an adjunct professor (executive in residence) in the Marshall School of Business at the University of Southern California. He serves as a director of the boards of two public companies, East West Bancorp, Inc. since 2000 and the Willdan Group Inc. since 2006. Previously, Mr. Renken served as a director of 21st Century Insurance Group. Mr. Renken is a Certified Public Accountant in the states of Arizona (inactive) and California, (inactive). He received a B.S. in Business Administration in 1957 from the University of Arizona and a M.S. in Business Administration from the University of Arizona in 1959.

Robert M. Sawyer. Mr. Sawyer has served as a director of the company since 1990. Mr. Sawyer is an attorney specializing in real estate, land use, environmental and water law, and currently of counsel to the Sacramento, California office of Best Best & Krieger LLP. He is a member of Ventura County Bar Association, the Sacramento County Bar Association and the Groundwater Resources Association of California. Mr. Sawyer was previously the corporate secretary of The Samuel Edwards Associates, from 1977 to 1981 and a director of The Samuel Edwards Associates, from 1981-1985. He is also a director of Ventura County Fruit Exchange, and a trustee of Limoneira Foundation, since 1985. Mr. Sawyer graduated from the University of California at Santa Cruz where he earned a Bachelor of Arts degree in 1972, and graduated from Northwestern School of Law of Lewis & Clark College where he earned his Juris Doctor degree in 1975.

Alan M. Teague. Mr. Teague has served as a director of the company since 1990. Mr. Teague has been the chairman of the board of directors of the company since 2004, and was previously chairman of the board of directors of the Company from 1988 to 1996. He is currently president of California Orchard Co. Mr. Teague was employed by Teague-McKevett Company and the McKevett Corporation since 1961, holding various position, and president of both firms since 1984 until the merger with the Company in 1995. Mr. Teague has been active in many political and civic organizations including the Santa Paula City Council from 1966 to 1974, and Mayor of the City of Santa Paula from 1970 to 1974. He is the founding chairman of Santa Clara Valley Agriculture Development Corp., Ventura County Community Foundation and Santa Paula Community Fund. Mr. Teague was formerly the president of Rancheros Visitadores, and former chairman of Ventura County Medical Resource Foundation. He is currently a director of Ventura County Fruit Exchange and Salinas Land Company, and trustee of the Limoneira Foundation. Mr. Teague attended the University of Arizona where he studied business administration.

Alex M. Teague. Mr. Teague has served as senior vice president of the company since 2004. Mr. Teague previously served the Company as vice president of agribusiness, from 2004 to 2005. Mr. Teague is currently a member of the board of directors of Ventura County Workforce Investment Board, Ventura County Community Foundation, Farm Worker Housing, Salinas Land Company and California Orchard Company. Mr. Teague is a graduate of University of Pacific, where he earned a Bachelor of Science degree in Administration.

Pete Dinkler. Mr. Dinkler has served as vice president, lemon packing since 1983. Mr. Dinkler is a graduate of California State University, Pomona, where he earned a Bachelor of Science degree in Agriculture and the UCLA Graduate School of Management.

Alex Teague is the son of Alan Teague. Otherwise there is no lineal family relationship between any other officer or director of the company.

Compensation Committee Interlocks and Insider Participation

During Fiscal 2009, Directors Merriman, Kimball, Michealis and Sawyer comprised the compensation committee. No member of our compensation committee during fiscal 2009 served as an officer, former officer or employee of the company. During fiscal 2009, none of our executive officers served as a member of the compensation committee of any other entity, one of whose executive officers served as a member of our board of directors or compensation committee, and none of our executive officers served as a member of the board of directors of any other entity, one of whose executive officers served as a member of our compensation committee. Information with respect to the related party transactions involving the members of our compensation committee is set forth below under "Item 7. Certain Relationships and Related Transactions, and Director Independence - Contracted Arrangements with Related Parties."

ITEM 6. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis should be read in conjunction with the "Summary Compensation Table" and related tables that are presented elsewhere in this registration statement on Form 10.

Compensation Overview. Compensation for our executives and key employees is designed to attract and retain people who share our vision and values and who can consistently perform in such a manner that enables the company to achieve its strategic goals. The compensation committee believes that the total compensation package for each of the named executive officers is competitive with the market, thereby allowing us to retain executive talent capable of leveraging the skills of our employees and our unique assets in order to increase shareholder value.

In connection with becoming a public company, certain aspects of our compensation mix will likely change, primarily in connection with our adoption of the Limoneira Company 2010 Omnibus Incentive Plan, which we refer to as the 2010 Omnibus Incentive Plan, pursuant to which we intend to continue to award cash-based incentive bonuses and equity-based incentive bonuses but may do so in different forms, such as stock options. See "Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholders matters - Securities Authorized for Issuance under Equity Compensation Plans - Limoneira Company 2010 Omnibus Incentive Plan" for more information about the 2010 Omnibus Incentive Plan.

The Compensation Committee. Our compensation committee is currently composed of Directors Merriman, Renken, Michaelis and Sawyer. Our common stock is not currently listed on any national exchange, or quoted on any inter-dealer quotation service, that imposes independence requirements on our board of directors or any committee thereof. Our board of directors has evaluated the independence of the members of our compensation committee and determined that all of the members of our compensation committee qualify as "independent directors" within the meaning of NASDAQ Stock Market Marketplace Rule 4200(a)(15).

The Company's "named executive officers" refers to those executive officers identified in the "Summary Compensation Table" below. Our named executive officers for 2009 were: Harold Edwards, President and Chief Executive Officer; Don Delmatoff, Vice President of Finance & Administration, Chief Financial Officer and Secretary; Alex Teague, Senior Vice President; and Peter Dinkler, Vice President of Lemon Packing.

General Objectives of the Compensation Plan. The compensation program for our named executive officers is designed to align management's incentives with the interests of our stockholders and to be competitive with comparable employers. Our compensation philosophy recognizes the value of rewarding our named executive officers for their past performance and motivating them to continue to excel in the future. The compensation committee has developed and maintains a compensation program that rewards superior performance and seeks to encourage actions that drive our business strategy. Our compensation strategy is to provide a competitive opportunity for senior executives taking into account their total compensation packages, which include a combination of base salary, an annual cash-based incentive bonus, an annual equity-based incentive bonus and certain perquisites. At the named executive officer level, our incentive compensation arrangements are designed to reward the achievement of year-to-year operating performance goals.

The Role of Executives in Setting Compensation. During fiscal 2009, our compensation committee had the authority to determine our compensation philosophy and our board of directors had the primary authority to determine the compensation for our executive officers. Compensation recommendations regarding our executive officers (other than our President and Chief Executive Officer) were generally provided to the board of directors by our President and Chief Executive Officer and approved by the board of directors. Our President and Chief Executive Officer's total compensation was recommended by the compensation committee and approved by our board of directors. In connection with the adoption of a compensation committee charter by our board of directors in January, 2010, the compensation committee will have the authority to determine the compensation of our executive officers in light of individual and corporate achievements.

Each named executive officer and other senior executive management team members participate in an annual performance review with our Chief Executive Officer to provide input about his contributions to our success for the period being assessed. During the first quarter of the fiscal year, the compensation committee establishes performance goals for non-equity and equity-based incentive compensation for each of the named executive officers and, at the end of that fiscal year, determines the level of attainment of those established goals.

Overall Compensation Plan Design. The compensation policies developed by the compensation committee are based on the philosophy that compensation should reflect both company performance, financially and operationally, and the individual performance of the executive. The compensation committee's objectives when setting compensation for our named executive officers include:

- Setting compensation levels that are sufficiently competitive such that they will motivate and reward the highest quality individuals to contribute to our goals, objectives and overall financial success.
- Retaining executives and encouraging their continued quality service, thereby encouraging and maintaining continuity of the management team.
- Incentivizing executives to appropriately manage risks while attempting to improve our financial results, performance and condition.
- Aligning executive and stockholder interest. The compensation committee believes that the use of equity compensation as a key component of executive compensation is a valuable tool for aligning the interest of our named executive officers with those of our stockholders.
- Obtaining tax deductibility whenever appropriate. The compensation committee believes that tax-deductibility for the Company is generally a favorable feature for an executive compensation program, from the perspectives of both the Company and the stockholders.

Benchmarking. In determining compensation levels for our executive officers and for purposes of determining any potential payments under our annual cash-based and equity-based incentive bonus programs, the compensation committee annually reviews and compares available salary and incentive bonus information of similar companies in our industry. Additionally, whenever available, the compensation committee annually reviews and compares compensation and perquisites offered to our executive officers to those offered to equivalent officers with similar companies in our industry, which consists of the following companies:

- Calavo Growers, Inc.;
- Newhall Land and Farming Company;
- J.G. Boswell Company;
- Saticoy Lemon Association; and
- Sun World International, LLC.

Elements of Compensation. The material elements of the compensation program for our named executive officers include: (i) base salary; (ii) annual cash-based incentive bonuses; (iii) annual equity-based incentive bonuses; and (iv) other compensation consisting of retirement and other benefits.

Base Salaries. We provide our named executive officers with a base salary to compensate them for services rendered during the fiscal year. The purpose of the base salary is to reflect job responsibilities, value to us and competitiveness of the market. Salaries for our named executive officers are determined by the compensation committee based on the following factors: nature and responsibility of the position and, to the extent available, salary norms for comparable positions; the expertise of the individual executive; the competitiveness of the market for the executive's services; and the recommendations of our President and Chief Executive Officer.

Consistent with these objectives and this strategy, but recognizing that the company would, in each of its agribusiness, rental operations and real estate development business segments, be operating in a very challenging economic environment during fiscal 2009, no increases were awarded to the named executive officers other than the President and Chief Executive officer who was given a 7% salary increase. For fiscal 2010, the compensation committee will be reviewing the base salary of each of our named executive officers. The compensation committee believes that the base salary of each of the named executive officers is, particularly in light of each of their total compensation packages, competitive with the market.

Annual Performance Cash-Based Incentive Bonuses. Our practice is to award annual cash-based incentive bonuses based upon the achievement of performance objectives established at the beginning of each year. The President and Chief Executive Officer and the other named executive officers recommend to the compensation committee performance objectives that will best move the Company forward to achieve our short-term and long-term strategic goals and maximize stockholder value.

Mr. Edwards is eligible to receive an annual discretionary cash-based incentive bonus as determined by our compensation committee. In determining the amount of such cash-based incentive bonus to award to Mr. Edwards, if any, our compensation committee considers pre-determined objective criteria typically based upon our overall financial performance and also considers achievements outside the scope of such pre-determined objective criteria. Our compensation committee establishes the pre-determined objective criteria at the beginning of each fiscal year. Any bonus earned in respect of a fiscal year is paid in the following fiscal year. The pre-determined objective criteria considered by our compensation committee in determining the amount of cash bonus to award to Mr. Edwards, if any, for fiscal 2009 included the Company's achievement of pre-tax earnings and cash provided from operations greater than 110% of the average of the preceding four years. Based on our overall financial performance in fiscal 2009, our compensation committee did not award a cash bonus to Mr. Edwards for fiscal 2009.

Per the terms of the Management Incentive Plan, Messrs. Teague, Delmatoff and Dinkler are eligible to receive an annual cash-based incentive bonus in an amount up to a target percentage of his base salary based on the achievement of both pre-determined operating results and individual goals, subject to the discretion of our compensation committee. The target percentage is based on a graduated scale beginning at 5% of a participant's annual salary. Seventy percent of the annual cash-based incentive bonus is based upon the achievement of pre-determined operating results and 40% is based upon the achievement of individual goals recommended by the President and Chief Executive Officer and approved by our compensation committee.

Any bonuses earned under the program in respect of a fiscal year are paid in the following fiscal year. For fiscal 2009, Messrs. Teague, Delmatoff and Dinkler were eligible to receive a cash-based incentive bonus in an amount up to 5% of their respective base salaries if the Company achieved pre-tax earnings of at least \$4 million and their respective individual goals were achieved. The maximum amount of the cash-based incentive bonus for fiscal 2009 increased by 2.5% for each additional increment of pre-tax earnings over \$4 million, with each of Messrs. Teague, Delmatoff and Dinkler each being eligible to receive a cash bonus in an amount up to 100% of their respective base salaries if the company achieved pre-tax earnings equal to \$13.5 million and their respective individual goals were achieved. Based on our overall financial performance in fiscal 2009, our compensation committee did not award a cash bonus to any of Messrs. Teague, Delmatoff and Dinkler for fiscal 2009.

Annual Performance Equity-Based Incentive Bonuses. It is our objective to have a substantial portion of each named executive officer's compensation contingent upon overall corporate and segment performance as well as upon his own level of performance and contribution towards such corporate performance. Our compensation committee believes that equity-based annual incentives for the achievement of defined objectives create value for the company and aligns the executive's compensation with the interests of our shareholders. Per the terms of the Limoneira Company Stock Grant Performance Bonus Plan, which we refer to as the Stock Grant Performance Bonus Plan, the compensation committee has established overall corporate and segment performance goals with a view towards establishing such goals that are challenging to achieve, and, at the end of that year, determines the level of attainment of those established goals and the contribution of each executive towards achieving them, with each executive's contribution to the segment performance goals for the segment for which he has primary responsibility being of particular relevance. Each of Messrs. Edwards, Teague and Delmatoff are eligible to receive a number of shares of our common stock not to exceed an aggregate fair market value of 133% of their then current base salary and Mr. Dinkler is eligible to receive a number of shares of our common stock not to exceed an aggregate fair market value of 25% of his then current base salary if we achieve pre-tax earnings and cash provided from operations greater than 110% of the average for the preceding four years. Seventy percent of the equity-based incentive bonus is based upon increasing our pre-tax earnings to an amount greater than 110% of the average for the preceding four years and 30% is based upon increasing cash provided from operations to an amount greater than 110% of the average for the preceding four years. In the event that such overall corporate and/or segment performance goals are not attained, the compensation committee, in its sole discretion, may nevertheless grant such shares for special achievements that fall outside of the established performance goals. Based upon our overall financial performance in fiscal 2009, our compensation committee did not award an equity-based incentive bonus to any of Messrs. Edwards, Teague, Delmatoff and Dinkler. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters - - Securities Authorized for Issuance Under Equity Compensation Plans - Limoneira Company Stock Grant Performance Bonus Plan" for more information about the Stock Grant Performance Bonus Plan.

Pursuant to a recommendation by the compensation committee and approval of the board of directors, in fiscal 2008 and 2009 the company made loans to each of Mr. Edwards, Mr. Teague and Mr. Delmatoff in amounts sufficient to enable them to pay their income tax liabilities associated with grants of stock pursuant to our equity-based incentive bonus program. The company made three loans to each of Mr. Edwards, Mr. Teague and Mr. Delmatoff, each in connection with grants of stock for fiscal 2007 and 2008, in an aggregate principal amount of approximately \$796,070 to Mr. Edwards, approximately \$446,873 to Mr. Teague, and approximately \$341,495 to Mr. Delmatoff. Each loan was evidenced by a promissory note that bore interest at the mid-term Applicable Federal Rate then in effect and all principal and interest was due and payable 24 months from the date of the applicable promissory note. Each promissory note was secured by a number of shares of our common stock having a value equal to 120% of the amount of the applicable loan on the day it was made. Based on the recommendation of our compensation committee, on December 15, 2009 the board of directors approved the forgiveness of approximately \$341,174 of principal and accrued interest on the loans made to Mr. Edwards, approximately \$199,823 of principal and accrued interest on the loans made to Mr. Teague, and approximately \$145,745 of principal and accrued interest on the loans made to Mr. Delmatoff. Additionally, each of Mr. Edwards, Mr. Teague and Mr. Delmatoff received a payment of approximately \$299,528, \$175,431, and \$127,955, respectively, relating to their federal, state and payroll taxes attributable to such loan forgiveness. The unpaid principal and accrued balance of each loan made to Messrs. Edwards, Teague and Delmatoff that was not forgiven was satisfied by the delivery of a number of shares of our common stock with a value equal to each applicable unpaid balance, based upon a fair market value of \$150.98 per share. The amounts of the loan forgiveness were recorded by the company as compensation expense in the first quarter of 2010.

Retirement Plans. The compensation committee believes that retirement programs are important to the company as they contribute to the company's ability to be competitive with its peers and reward our executive officers based on long-term performance of the company and, therefore, are an important piece of the overall compensation package for the named executive officers. For most of our employees, including our named executive officers, we provide a 401(k) plan; others are participants in our defined benefit pension plan.

Until April 28, 2004, our employees and executive officers were eligible to participate in a traditional defined benefit pension plan that was maintained by the company. At that time, plan participation and benefits payable under that plan were frozen and, since that time, no new participants have been added to that plan. The only named executive officers who are participants in our defined benefit pension plan are Harold Edwards, Don Delmatoff and Peter Dinkler. At normal retirement age, Harold Edwards's anticipated monthly payment under this plan would be \$81, Don Delmatoff's anticipated monthly payment under this plan would be \$450 and Peter Dinkler's anticipated monthly payments would be \$4,450.

The company sponsors a defined contribution retirement plan maintained under section 401(k) of the Internal Revenue Code. Under the terms of such plan, eligible employees may elect to defer, beginning after one month of employment, up to that amount of their annual earnings permitted to be deferred under the applicable provisions of the Internal Revenue Code. In addition to any deferral contributions made by our employees, the company contributes to the account of each eligible employee with at least one year of qualifying service a matching contribution of up to 4% such employee's annual compensation plus such employee's allocable share of any discretionary employer profit-sharing contribution. Participant deferral contributions and employer matching contributions are 100% vested at the time of contribution, and employer discretionary profit-sharing contributions vest at a rate of 20% per year of service beginning after two years of service, becoming 100% vested upon completion of six years of service. During 2009, there were no changes made to our defined contribution plan related to company contributions, contribution limitations, vesting schedules or eligibility requirements.

Nonqualified Deferred Compensation. None of our named executive officers participate in or have account balances in nonqualified defined contribution or other deferred compensation plans maintained by the company.

Change in Control Benefits. None of our named executive officers are covered by any plan or arrangement or have any agreement with us pursuant to which they would receive payments upon a change in control.

Separation or Severance Benefits. None of our named executive officers are covered by any plan or arrangement or have any agreement with us pursuant to which they would receive payments upon their separation of service or termination from employment with the company.

Perquisites and Other Personal Benefits. The compensation committee reviews annually the perquisites that named executive officers receive. The primary personal benefits for our named executive officers are health and welfare benefits, including, medical, dental, vision and life insurance, in which the named executive officers participate on the same terms as other company employees. In addition, company vehicles are provided to the named executive officers, as well as to other members of management.

Employment Agreements. As of the end of our 2009 fiscal year, the company was not party to any employment agreements with any of our named executive officers.

Summary Compensation Table

The following table sets forth information regarding the total compensation received or earned by our named executive officers during fiscal 2009. This table should be read in conjunction with the Compensation Discussion and Analysis, which sets forth the objectives and other information regarding our executive compensation program.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Stock Awards (\$)(1)</u>	<u>Non-Equity Incentive Plan Compensation</u>	<u>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(2)</u>	<u>All Other Compensation (\$)(3)</u>	<u>Total (\$)</u>
Harold Edwards, President and Chief Executive Officer(4)	2009	\$ 449,423	\$ 199,535	\$ 150,159	\$ 1,771	\$ 19,928	\$ 819,045
Don Delmatoff, Vice President of Finance & Administration, Chief Financial Officer and Secretary	2009	\$ 215,000	\$ 95,327	\$ 95,976	\$ 15,756	\$ 20,137	\$ 442,196
Alex Teague, Senior Vice President	2009	\$ 258,654	\$ 110,839	\$ 112,500	—	\$ 20,099	\$ 502,092
Peter Dinkler, Vice President of Lemon Packing	2009	\$ 110,742	\$ 9,257	\$ 47,841	\$ 161,778	\$ 9,607	\$ 339,225

- (1) The value of stock awards is the compensation expense recognized in our financial statements attributable to performance stock grants under our equity-based performance bonus program, calculated in accordance with FASB ASC 718. Shares granted during 2009 vested, in part, in 2009, with the remainder to vest, in part, in each of 2010 and 2011.
- (2) The change in pension value is based upon the change in the present value of the accrued benefit from 2008 to 2009. This change can be impacted by, among other things, changes in the assumptions used for the discount rate, long-term rate of return and mortality tables used.
- (3) All Other Compensation consists of, for each of our named executive officers, profit sharing and matching contributions under our 401(k) plan and personal usage of company vehicles.
- (4) Mr. Edwards does not receive any additional compensation for being a director of the Company.

Grants of Plan-Based Awards in Fiscal Year 2009

The following table provides information about grants of equity and non-equity plan-based awards to the named executive officers in the fiscal year ended October 31, 2009:

Name	Year	Grant Date	All Other Stock Awards: Number of Shares of Stock (#) (1) (2)	Grant Date Fair Value of Stock and Option Awards (\$)
Harold Edwards	2009	12/24/08	47,840	\$ 598,478
Don Delmatoff	2009	12/24/08	22,860	\$ 285,979
Alex Teague	2009	12/24/08	26,580	\$ 332,516
Peter Dinkler	2009	12/24/08	2,210	\$ 27,647

- (1) On December 24, 2008, we granted our named executive officers, 4,784, 2,286, 2,658 and 221 shares, respectively, of restricted shares of our Common Stock at a grant date fair value per share of \$125.10. The number of shares included in the table for each executive officer has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010. The restricted stock vests, ratably, one-third on the date of grant, one-third on the first anniversary of the date of grant and one-third on the second anniversary of the date of grant. Upon termination of employment of any named executive officer, any unvested shares of such terminated officer on the date of his termination revert to the company.
- (2) All such shares, whether vested or unvested, are considered issued and outstanding on the date of grant, and our named executive officers have voting right with respect to, and receive any dividends on, such shares granted to them. Upon termination of employment, any dividends received by the terminated named executive officer on unvested shares are for the benefit of, and are to be repaid by such named executive officer, to the company.

Outstanding Equity Awards at 2009 Fiscal Year End

The following table summarizes the total outstanding equity awards as of October 31, 2009 for each named executive officer.

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)
Harold Edwards(2)	31,890	\$ 446,460
Don Delmatoff(3)	15,240	\$ 213,360
Alex Teague(4)	17,720	\$ 248,080
Peter Dinkler(5)	1,470	\$ 20,580

- (1) Based on a fair market value of our Common Stock on October 31, 2009, the last day of our fiscal 2009 year, of \$140.00 per share.
- (2) On 12/24/08, we granted to Mr. Edwards 4,784 shares of restricted stock, 1/3 of which shares vested on the date of grant and 1/3 or which vest on each of 2/1/10 and 2/1/11. The number of shares included in the table has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010.
- (3) On 12/24/08, we granted to Mr. Delmatoff 2,286 shares of restricted stock, 1/3 of which shares vested on the date of grant and 1/3 or which vest on each of 2/1/10 and 2/1/11. The number of shares included in the table has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010.
- (4) On 12/24/08, we granted to Mr. Teague 2,658 shares of restricted stock, 1/3 of which shares vested on the date of grant and 1/3 or which vest on each of 2/1/10 and 2/1/11. The number of shares included in the table has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010.
- (5) On 12/24/08, we granted to Mr. Dinkler 221 shares of restricted stock, 1/3 of which shares vested on the date of grant and 1/3 or which vest on each of 2/1/10 and 2/1/11. The number of shares included in the table has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010.

Option Exercises and Stock Vested in 2009

The following table sets forth information about the exercise of stock options and vesting of restricted stock held by our named executive officers during 2009.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting (\$)(2)
Harold Edwards	15,950	\$ 199,534
Don Delmatoff	7,620	\$ 95,326
Alex Teague	8,860	\$ 110,839
Peter Dinkler	740	\$ 9,257

(1) The number of shares included in the table has been adjusted to reflect the stock split approved by our stockholders on March 23, 2010.

(2) Based on a fair market value of our Common Stock on December 24, 2008, the date of vesting, of \$125.10 per share.

Pension Benefits in Fiscal Year 2009

The company's defined benefit pension plan is a tax-qualified retirement plan that covers eligible employees of the company. Effective April 28, 2004, participation in such plan was frozen so that anyone who was hired by the company on or after April 29, 2004 is ineligible to participate in such plan. Under the plan, age 65 is considered normal retirement age. Participating employees may retire with benefits as early as age 55 provided they then have at least five years of qualifying service. Normal retirement benefits for a participant are calculated based on such participant's highest average pay over any five consecutive calendar years of employment. The maximum benefit is payable to employees who retire at age 65 with 30 or more years of service and is equal to 65% of such highest average pay less 60% of the applicable participant's estimated annual Social Security benefit. For participating employees who retire at age 65 with less than 30 years of service, their retirement benefit is equal to such maximum benefit amount multiplied by a fraction the numerator of which is total years of qualifying service and the denominator of which is 30. For participating employees who elect to retire prior to age 65, the benefits under the company's defined benefit pension plan that would otherwise be payable to them at age 65 are actuarially reduced to account for the longer period they are expected to be receiving payments.

Benefits are paid in the form of a life annuity, with married employees having the option to elect to receive benefit payments in the form of a 50% joint and survivor annuity. Additionally, participating retiring employees may elect a 10-year certain and life optional form of payment, a contingent annuity with a 10-year certain and life optional form of payment or a 100%, 75% or 50% joint and survivor optional form of payment naming someone other than his or her spouse as joint annuitant.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)(1)	Payments During Last Fiscal Year (\$)
Harold Edwards	Limoneira Company Retirement Plan (2)	0.5	\$ 3,295	—
Don Delmatoff	Limoneira Company Retirement Plan (2)	4.33	\$ 49,898	—
Peter Dinkler	Limoneira Company Retirement Plan (2)	35.24	\$ 640,960	—

- (1) Liabilities shown in this column are computed using the projected unit credit method reflecting average salary and service as of the fiscal year end. The material assumptions used to determine these liabilities can be found in the fiscal year end FAS Disclosures Actuarial Valuation Report, except we assumed no pre-retirement decrements and that retirement occurs at the plan's earliest unreduced retirement age.
- (2) The plan's benefit formula is integrated with Social Security and is based on the participant's years of service for the Company and "Final Average Compensation." Compensation is limited to the applicable Internal Revenue Code section 401(a)(17) limit. The plan benefit is limited to the applicable Internal Revenue Code section 415(b) limit. Only employees hired before June 30, 2004 are eligible to participate in the plan. In addition, eligibility for the plan occurs no later than the completion of 500 Hours of Service in the first 12 months of employment. Effective June 30, 2004, the plan was frozen. Additional Benefit Service cannot be earned after June 30, 2004. Early retirement age is the first day of any month after age 55, provided the participant has earned five years of vesting service at the time of retirement.

Director Compensation Table

The following table summarizes the compensation paid by us to directors who are not named executive officers for the fiscal year ended October 31, 2009:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Total (\$)
John W. Blanchard	\$ 23,000	\$ 20,000	\$ 43,000
Lecil E. Cole	\$ 26,000	\$ 20,000	\$ 46,000
Gordon E. Kimball	\$ 22,400	\$ 20,000	\$ 42,400
John W.H. Merriman	\$ 24,800	\$ 20,000	\$ 44,800
Ronald Michaelis	\$ 22,400	\$ 20,000	\$ 42,400
Allan M. Pinkerton	\$ 21,800	\$ 20,000	\$ 41,800
Robert M. Sawyer	\$ 21,800	\$ 20,000	\$ 41,800
Alan M. Teague	\$ 50,000	\$ 20,000	\$ 70,000

All of the members of the compensation committee are independent directors under the listing standards of the NASDAQ Stock Market and under the company's corporate governance requirements. Other than our investment in Charlie Kimball Racing as described below and in "Item 7. Certain Relationships and Related Transactions, and Director Independence - Contractual Arrangements with Related Parties," no member of the compensation committee has had any relationship with the company requiring the disclosure under Item 404 of Regulation S-K under the Exchange Act.

ITEM 7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policy for Approval of Related Person Transactions

Any transaction required to be disclosed pursuant to Item 404 of Regulation S-K, which we refer to as related party transactions, must be reviewed and approved for potential conflict of interest by our audit and finance committee, which is comprised entirely of independent directors. The company may not enter into or engage in any related party transaction with a related party without such approval. Details of related party transactions will be publicly disclosed as required by applicable law.

Contractual Arrangements with Related Parties

Calavo Growers, Inc. Office Lease

Since 2007, we have leased office space to Calavo and have received annual rental income from Calavo in the amount of \$0.22 million for each of 2009, 2008 and 2007. Calavo is the beneficial owner of approximately 15.4% of our issued and outstanding common stock.

Calavo Growers, Inc. Marketing Agreement

We market our avocados through Calavo, which owns approximately 15.4% of our outstanding common stock and is an affiliate of our director Lecil E. Cole, pursuant to a marketing agreement. During the fiscal year ended October 31, 2009, Calavo paid us approximately \$2.7 million with respect to avocados we marketed through Calavo.

Investment in Charlie Kimball Racing

Since 2007, we have made three investments of \$100,000, for a total of \$300,000, in Charlie Kimball Racing. Charlie Kimball is a formula car driver and the son of Gordon Kimball, one of our directors. Pursuant to the terms of the investments, each investment is to be used by Charlie Kimball to further his career goal of becoming a Formula One driver and winning the Formula One World Championship. The terms of the investments provide that each \$100,000 investment will be repaid upon the first to occur of any of the following: (a) Charlie Kimball enters university as a full time student, which we refer to as the student trigger; (b) Charlie Kimball reaches the position of a full time salaried driver in the Formula One World Championship, which we refer to as the F1 trigger; and (c) we exercise the option to have our investment repaid, which may not occur prior to January 23, 2010, which we refer to as the investor trigger. For each \$100,000 investment, we will be repaid the following amounts: (x) in the event of the student trigger, we will be repaid the amount of our investment; (y) in the event of the F1 trigger, we will be repaid twice our investment in three equal annual installments beginning 120 days following the day the F1 trigger occurs; and (z) in the event of the investor trigger, we will be repaid the amount of our investment within one year after the investor trigger is exercised with an additional \$25,000 payment if Charlie Kimball is a professional (salaried) racing driver on the day the investor trigger is exercised.

Director Independence

Our common stock is not currently listed on any national exchange, or quoted on any inter-dealer quotation service, that imposes independence requirements on our board of directors or any committee thereof. Following the effectiveness of this registration statement and after addressing any comments from the Division of Corporation Finance of the SEC, we expect that our common stock will be accepted for listing on the NASDAQ Stock Market under the ticker symbol "LMNR." The Rules of the NASDAQ Stock Market require that a majority of our board of directors be independent. Our board of directors has reviewed the materiality of any relationship that each of our directors has with the company, either directly or indirectly. Based on this review, our board of directors has determined that the following directors are "independent directors" within the meaning of NASDAQ Stock Market Marketplace Rule 4200(a)(15): John W. Blanchard, Gordon E. Kimball, John W. H. Merriman, Ronald L. Michaelis, Allan M. Pinkerton, Keith W. Renken and Robert M. Sawyer.

ITEM 8. LEGAL PROCEEDINGS

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

ITEM 9. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is currently quoted under the symbol "LMNR.PK" on the PinkSheets, a centralized quotation service that collects and publishes market maker quotes for over-the-counter securities. There is no assurance that our common stock will continue to be traded on the PinkSheets or that any liquidity exists for our stockholders.

Market Price

The following table shows the high and low per share price quotations of our common stock as reported by the PinkSheets for the periods presented. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and have not been adjusted to reflect the ten-for-one stock split approved by our stockholders on March 23, 2010. The PinkSheets market is extremely limited and the prices quoted by brokers are not a reliable indication of the value of our common stock. Furthermore, since limited or no public information was available about our business, operating results or financial condition during the time the trades occurred, the trading prices set forth below might not reflect the historical value of our company on a per share basis, nor be an accurate indication of the prices at which shares may be traded in the future. On March 30, 2010, the last sale price of our common stock as reported by the Pink Sheets was \$165.00 per share.

	<u>High</u>	<u>Low</u>
2010		
First quarter ended January 31, 2010	\$ 154.95	\$ 135.00
2009		
Fourth quarter ended October 31, 2009	\$ 160.00	\$ 127.00
Third quarter ended July 31, 2009	\$ 155.00	\$ 125.00
Second quarter ended April 30, 2009	\$ 150.00	\$ 102.00
First quarter ended January 31, 2009	\$ 175.00	\$ 115.00
2008		
Fourth quarter ended October 31, 2008	\$ 280.00	\$ 144.00
Third quarter ended July 31, 2008	\$ 290.00	\$ 237.00
Second quarter ended April 30, 2008	\$ 259.00	\$ 205.00
First quarter ended January 31, 2008	\$ 300.00	\$ 200.00

Outstanding Options and Convertible Securities

As of March 30, 2010, there were no shares of our common stock subject to outstanding common stock options and 375,000 shares of our common stock issuable upon conversion of our outstanding preferred stock. Please see "Description of Securities" above for additional details of our options and convertible securities.

Holder

On March 24, 2010, there were approximately 384 holders of our common stock. The number of registered holders includes banks and brokers who act as nominees, each of whom may represent more than one shareholder.

Dividends

The following table presents cash dividends per share declared and paid in the periods shown. The amount of the cash dividend per share has not been adjusted to reflect the ten-for-one stock split approved by our stockholders on March 23, 2010.

	<u>Dividend</u>
2010	
First Quarter Ended January 31, 2010	\$ 0.3125
2009	
Fourth Quarter Ended October 31, 2009	\$ 0.3125
Third Quarter Ended April 30, 2009	-
Second Quarter Ended July 31, 2009	-
First Quarter Ended January 31, 2009	\$ 0.3125
2008	
Fourth Quarter Ended October 31, 2008	\$ 2.3125
Third Quarter Ended April 30, 2008	\$ 0.3125
Second Quarter Ended July 31, 2008	\$ 0.3125
First Quarter Ended January 31, 2008	\$ 0.3125

We expect to continue to pay quarterly dividends at a rate similar to the fourth quarter of 2009, to the extent permitted by our business and other factors beyond management's control.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of October 31, 2009 about our common stock that may be issued to employees and directors under our equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders(1)	—	—	1,000,000
Equity compensation plans not approved by security holders(2)	—	—	—

- (1) The plan in this category includes the Limoneira Company 2010 Omnibus Incentive Plan which was approved by the company's board of directors on January 26, 2010 and was approved by the company's stockholders at our annual meeting on March 23, 2010.
- (2) The plan in this category includes the Limoneira Company Stock Grant Performance Bonus plan. No further grants will be made under the Limoneira Company Stock Grant Performance Bonus plan and all outstanding awards granted under such plan will continue unaffected.

Summary of Equity-Based Incentive Plans

The following is a summary of the material terms of the 2010 Omnibus Incentive Plan and the Stock Grant Performance Bonus Plan. The 2010 Omnibus Incentive Plan was approved by our board of directors on January 26, 2010 and the company's stockholders at our annual meeting on March 23, 2010. No further grants will be made under the Stock Grant Performance Bonus Plan and all outstanding awards granted under such plan will continue unaffected. For more information we refer you to the full text of the Stock Grant Performance Bonus Plan and the 2010 Omnibus Incentive Plan, each of which is filed as an exhibit to this registration statement.

Limoneira Company Stock Grant Performance Bonus Plan

The purpose of the Stock Grant Performance Bonus Plan is to recognize outstanding performance by the chief executive officer, senior vice president, chief financial officer and certain other persons holding managerial positions with the company. The compensation committee establishes the overall corporate and segment performance goals with a view towards establishing such goals that are challenging to achieve, and, at the end of the year, determines the level of attainment of those established goals and the contribution of each participant towards achieving them. Based on such level of attainment and contribution, the Stock Grant Performance Bonus Plan authorizes (i) the issuance to our chief executive officer, senior vice president and chief financial officer of a number of our shares of common stock not to exceed an aggregate fair market value of 133% of their then current base salary, and (ii) the issuance to certain other persons holding managerial positions with the company of a number of our shares of common stock not to exceed an aggregate fair market value of 25% of their then current base salary. The fair market value of shares of common stock issued under the Stock Grant Performance Bonus Plan is established by using the most recent trading price of our common stock on the PinkSheets.

All awards granted pursuant to the Stock Grant Performance Bonus Plan vest in the grantee one-third as of the date of the issuance, one-third on the first anniversary of the grant date and one-third on the second anniversary of the date of the grant. If a grantee's employment is terminated by the company, other than for cause, any unvested shares granted to the grantee shall immediately become fully vested. If a grantee's employment with the company is terminated for cause or a grantee terminates his employment with the company, any shares granted to such employee that have not vested shall immediately be canceled.

All shares of common stock issued pursuant to the Stock Grant Performance Bonus Plan are subject to a right of first refusal by the company during the first two years following the issuance of such shares.

Limoneira Company 2010 Omnibus Incentive Plan

Overview. The purposes of the 2010 Omnibus Incentive Plan are to promote the interests of the company and its stockholders by (i) attracting and retaining employees and directors of, and consultants to, the company and its affiliates, as defined below; (ii) motivating such individuals by means of performance-related incentives to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of the company.

The 2010 Omnibus Incentive Plan authorizes the grant of nonqualified stock options, incentive stock options, stock appreciation rights, or SARs, restricted stock, restricted stock units, or RSUs, performance awards, other stock-based awards and performance compensation awards to any employee of, or consultant to, the company or any of its affiliates (including any prospective employee), or nonemployee director who is a member of the company's board of directors or the board of directors of an affiliate of the company. The number of shares of common stock issuable pursuant to all awards granted under the 2010 Omnibus Incentive Plan shall not exceed 1,000,000 (after adjusting for the stock split approved by our stockholders on March 23, 2010). The number of shares issued or reserved pursuant to the 2010 Omnibus Incentive Plan (or pursuant to outstanding awards) is subject to adjustment as a result of mergers, consolidations, reorganizations, stock splits, stock dividends and other changes in our common stock. Shares subject to awards that have been expired or have been forfeited or cancelled, or settled in cash do not count as shares issued under the 2010 Omnibus Incentive Plan. However, (i) if shares are tendered or otherwise used in payment of the exercise price of any option, the total number of shares covered by the option being exercised shall count as shares issued under the 2010 Omnibus Incentive Plan; (ii) shares withheld by the company to satisfy a tax withholding obligation shall count as shares issued under the 2010 Omnibus Incentive Plan; and (iii) the number of shares covered by a SAR, to the extent it is exercised and settled in shares, and whether or not shares are actually issued to the participant upon exercise of the SAR, shall be considered issued or transferred pursuant to the 2010 Omnibus Incentive Plan. If, under the 2010 Omnibus Incentive Plan a participant has elected to give up the right to receive compensation in exchange for shares based on fair market value, shares will not count as shares issued under the 2010 Omnibus Incentive Plan.

Administration. The 2010 Omnibus Incentive Plan is administered by the company's compensation committee. The compensation committee has the full power and authority to determine the individuals to whom awards may be granted under the 2010 Omnibus Incentive Plan, the type or types of awards to be granted to a participant, and the other terms and conditions applicable to awards. The compensation committee is also authorized to interpret the 2010 Omnibus Incentive Plan, to establish, amend and rescind any rules and regulations relating to the 2010 Omnibus Incentive Plan and to make any other determinations that it deems necessary or desirable for the administration of the 2010 Omnibus Incentive Plan. All designations, determinations, interpretations, and other decisions under or with respect to the 2010 Omnibus Incentive Plan or any award are within the sole discretion of the compensation committee, may be made at any time and are final, conclusive and binding upon all persons, including the company, any affiliate any participant, any holder or beneficiary of any award, and any stockholder.

Options. The compensation committee will determine the participants to whom options will be granted, the number of shares to be covered by each option, the exercise price thereof and the conditions and limitations applicable to the exercise of the option. Incentive stock options may be granted only to employees and are subject to certain other restrictions. To the extent an option intended to be an incentive stock option does not so qualify, it will be treated as a nonqualified option. Each option is exercisable at such times and subject to such terms and conditions as the compensation committee determines and payment of the exercise price may be in cash, shares or a combination thereof, as determined by the compensation committee, including an irrevocable commitment by a broker to pay over such amount from a sale of the shares issuable under an option.

Stock Appreciation Rights. The compensation committee will determine the participants to whom SARS will be granted, the number of shares to be covered by each SAR, the grant price and the conditions and limitations applicable to the exercise thereof. Generally, each SAR will entitle a participant upon exercise to an amount equal to the excess of the fair market value of a share on the date of exercise of the SAR over the grant price. The compensation committee will determine whether an SAR will be settled in cash, shares or a combination of cash and shares.

Restricted Stock and Restricted Stock Units. The compensation committee may award shares of restricted stock and RSUs. Restricted stock awards consist of shares of stock that are transferred to the participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. RSUs result in the transfer of shares of cash or stock to the participant only after specified conditions are satisfied. The compensation committee will determine the participants to whom shares of restricted stock and/or the number of restricted stock units to be granted to each participant, the duration of the period during which, and the conditions, if any, under which, the restricted stock and restricted stock units may be forfeited to the company.

Performance Awards. The compensation committee may award performance awards that consist of a right which is (i) denominated in cash or shares, (ii) valued, as determined by the compensation committee, in accordance with the achievement of such performance goals during performance periods established by the compensation committee, and (iii) payable at such time and in such form as determined by the compensation committee. Performance awards may be paid in a lump sum or in installments following the close of the applicable performance periods.

Other Stock-Based Awards. The compensation committee may grant participants other stock-based awards which will consist of any right which is (i) not an award described above and (ii) an award of shares or an award denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares. The compensation committee will determine the terms and conditions of any such other stock-based award, including the price, if any, at which securities may be purchased pursuant to any other stock-based award granted under the 2010 Omnibus Incentive Plan.

Performance Criteria. The compensation committee has the authority to determine the performance criteria used to establish performance goals. The performance goals may vary from participant to participant, group to group, and period to period.

Transferability. Awards granted under the 2010 Omnibus Incentive Compensation Plan are not transferable other than by will or by the laws of descent and distribution.

Effectiveness of the 2010 Omnibus Incentive Plan; Amendment and Termination. The 2010 Omnibus Incentive Plan became effective when it was approved by the company's stockholders on March 23, 2010. The 2010 Omnibus Incentive Plan will remain available for the grant of awards until the tenth anniversary of the effective date. The board of directors may amend, alter or discontinue the 2010 Omnibus Incentive Plan in any respect at any time, but no amendment may diminish any of the rights of a participant under any awards previously granted, without his or her consent. In addition, stockholder approval is required for any amendment that (i) would materially increase the benefits accruing the participants under the plan, (ii) would materially increase the number of securities which may be issued under the plan, (iii) would materially modify the requirements for participation in the plan, or (iv) must otherwise be approved by the company's stockholders in order to comply with applicable law or the rules of a national securities exchange upon which the shares are traded.

ITEM 10. RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 11. DESCRIPTION OF REGISTRANT'S SECURITIES TO BE REGISTERED

General

Our certificate of incorporation authorizes us to issue 19,900,000 shares of common stock, par value \$0.01 per share, 50,000 shares of Series B Convertible Preferred Stock, par value \$100 per share and 50,000 shares of Series A Junior Participating Preferred Stock, par value \$0.01 per share. The following description of our capital stock is a summary and is qualified by the provisions of our certificate of incorporation and bylaws, a copy of which are exhibits to this registration statement. This registration statement is registering only common stock, and the following is a summary of the material terms of all our capital stock.

Common Stock

We have 19,900,000 authorized shares of common stock, par value \$0.01 per share. On March 30, 2010, there were 1,119,446 shares of our common stock outstanding (11,194,460 shares outstanding after giving effect to the stock split approved by our stockholders on March 23, 2010). Holders of our common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of our common stock do not have cumulative voting rights, which means that the holders of more than one-half of our outstanding shares of common stock can elect all of our directors, if they choose to do so. In this event, the holders of the remaining shares of common stock would not be able to elect any directors. Subject to the prior rights of any class or series of preferred stock which may from time to time be outstanding, if any, holders of our common stock are entitled to receive ratably, dividends when, as, and if declared by our board of directors out of funds legally available for that purpose and, upon our liquidation, dissolution or winding up, are entitled to share ratably in all assets remaining after payment of liabilities and payment of accrued dividends and liquidation preferences on any preferred stock. Holders of our common stock have no preemptive rights and have no rights to convert their common stock into any other securities. Our outstanding common stock is duly authorized and validly issued, fully paid and nonassessable. In the event we were to elect to sell additional shares of common stock, holders of our common stock would have no right to purchase additional shares. As a result, the common stockholders' percentage equity interest would be diluted.

Preferred Stock

We have 100,000 authorized shares of preferred stock, par value \$0.01 per share, of which 50,000 shares have been designated Series B Convertible Preferred Stock, par value \$100 per share and 50,000 shares have been designated Series A Junior Participating Preferred Stock, par value \$0.01 per share. We may issue preferred stock in one or more series and having the rights, privileges, and limitations, including voting rights, conversion rights, liquidation preferences, dividend rights and preferences and redemption rights, as may, from time to time, be determined by our board of directors. Preferred stock may be issued in the future in connection with acquisitions, financing, or other matters, as our board of directors deems appropriate. In the event that we determine to issue any shares of preferred stock, a certificate of designation containing the rights, privileges, and limitations of the series of preferred stock will be filed with the Delaware Secretary of State. The effect of this preferred stock designation power is that our board of directors alone, subject to federal securities laws, applicable blue sky laws, and Delaware law, may be able to authorize the issuance of preferred stock which could have the effect of delaying, deferring, or preventing a change in control without further action by our stockholders, and may adversely affect the voting and other rights of the holders of our common stock. The issuance of preferred stock with voting and conversion rights may also adversely affect the voting power of the holders of our common stock, including the loss of voting controls to others. Below is a description of each class of preferred stock outstanding as of December 31, 2009.

Series B Convertible Preferred Stock

On May 21, 1997, our board of directors designated 30,000 shares of preferred stock as Series B Convertible Preferred Stock, par value \$100.00 per share. As of December 31, 2009, there were 30,000 shares of our Series B Convertible Preferred Stock, par value \$100 per share, issued and outstanding. Our Series B Convertible Preferred Stock has the following rights, preferences, privileges, and restrictions:

Conversion. Each share of our Series B Convertible Preferred Stock is convertible into common stock at a price of \$8.00 per share of common stock. Shares of our Series B Convertible Preferred Stock may be converted into common stock at the option of the holder at any time.

Dividends. Holders of our Series B Convertible Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of 8.75% of par value. Such dividends are payable quarterly on the first day of January, April, July and October in each year commencing July 1, 1997.

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the company, the holders of shares of our Series B Convertible Preferred Stock are entitled to be paid out of the assets available for distribution, before any payment is made to the holders of our common stock or any other series or class of our shares ranking junior to the Series B Convertible Preferred Stock, an amount equal to \$100.00 per share, plus an amount equal to all accrued and unpaid dividends.

Voting Rights. Each share of Series B Convertible Preferred Stock is entitled to ten votes on all matters submitted to a vote of our stockholders.

Redemption. We may, at the option of our board of directors, redeem the Series B Convertible Preferred Stock, as a whole or in part, at any time or from time to time on or after August 1, 2017 and before July 31, 2027, at a redemption price equal to \$100.00 per share plus accrued and unpaid dividends.

Series A Junior Participating Preferred Stock

On October 31, 2006, our board of directors designated 20,000 shares of preferred stock as Series A Junior Participating Preferred Stock, par value \$0.01 per share. As of December 31, 2009, there were no shares of our Series A Participating Preferred Stock issued and outstanding. Our Series A Junior Preferred Stock has the following rights, preferences, privileges, and restrictions:

Conversion. Shares of Series A Junior Participating Preferred Stock are not convertible.

Dividends. Holders of our Series A Junior Participating Preferred Stock are entitled to receive cash dividends 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 amount of all non-cash dividends, other than a dividend payable in our common stock, declared on our common stock. Such dividends are payable quarterly on the first 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 a share of Series A Junior Participating Preferred Stock.

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the company, the holders of shares of our Series A Junior Participating Preferred Stock are entitled to be paid out of the assets available for distribution, before any payment is made to the holders of our common stock or any other series or class of our shares ranking junior to the Series A Junior Participating Preferred Stock, an amount equal to \$100.00 per share, plus an amount equal to all accrued and unpaid dividends. Following the payment in full of such liquidation preference, no additional distributions may be made to the holders of shares of Series A Junior Participating Preferred Stock unless the holders of our common stock have received an amount per share equal to a specified quotient, and, upon payment in full to the holders of our common stock of an amount equal to such quotient, holders of Series A Junior Participating Preferred Stock and our common stock are entitled to receive their ratable and proportionate share of the remaining assets to be distributed in a specified ratio.

Voting Rights. Each share of Series A Junior Participating Preferred Stock is entitled to ten votes on all matters submitted to a vote of our stockholders.

Redemption. Shares of Series A Junior Participating Preferred Stock are not redeemable.

Anti-Takeover Effects

Certificate of Incorporation and Bylaws.

Various provisions of our certificate of incorporation and bylaws, which are summarized in the following paragraphs, may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

No Cumulative Voting. The Delaware General Corporation Law, which we refer to as the DGCL, provides that stockholders are denied the right to cumulate votes in the election of directors unless our certificate of incorporation provides otherwise. Our certificate of incorporation does not expressly address cumulative voting.

No Stockholder Action by Written Consent: Calling of Special Meetings of Stockholders. Our certificate of incorporation prohibits stockholder action by written consent. Our bylaws provide that special meetings of our stockholders may be called only by our board of directors, a committee of the board of directors or one or more stockholders holding shares that in the aggregate are entitled to cast ten percent of the votes at that meeting.

Classified Board of Directors. Our certificate of incorporation divides our board of directors into three classes of directors who are elected for three-year terms. Therefore, the full board of directors is not subject to re-election at each annual meeting of our stockholders.

Limits on Ability of Stockholders to Elect and Remove Directors. Our board of directors has the sole right to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors. In addition, directors may only be removed by the action of the holders of at least two-thirds of the outstanding shares of our capital stock, voting together as a single class.

Authorized But Unissued Shares. Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without the approval of holders of common stock. We may use these additional shares for a variety of corporate purposes, including future offerings to raise additional capital, corporate acquisitions and employee benefit plans.

Supermajority Requirement for Amendment of Bylaws. Under our bylaws, the holders of at least two-thirds of the outstanding shares of our capital stock, voting together as a single class, must act to amend our bylaws by stockholder action. The board of directors also has the ability to amend the bylaws without stockholder consent.

Business Combinations and other Significant Corporate Transactions with Substantial Stockholders. Our certificate of incorporation requires the affirmative vote of 66 2/3% of the total voting power of all outstanding securities entitled to vote generally in the election of directors to approve certain business combinations and other significant corporate transactions if a substantial stockholder (as defined in our certificate of incorporation) or an affiliate of a substantial stockholder (as defined in our certificate of incorporation) is a party to the transaction. Two-thirds of the board of directors may, in all such cases, determine not to require such 66 2/3% affirmative vote.

Rights Agreement

On December 20, 2006, our board of directors adopted a stockholder rights plan and entered into a rights agreement with The Bank of New York, as rights agent. The purpose of the stockholder rights plan is to enhance the ability of our board of directors to protect our stockholders' interests by encouraging potential acquirers to negotiate with our board of directors prior to attempting a takeover bid and to provide our board of directors with adequate time to consider any and all alternatives to such a bid. The rights plan may discourage, delay or prevent a change in control of the company. It will not interfere with any merger or other business combination approved by our board of directors.

Under the stockholder rights plan, each of our stockholders of record on December 20, 2006 received a purchase right for each outstanding share of common stock that the stockholder owned, which we refer to as rights. The holder of a right does not have the powers and privileges of a stockholder with respect to the right. The rights trade with our common stock and become exercisable only under the circumstances described below.

In general, the rights will become exercisable when the first of the following events happens:

- ten calendar days after a public announcement that a person or group has acquired beneficial ownership of 20% or more of our outstanding shares of common stock; or
- ten business days, or a later date if determined by our board of directors, after the beginning of, or an announcement of an intention to make, a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of our outstanding shares of common stock.

If the rights become exercisable, the holder of a right will be able to purchase one one-thousandth of a Series A Junior Participating Preferred Share at an exercise price of \$1,200.00 per one one-thousandth of a preferred share, subject to adjustment to prevent dilution.

Once a person or group acquires 20% or more of our outstanding shares of common stock, all holders of rights except that person or group may, upon payment of the exercise price, and in lieu of acquiring preferred shares, purchase, with respect to each right, a number of shares of common stock having a market value equal to two times the \$1,200.00 exercise price. In other words, each right will entitle the holder of the right to acquire shares of common stock at a 50% discount to the then prevailing market price of our shares of common stock.

In addition, if at any time following the public announcement that a person or group has acquired beneficial ownership of 20% or more of our outstanding shares of common stock:

- we enter into a merger or other business combination transaction in which we are not the surviving entity;
- we enter into a merger or other business combination transaction in which we are the surviving entity, but all or part of our shares of common stock are exchanged for securities of another entity, cash or other property; or
- we sell or otherwise transfer 50% or more of our assets, cash flow or earning power;

then each holder of a right, other than rights held by the person or group who triggered the event, will be entitled to receive, upon exercise, shares of common stock of the acquiring company equal to two times the \$1,200.00 exercise price of the right, effectively a 50% discount to the market price of such shares.

At any time after a person or group has acquired beneficial ownership of 20% or more of our outstanding shares of common stock and prior to such person or group acquiring 50% or more of our outstanding shares of common stock, our board of directors may, at its option, exchange all or any part of the then outstanding and exercisable rights for our shares of common stock at an exchange ratio of one share of common stock for each right.

We may redeem all, but not less than all, of the rights at a price of \$.01 per right at any time before the earlier of:

- at any time until 10 days following the time at which any person or group has acquired beneficial ownership of 20% or more of our outstanding shares of common stock; or
- the expiration date of the rights agreement.

The rights will expire at the close of business on December 19, 2016, unless we redeem or exchange them before that date.

The above description of our rights plan is not intended to be a complete description. For a full description of the rights plan, you should read the rights agreement. The rights agreement is included as an exhibit to this registration statement on Form 10.

Transfer Agent and Registrar.

The Transfer Agent and Registrar for our common stock is Bank of New York Mellon.

ITEM 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 102 of the DGCL allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached the duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase or redemption in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the DGCL provides for the indemnification of officers, directors and other corporate agents in terms sufficiently broad to indemnify such persons under circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Our certificate of incorporation and bylaws provide for indemnification of our officers, directors, employees and agents to the extent and under the circumstances permitted under the DGCL.

Our certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director, except for liability:

- for breach of duty of loyalty;
- for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (unlawful payment of dividends or unlawful stock purchase or redemption); or
- for transactions from which the director derived improper personal benefit.

Our bylaws provide that we must indemnify our directors and officers to the fullest extent authorized by the Delaware General Corporation Law. We are also expressly authorized to carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and officers.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders.

There is currently pending no material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Item 15 – Financial Statements and Exhibits" contained in this registration statement on Form 10.

ITEM 14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS**(a) Financial Statements**

Please see the following financial statements set forth below beginning on page F-1 of this registration statement on Form 10.

Page	Description
F-1	Report of Independent Registered Public Accounting Firm
F-2	Consolidated Statements of Operations for the Years Ended October 31, 2009, 2008 and 2007
F-3	Consolidated Balance Sheets at October 31, 2009 and 2008
F-4	Consolidated Statements of Stockholders' Equity for the Years Ended October 31, 2009, 2008 and 2007
F-5	Consolidated Statements of Cash Flows for the Years Ended October 31, 2009, 2008 and 2007
F-7	Notes to Consolidated Financial Statements
F- 55	Preface
F- 56	Consolidated Condensed Statements of Operations (unaudited) for the Three Months Ended January 31, 2010 and 2009
F- 57	Consolidated Condensed Balance Sheets (unaudited) at January 31, 2010 and October 31, 2009
F-58	Consolidated Condensed Statements of Comprehensive Loss (unaudited) for the Three Months Ended January 31, 2010 and 2009
F- 59	Consolidated Condensed Statements of Cash Flows (unaudited) for the Three Months Ended January 31, 2010 and 2009
F- 60	Notes to Unaudited Interim Consolidated Condensed Financial Statements
F-81	Windfall Investors, LLC Independent Auditors' Report
F-82	Windfall Investors, LLC Balance Sheet at December 31, 2008
F-83	Windfall Investors, LLC Statement of Income and Members' Deficit for the Year Ended December 31, 2008
F-84	Windfall Investors, LLC Statement of Cash Flows for the Year Ended December 31, 2008
F-85	Windfall Investors, LLC Notes to Financial Statements
F-90	Windfall Investors, LLC Balance Sheet (unaudited) at September 30, 2009
F-91	Windfall Investors, LLC Statement of Income (unaudited) for the Nine Months Ended September 30, 2009
F-92	Windfall Investors, LLC Statement of Cash Flows (unaudited) for the Nine Months Ended September 30, 2009

(b) Exhibits. The following documents are filed as exhibits hereto:

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Limoneira Company, dated July 5, 1990
3.2	Certificate of Merger of Limoneira Company and The Samuel Edwards Associates into Limoneira Company, dated October 31, 1990
3.3	Certificate of Merger of McKeveitt Corporation into Limoneira Company dated December 31, 1994
3.4	Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997
3.5	Amended Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997
3.6	Agreement of Merger Between Ronald Michaelis Ranches, Inc. and Limoneira Company, dated June 24, 1997
3.7	Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated April 22, 2003
3.8	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, \$.01 Par Value, of Limoneira Company, dated November 21, 2006
3.9	Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated March 24, 2010

- 3.10 Bylaws of Limoneira Company
- 3.11 Amendment of Bylaws of Limoneira Company, effective as of December 15, 2009
- 4.1 Specimen Certificate representing shares of Common Stock, par value \$0.01 per share

- 4.2 Rights Agreement dated December 20, 2006 between Limoneira Company and The Bank of New York, as Rights Agent
- 10.1 Sunkist Growers, Inc. Commercial Packinghouse License Agreement dated as of October 1, 2008, by and among Sunkist Growers, Inc., Ventura County Fruit Exchange and Limoneira Company
- 10.2 Avocado Marketing Agreement effective February 8, 2003, by and between Calavo Growers, Inc. and Limoneira Company, as amended
- 10.3 Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc.
- 10.4 Standstill Agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc.
- 10.5 Standstill Agreement dated June 1, 2005 between Calavo Growers, Inc. and Limoneira Company
- 10.6 Lease Agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc.
- 10.7 Amended and Restated Line of Credit Agreement dated as of December 15, 2008, by and between Limoneira Company and Rabobank, N.A.
- 10.8 Amendment to Amended and Restated Line of Credit Agreement dated May 12, 2009, between Limoneira Company and Rabobank, N.A.
- 10.9 Revolving Equity Line of Credit Promissory Note and Loan Agreement dated October 28, 1997, between Limoneira Company and Farm Credit West, FLCA (as successor by merger to Central Coast Federal Land Bank Association)
- 10.10 Promissory Note and Loan Agreement dated April 23, 2007, between Farm Credit West, FLCA and Limoneira Company
- 10.11 Master Loan Agreement dated as of September 23, 2005, among Farm Credit West, PCA, Windfall Investors, LLC and Limoneira Company
- 10.12 Promissory Note and Loan Agreement dated as of September 23, 2005, among Farm Credit West, PCA, Windfall, LLC and Limoneira Company
- 10.13 Promissory Note and Supplement to Master Loan Agreement dated as of September 23, 2005, among Farm Credit West, PCA, Windfall LLC and Limoneira Company
- 10.14 Limoneira Company Management Incentive Plan 2008-2009
- 10.15 Limoneira Stock Grant Performance Bonus Plan
- 10.16 Limoneira Company 2010 Omnibus Incentive Plan
- 10.17 First Amendment to Lease and Option Agreement dated January 1, 1992, by and between Phila M. Caldwell and Gordon B. Crary, Jr., as Trustees of the Caldwell Survivor's Trust UTA Dated 9/29/86 (T.I.N. ###-##-####), and the Caldwell Marital Trust UTA Dated 9/29/86 (T.I.N. 95-6915674) and the Santa Paula Land Company, Inc.
- 10.18 Lease and Option Agreement dated January 1, 1992, by and between Phila M. Caldwell and Gordon B. Crary, Jr., as Trustees of the Caldwell Survivor's Trust UTA Dated 9/29/86, and the Caldwell Marital Trust UTA Dated 9/29/86 and the Santa Paula Land Company, Inc.
- 10.19 Guaranty of Lease dated July 30, 1992 by Limoneira Company
- 10.20 Pre-Annexation and Development Agreement dated March 3, 2008, by and between the City of Santa Paula and Limoneira Company
- 10.21 Letter dated December 8, 2009 from Rabobank, N.A. to Limoneira Company
- 10.22 Request and Agreement for Extension dated and effective November 1, 2009 by and between Windfall Investors, LLC and Farm Credit West, PCA
- 10.23 Request and Agreement for Extension dated and effective March 1, 2010 by and between Windfall Investors, LLC and Farm Credit West, PCA
- 10.24 Judgment, dated March 7, 1996, *United Water Conservation Dist. v. City of San Beunaventura, et al.*, Case No. 115611, Superior Court of the State of California, Ventura County
- 10.25 Confirmation of a Swap Transaction dated August 21, 2008, by and between Rabobank International, Utrecht and Limoneira Company
- 10.26 Confirmation of a Swap Transaction dated October 10, 2008, by and between Rabobank International, Utrecht and Limoneira Company
- 10.27 Confirmation of a Swap Transaction dated November 13, 2008, by and between Rabobank International, Utrecht and Limoneira Company
- 21.1 Subsidiaries of Limoneira Company

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

LIMONEIRA COMPANY

Date: March 31, 2010

By: /s/ Harold S. Edwards

Harold S. Edwards

President and Chief Executive Officer

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LIMONEIRA CORPORATION**

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limoneira Company

We have audited the accompanying consolidated balance sheets of Limoneira Company (the "Company") as of October 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limoneira Company at October 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California

February 12, 2010

except for the paragraph in Note 1 and Note 21 related to the Company's capital structure changes, as to which the date is March 24, 2010

Limoneira Company

Consolidated Statements of Operations

	Year Ended October 31		
	2009	2008	2007
Revenues:			
Agriculture	\$ 31,033,000	\$ 49,794,000	\$ 44,751,000
Rental	3,766,000	3,718,000	3,516,000
Other	39,000	-	-
Total revenues	34,838,000	53,512,000	\$ 48,267,000
Costs and expenses:			
Agriculture	27,281,000	34,805,000	32,036,000
Rental	2,061,000	2,236,000	2,073,000
Other	318,000	991,000	1,160,000
Selling, general and administrative	6,469,000	8,292,000	9,627,000
Asset impairments	6,203,000	1,341,000	-
Loss on sale of assets	10,000	11,000	56,000
Total cost and expenses	42,342,000	47,676,000	44,952,000
Operating (loss) income	(7,504,000)	5,836,000	3,315,000
Other income (expense):			
Gain on sale of stock in Calavo Growers, Inc.	2,729,000	-	-
Other income (loss), net	256,000	403,000	(34,000)
Interest income	225,000	902,000	2,300,000
Interest expense	(692,000)	(1,419,000)	(2,102,000)
Total other income (expense)	2,518,000	(114,000)	164,000
(Loss) income from continuing operations before income taxes and equity (losses) earnings	(4,986,000)	5,722,000	3,479,000
Income tax benefit (provision)	2,291,000	(2,128,000)	(1,177,000)
Equity in (losses) earnings of investments	(170,000)	153,000	89,000
(Loss) income from continuing operations	(2,865,000)	3,747,000	2,391,000
Loss from discontinued operations, net of income taxes	(12,000)	(252,000)	(245,000)
Net (loss) income	(2,877,000)	3,495,000	2,146,000
Preferred dividends	(262,000)	(262,000)	(262,000)
Net (loss) income applicable to common stock	\$ (3,139,000)	\$ 3,233,000	\$ 1,884,000
Per common share-basic:			
Continuing operations	\$ (0.28)	\$ 0.31	\$ 0.19
Discontinued operations	(0.00)	(0.02)	(0.02)
Basic net (loss) income per share	\$ (0.28)	\$ 0.29	\$ 0.17
Per common share-diluted:			
Continuing operations	\$ (0.28)	\$ 0.31	\$ 0.19
Discontinued operations	(0.00)	(0.02)	(0.02)
Diluted net (loss) income per share	\$ (0.28)	\$ 0.29	\$ 0.17
Dividends per common share	\$ 0.06	\$ 0.33	\$ 0.23
Weighted-average shares outstanding-basic	11,242,000	11,128,000	11,068,000
Weighted-average shares outstanding-diluted	11,254,000	11,158,000	11,068,000

See Notes to Consolidated Financial Statements. All shares and per share amounts have been adjusted to reflect capital structure changes effective as of March 24, 2010.

Limoneira Company
Consolidated Balance Sheets

	October 31	
	2009	2008
Current assets:		
Cash and cash equivalents	\$ 603,000	\$ 90,000
Accounts receivable	3,735,000	2,846,000
Notes receivable - related parties	1,519,000	-
Notes receivable	-	1,300,000
Inventoried cultural costs	858,000	1,146,000
Prepaid expenses and other current assets	894,000	1,104,000
Income taxes receivable	-	1,191,000
Current assets of discontinued operations	9,000	16,000
Total current assets	<u>7,618,000</u>	<u>7,693,000</u>
Property, plant and equipment, net	53,817,000	51,590,000
Real estate development	53,125,000	57,412,000
Assets held for sale	6,774,000	6,270,000
Equity in investments	1,635,000	1,698,000
Investment in Calavo Growers, Inc.	11,870,000	10,150,000
Notes receivable - related parties	284,000	1,456,000
Notes receivable	2,000,000	350,000
Other assets	4,307,000	3,914,000
Non-current assets of discontinued operations	438,000	457,000
Total Assets	<u>\$ 141,868,000</u>	<u>\$ 140,990,000</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 970,000	\$ 2,311,000
Growers payable	988,000	808,000
Accrued liabilities	2,764,000	3,818,000
Current portion of long-term debt	465,000	382,000
Current liabilities of discontinued operations	2,000	26,000
Total current liabilities	<u>5,189,000</u>	<u>7,345,000</u>
Long-term liabilities:		
Long-term debt, less current portion	69,251,000	65,200,000
Deferred income taxes	8,764,000	11,541,000
Other long-term liabilities	6,903,000	2,118,000
Total long-term liabilities	<u>84,918,000</u>	<u>78,859,000</u>
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at October 31, 2009 and 2008) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – \$.01 par value (50,000 shares authorized: -0- issued or outstanding at October 31, 2009 and 2008)	-	-
Common Stock – \$.01 par value (19,900,000 shares authorized: 11,262,880 and 11,132,760 shares issued and outstanding at October 31, 2009 and 2008, respectively)	113,000	113,000
Additional paid-in capital	34,718,000	34,109,000
Retained earnings	16,386,000	20,226,000
Accumulated other comprehensive loss	(2,456,000)	(2,662,000)
Total stockholders' equity	<u>51,761,000</u>	<u>54,786,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 141,868,000</u>	<u>\$ 140,990,000</u>

See Notes to Consolidated Financial Statements. All shares and per share amounts have been adjusted to reflect the capital structure changes effective as of March 24, 2010.

Limoneira Company

Consolidated Statements of Stockholders' Equity

	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	11,062,880	\$ 113,000	\$ 31,581,000	\$ 21,274,000	\$ (3,427,000)	\$ 52,541,000
Dividends – common	-	-	-	-	-	(2,491,000)	-	(2,491,000)
Dividends – preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	75,000	-	3,187,000	-	-	3,187,000
Repurchase of common stock	-	-	(4,500)	-	(113,000)	-	-	(113,000)
Comprehensive income:								
Net income	-	-	-	-	-	2,146,000	-	2,146,000
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
Total comprehensive income								11,352,000
Balance at October 31, 2007	30,000	\$ 3,000,000	11,133,380	\$ 113,000	\$ 34,655,000	\$ 20,667,000	\$ 5,779,000	\$ 64,214,000
Dividends - common	-	-	-	-	-	(3,619,000)	-	(3,619,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	45,240	-	600,000	-	-	600,000
Repurchase of common stock	-	-	(45,860)	-	(1,146,000)	-	-	(1,146,000)
Comprehensive loss:								
Net income	-	-	-	-	-	3,495,000	-	3,495,000
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)
Total comprehensive loss								(5,001,000)
Balance at October 31, 2008	30,000	\$ 3,000,000	11,132,760	\$ 113,000	\$ 34,109,000	\$ 20,226,000	\$ (2,662,000)	\$ 54,786,000
Dividends - common	-	-	-	-	-	(701,000)	-	(701,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	130,480	-	614,000	-	-	614,000
Repurchase of common stock	-	-	(360)	-	(5,000)	-	-	(5,000)
Comprehensive loss:								
Net loss	-	-	-	-	-	(2,877,000)	-	(2,877,000)
Minimum pension liability adjustment, net of tax benefit of \$1,276,000	-	-	-	-	-	-	(1,915,000)	(1,915,000)
Unrealized holding gain of security available-for-sale, net of tax provision of \$2,028,000	-	-	-	-	-	-	3,042,000	3,042,000
Unrealized loss resulting from changes in fair values of derivative instruments, net of tax benefit of \$614,000	-	-	-	-	-	-	(921,000)	(921,000)
Total comprehensive loss								(2,671,000)
Balance at October 31, 2009	30,000	\$ 3,000,000	11,262,880	\$ 113,000	\$ 34,718,000	\$ 16,386,000	\$ (2,456,000)	\$ 51,761,000

See Notes to Consolidated Financial Statements. All shares and per share amounts have been adjusted to reflect the capital structure changes effective as of March 24, 2010.

Limoneira Company

Consolidated Statements of Cash Flows

	Years Ended October 31		
	2009	2008	2007
Operating activities			
Net (loss) income	\$ (2,877,000)	\$ 3,495,000	\$ 2,146,000
Less: Net of income tax from discontinued operations	(12,000)	(252,000)	(245,000)
Net (loss) income from continuing operations	(2,865,000)	3,747,000	2,391,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	2,323,000	2,434,000	2,267,000
Loss on disposal/sale of fixed assets	10,000	11,000	56,000
Write-off of intangible asset	-	34,000	-
Impairments of real estate development	6,203,000	1,341,000	-
Orchard write-offs	69,000	1,172,000	383,000
Gain on sale of stock in Calavo Growers, Inc.	(2,729,000)	-	-
Stock compensation expense	770,000	600,000	3,187,000
Equity in earnings (losses) of investments	170,000	(153,000)	(89,000)
Deferred income taxes	(2,226,000)	406,000	164,000
Amortization of deferred financing costs	25,000	-	-
Changes in operating assets and liabilities:			
Accounts and notes receivable	(1,211,000)	(122,000)	137,000
Inventoried cultural costs	288,000	32,000	(183,000)
Prepaid expenses and other current assets	210,000	(467,000)	473,000
Income taxes receivable	987,000	(1,186,000)	(5,000)
Other assets	(135,000)	(29,000)	28,000
Accounts payable and growers payable	(1,429,000)	40,000	(475,000)
Accrued liabilities	(1,054,000)	(67,000)	1,934,000
Other long-term liabilities	(403,000)	(878,000)	(602,000)
Net cash (used in) provided by operating activities from continuing operations	(997,000)	6,915,000	9,666,000
Net cash (used in) operating activities from discontinued operations	(5,000)	(156,000)	(329,000)
Net cash (used in) provided by operating activities	(1,002,000)	6,759,000	9,337,000
Investing activities			
Capital expenditures	(7,159,000)	(29,206,000)	(8,919,000)
Net proceeds from sale of fixed assets	26,000	19,000	4,000
Net proceeds from sale of stock in Calavo Growers, Inc.	6,079,000	-	-
Cash distributions from equity investments	79,000	623,000	362,000
Equity investment contributions	-	(30,000)	(526,000)
Issuance of notes receivable	(375,000)	(540,000)	(23,195,000)
Collection of note receivable	-	-	-
Investments in mutual water companies and water rights	(30,000)	(117,000)	4,264,000
Other	(100,000)	(100,000)	(1,692,000)
Net cash used in investing activities from continuing operations	(1,480,000)	(29,351,000)	(29,702,000)
Net cash (used in) provided by investing activities from discontinued operations	(5,000)	213,000	194,000
Net cash used in investing activities	(1,485,000)	(29,138,000)	(29,508,000)
Financing activities			
Borrowings of long-term debt	27,921,000	62,093,000	27,470,000
Repayments of long-term debt	(23,787,000)	(34,986,000)	(3,510,000)
Dividends paid-Common	(701,000)	(3,619,000)	(2,491,000)
Dividends paid-Preferred	(262,000)	(262,000)	(262,000)
Repurchase of common shares	(5,000)	(1,146,000)	(113,000)
Payments of debt financing costs	(166,000)	-	-
Net cash provided by financing activities from continuing operations	3,000,000	22,080,000	21,094,000
Net cash used in financing activities from discontinued operations	-	(97,000)	(441,000)
Net cash provided by financing activities	3,000,000	21,983,000	20,653,000
Net increase (decrease) in cash and cash equivalents	513,000	(396,000)	482,000
Cash and cash equivalents at beginning of year	90,000	486,000	4,000
Cash and cash equivalents at end of year	<u>\$ 603,000</u>	<u>\$ 90,000</u>	<u>\$ 486,000</u>

Limoneira Company

Consolidated Statements of Cash Flows (continued)

	Years Ended October 31		
	2009	2008	2007
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$ 3,000,000	\$ 2,548,000	\$ 2,557,000
Cash paid during the year for income taxes, net of (refunds) received	\$ (987,000)	\$ 2,935,000	\$ 131,000
Non-cash investing, financing and other comprehensive income (loss) transactions:			
Minimum pension liability adjustment, net of tax benefit	\$ 1,915,000	\$ 381,000	\$ (1,286,000)
Unrealized holding (gain) loss on security, net of tax benefit	\$ (3,042,000)	\$ 7,677,000	\$ (7,920,000)
Unrealized loss from derivatives, net of tax benefits	\$ 921,000	\$ 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	\$ 242,000	\$ 600,000	\$ -

See Notes to Consolidated Financial Statements. All shares and per share amounts have been adjusted to reflect the capital structure changes effective as of March 24, 2010.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements

1. Business

Limoneira Company, a Delaware Company (the Company), engages primarily in growing citrus and avocados, picking and hauling citrus, packing lemons, and housing rentals and other real estate operations. The Company is also engaged in real estate development.

The Company markets its agricultural products primarily through Sunkist Growers, Inc. (Sunkist) and Calavo Growers, Inc. (Calavo).

Most of the Company's citrus production is marketed and sold under the Sunkist brand to the food service industry, wholesalers and retail operations throughout North America, Asia, and certain other countries primarily through Sunkist, an agricultural marketing cooperative of which the Company is a member. As an agricultural cooperative, Sunkist coordinates the sales and marketing of the Company's citrus products which are processed through the Company's packinghouse.

The Company provides all of its avocado production to Calavo, a packing and marketing company listed on NASDAQ under the symbol CVGW. Calavo's customers include many of the largest retail and food service companies in the United States and Canada. The Company's avocados are packed by Calavo, sold and distributed under its own brands to its customers primarily in the United States and Canada.

Effective March 24, 2010, the Company amended our certificate of incorporation to increase the authorized number of shares of common stock, and effected a ten-for-one split of our common stock. All references in the accompanying consolidated financial statements to (i) the value and number of shares of the Company's common stock, (ii) the authorized number of shares of the Company's common stock and preferred stock, and (iii) loss per share and dividends per share have been retroactively adjusted to reflect these changes.

2. Summary of Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. All significant intercompany transactions have been eliminated. 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, and Templeton Santa Barbara, LLC. All variable interest entities for which the Company is considered the primary beneficiary are consolidated. These variable interest entities are 6037 East Donna Circle, LLC and 6146 East Cactus Wren Road, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Income Taxes

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

Tax benefits from an uncertain tax position are only recognized if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Property, Plant, and Equipment

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

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

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 fiscal year. Interest of \$2,252,000 and \$1,292,000 was capitalized during the years ended October 31, 2009 and 2008, respectively, and is included in property, plant, and equipment and real estate development assets in the Company's consolidated balance sheets.

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.

Marketable Securities

The Company considers investments not qualifying as cash equivalents, but are readily marketable, to be marketable securities. The Company classifies all marketable securities as available-for-sale. The Company's investments in marketable securities are stated at fair value with unrealized gains (losses), net of tax, reported as a component of accumulated other comprehensive income (loss) in the Company's consolidated statements of stockholders' equity.

Equity in Investments

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

Intangible Assets

Intangible assets consist primarily of acquired water and mineral rights and a patent. The Company evaluates its indefinite-life intangible assets annually or whenever events or changes in circumstances indicate an impairment of the assets' value may exist.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

The Company evaluates long-lived assets, including its definite-life intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated undiscounted future cash flows from the use of an asset are less than the carrying value of that asset, a write-down is recorded to reduce the carrying value of the asset to its fair value. Assets held for sale are carried at the lower of cost or fair value less cost to sell.

The Company wrote down the carrying value of certain of its real estate development projects in fiscal years 2009 and 2008. See Note 5.

Fair Values of Financial Instruments

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

The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and growers payable, and accrued liabilities reported on the Company's consolidated balance sheets approximate their fair values due to the short-term nature of the instruments.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt is approximately equal to its carrying amount as of October 31, 2009, and \$278,000 greater than its carrying amount as of October 31, 2008.

Concentrations of Credit Risk

The Company grants credit in the course of its operations to cooperatives, companies and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Accounts receivable are stated at their estimated fair values in the Company's consolidated balance sheets.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Sales to customers through the Sunkist network accounted for approximately 64% of the Company's revenues during fiscal year 2009, approximately 75% during fiscal year 2008, and approximately 73% during fiscal year 2007.

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

Derivative Financial Instruments

The Company 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 Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of change.

Comprehensive Income (Loss)

Comprehensive income (loss) is reported in the Company's consolidated statements of stockholders' equity as a component of retained earnings and consists of net income (loss) and other gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income (loss).

Basic and Diluted Net Income per Share

Basic net income per common share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of share-based compensation. Diluted net income per common share is calculated using 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 10,000 for fiscal year 2009, 30,000 for fiscal year 2008, and zero for fiscal year 2007. The Series B convertible preferred shares (see Note 18) are anti-dilutive for fiscal years 2009, 2008, and 2007.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Sales of products and related costs of products are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) selling price is fixed or determinable, and (iv) collectability is reasonably assured. Monthly revenue from the sales of certain of the Company's agricultural products is accrued based on estimated proceeds provided by the Company's sales and marketing partners due to the timing differences between when the product is sold by the Company and the closing of the pools for such fruits at the end of each month. Historically, these estimates have not differed materially from actual results.

For citrus products processed through the Company's packinghouse and sold by Sunkist on the Company's behalf, the Company has (i) the general and physical inventory risk, (ii) the discretion in supplier selection, and (iii) is involved in the determination of the product that is ultimately sold to the customer. In addition, Sunkist earns a fixed amount from the Company for its sales and marketing services. The Company records the revenues related to these citrus sales on a gross basis.

For avocados, oranges, specialty citrus and other specialty crops packed and sold through by Calavo and other third-party packinghouses, Calavo and the other third-party packinghouses are (a) the primary obligor in the arrangement, (b) have general inventory risk once the product is provided to them and (c) bear the credit risk related to the orders that are fulfilled; as such, the Company records the revenues related to these arrangements with Calavo and other third-party packinghouses on a net basis.

For rental revenue, minimum rent revenues are generally recognized on a straight-line basis over the respective initial lease term. Contingent rental revenues are contractually defined as to the percentage of rent to be received by the Company and are tied to fees collected by the lessee. The Company's contingent rental arrangements generally require payment on a monthly basis with the payment based on the previous month's activity. The Company accrues contingent rental revenues based upon estimates and adjusts to actual as the Company receives payments. Organic recycling percentage rents range from 5% to 10%.

Advertising Expense

Advertising costs are expensed as incurred. Such costs in fiscal years 2009, 2008 and 2007 were \$57,000, \$153,000, and \$110,000, respectively.

Cultural Costs

Costs of bringing crops to harvest are inventoried when incurred. Such costs are expensed when the crops are sold. Costs during the current year related to the next year's crop are inventoried and carried in inventory until the matching crop is harvested and sold.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Leases

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

Recently Adopted Accounting Pronouncements

In October 2009, the Company adopted Financial Accounting Standards Board Accounting Standard Codification (FASB ASC) 105 (SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). FASB ASC 105 (SFAS No. 168) established the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC 105 (SFAS No. 168) is effective for financial statements issued for interim and annual periods after September 15, 2009. On the effective date of FASB ASC 105 (SFAS No. 168), all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain as the promulgations listed in FASB ASC 105 (SFAS No. 168). The adoption of FASB ASC 105 (SFAS No. 168) had no effect on the Company's consolidated financial statements, since the purpose of the Codification is not to create new accounting and reporting guidance. Rather, the Codification is meant to simplify user access to all authoritative U.S. GAAP. References to U.S. GAAP in our financial statements have been updated, as appropriate, to cite the Codification of FASB ASC 105 (SFAS No. 168).

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In October 2009, the Company adopted FASB ASC 855 (SFAS No. 165, *Subsequent Events*). FASB ASC 855 (SFAS No. 165) established accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, FASB ASC 855 (SFAS 165) requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855 (SFAS No. 165) is effective for fiscal years and interim periods ending after June 15, 2009. The adoption of FASB ASC 855 (SFAS No. 165) did not have a material impact on the Company's consolidated financial statements.

In November 2008, the Company adopted FASB ASC 820 (SFAS No. 157, *Fair Value Measurements*), for its financial assets and liabilities. FASB ASC 820 (SFAS No. 157) provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. FASB ASC 820 (SFAS No. 157) defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC 820 (SFAS No. 157) also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available.

The following summarizes the three levels of inputs required by the standard that the Company uses to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

FASB ASC 820 (SFAS No. 157) requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The Company's adoption of FASB ASC 820 (SFAS No. 157) did not have a material impact on its financial position, results of operations or liquidity.

In accordance with FASB ASC 820 (FSP FAS No. 157-2, *Effective Date of FASB Statement No. 157*), the Company elected to defer, until November 2009, the adoption of FASB ASC 820 (SFAS No. 157) for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of FASB ASC 820 (SFAS No. 157) for those assets and liabilities within the scope of FASB ASC 820 (FSP FAS No. 157-2) is not expected to have a material impact on the Company's financial position, results of operations, or liquidity.

In November 2008, the Company adopted FASB ASC 825 (SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*), which permits entities to choose to measure many financial instruments and certain other items at fair value. The Company already records its marketable securities at fair value in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). The adoption of FASB ASC 825 (SFAS No. 159) did not have an impact on the Company's consolidated financial statements, as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In March 2008, the Company adopted FASB ASC 815 (SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). FASB ASC 815 (SFAS No. 161) requires expanded disclosures regarding the location and amount of derivative instruments in an entity's financial statements, how derivative instruments and related hedged items are accounted for under FASB ASC 815 (SFAS No. 161) and how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows. The adoption of FASB ASC 815 (SFAS No. 161) did not have an impact on the Company's consolidated financial statements and related disclosures.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In August 2009, the FASB issued Accounting Standards Update No. 2009-5, *Measuring Liabilities at Fair Value* (ASU No. 2009-05). ASU No. 2009-05 amends ASC 820, *Fair Value Measurements*. Specifically, ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU No. 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. ASU No. 2009-05 is effective for the first reporting period after its issuance, which will require the Company to adopt these provisions in the first quarter of fiscal 2010. The Company does not believe that the adoption of ASU No. 2009-05 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 clarifies the information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. The Company does not believe that the adoption of SFAS No. 166 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 clarifies and improves financial reporting by entities involved with variable interest entities. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. The Company does not believe that the adoption of SFAS No. 167 will have a material impact on its consolidated financial statements.

In December 2008, the FASB issued FASB ASC 810 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*), which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The Company will adopt FASB ASC 810 (SFAS No. 160) no later than the first quarter of fiscal 2010. The Company does not believe that the adoption of FASB ASC 810 (SFAS No. 160) will have a material impact on its consolidated financial statements.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In December 2008, the FASB issued FASB ASC 805 (SFAS No. 141R (revised 2008), *Business Combinations*), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company will adopt FASB ASC 805 (SFAS No. 141R) no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

In April 2008, the FASB issued FASB ASC 350-30 (FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*). FASB ASC 350-30 (FSP FAS No. 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350 (SFAS No. 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under FASB ASC 350 (SFAS No. 142) and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805 (SFAS No. 141R) and other generally accepted accounting principles. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FASB ASC 350-30 (FSP FAS No. 142-3) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require the Company to adopt these provisions in the first quarter of fiscal 2010. The Company does not believe that the adoption of FASB ASC 350-30 (FSP FAS No. 142-3) will have a material impact on its consolidated financial statements.

3. Fair Value Measurements

Under the FASB ASC 820 (SFAS No. 157) hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth the Company's financial assets and liabilities as of October 31, 2009, that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value:				
Available- for -sale securities	\$ 11,870,000	\$ –	\$ –	\$ 11,870,000
Liabilities at fair value:				
Derivatives	–	2,171,000	–	2,171,000

Available-for-sale securities consist of marketable securities in Calavo Growers, Inc. common stock. The Company currently own approximately 4.6% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at October 31, 2009 and 2008, equaled \$17.85 per share and \$10.15 per share. See Note 7.

Derivatives consist of interest rate swaps whose fair values are estimated using industry-standard valuation models. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs. See Note 12.

4. Property, Plant, and Equipment

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

	<u>2009</u>	<u>2008</u>
Land	\$ 25,186,000	\$ 24,064,000
Land improvements	11,810,000	11,810,000
Buildings and building improvements	13,503,000	11,752,000
Equipment	21,329,000	21,087,000
Orchards	21,372,000	18,375,000
Construction in progress	1,171,000	3,186,000
	<u>94,371,000</u>	<u>90,274,000</u>
Less accumulated depreciation	(40,554,000)	(38,684,000)
	<u>\$ 53,817,000</u>	<u>\$ 51,590,000</u>

Depreciation expense was \$2,310,000, \$2,421,000 and \$2,257,000 for fiscal years 2009, 2008, and 2007, respectively, and amortization expense was \$13,000, \$13,000, and \$10,000 for fiscal years 2009, 2008, and 2007, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

5. Real Estate Development Assets/Assets Held for Sale

Real estate development assets consist of the following at October 31:

	<u>2009</u>	<u>2008</u>
East Areas 1 and 2:		
Land and land development costs	\$ 37,788,000	\$ 35,604,000
Templeton Santa Barbara, LLC:		
Land and land development costs	15,337,000	16,090,000
Arizona Development Projects:		
Land and land development costs	–	5,718,000
Total included in real estate development asset	<u>\$ 53,125,000</u>	<u>\$ 57,412,000</u>

Assets held for sale consist of the following at October 31:

	<u>2009</u>	<u>2008</u>
Templeton Santa Barbara, LLC and Arizona Development Project:		
Land and land development costs	\$ 6,774,000	\$ 6,270,000
Total included in assets held for sale	<u>\$ 6,774,000</u>	<u>\$ 6,270,000</u>

East Areas 1 and 2

In fiscal year 2005, the Company 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. The initial net book value of the land associated with this project was \$8,253,000. During fiscal years 2009 and 2008, the Company capitalized \$2,184,000 and \$1,756,000, respectively, of costs related to these real estate development projects. Additionally, in relation to this project, the Company has incurred expenses of \$110,000, \$966,000, and \$1,160,000 in fiscal years 2009, 2008, and 2007, respectively. During fiscal year 2008, the Company purchased a 63-acre parcel of land within the project boundary for \$22,000,000, which is included in real estate development assets in the Company's consolidated balance sheets at October 31, 2009 and 2008.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

5. Real Estate Development Assets/Assets Held for Sale (continued)

Templeton Santa Barbara, LLC

In December 2006, the Company entered into an agreement with Templeton Santa Barbara, LLC (Templeton) whereby the Company provided a \$20,000,000 loan to Templeton (the Bridge Loan). Templeton used these funds to purchase four residential development parcels in Santa Maria, California (Templeton project). The Company 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 matured on April 30, 2008 (see Note 11). Interest on the Bridge Loan was equal to the Prime rate plus 2%. The \$20,000,000 principal balance on the Bridge Loan was due and payable on March 31, 2008, with the remaining outstanding balance due on October 31, 2009. Under the terms of the agreement with Templeton, the Company had the option to participate in the Templeton project as a 20% equity partner or participate as a lender receiving a preferred interest rate.

In December 2008, the Company amended its credit arrangement with City National Bank to extend the maturity date of the Term Loan issued to the Company under that credit arrangement from December 31, 2007 to April 30, 2008. The Company 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 Company from December 31, 2007 to March 31, 2008. Interest payable to the Company by Templeton during the extension period was at a rate of Prime plus 2%. The Agreement called for Templeton to exercise its "best efforts" to sell and/or refinance the Templeton project using the proceeds from the Bridge Loan. The Agreement also prioritized the use of all funds received upon the sale or refinance of the Templeton project as well as defined the Company's participation in the ultimate disposition of the Templeton project.

At March 31, 2008, Templeton was unable to meet its obligation under the terms of the Agreement with the Company. As a result, the Company assumed a 75% controlling interest in the Templeton project and began consolidating all of the activities of the Templeton project beginning in April 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 Templeton project. The Term Loan was repaid by the Company in fiscal 2008 with proceeds from the Rabobank credit facility (see Note 11). Templeton's minority interest basis in the Templeton project was zero at October 31, 2008. Templeton assigned its remaining 25% interest in the Templeton project to the Company in March 2009.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

5. Real Estate Development Assets/Assets Held for Sale (continued)

The Company wrote down the carrying value of its Templeton project by \$4,659,000 in fiscal year 2009 and \$1,341,000 in fiscal year 2008 based on the results of independent appraisals which indicated that the fair value of the land and land development costs related to the Templeton project was less than its carrying value at October 31, 2009 and 2008, respectively.

In October 2008, the Company received an offer from a third party to purchase one of the four real estate development parcels within the Templeton project. The net carrying value (inclusive of impairment charges) related to this particular real estate development parcel was \$6,270,000 and was recorded in assets held for sale in the Company's consolidated balance sheet at October 31, 2008. The sale of this real estate development parcel fell out of escrow during fiscal 2009 and is no longer being held for sale. As such, the net carrying value (inclusive of impairment charges) of this real estate development parcel is included in real estate development assets in the Company's consolidated balance sheet at October 31, 2009.

In September 2009, another of the four real estate development parcel within the Templeton project went into escrow. The net carrying value (inclusive of impairment charges) related to this particular real estate development parcel is \$3,476,000 and is recorded in assets held for sale in the Company's Consolidated Balance Sheet at October 31, 2009.

The three real estate development parcels not included in assets held for sale are included in real estate development assets in the Company's October 31, 2009 and 2008 Consolidated Balance Sheets.

Arizona Development Projects

In fiscal year 2007, the Company 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 (Donna Circle project). In February 2007, Donna Circle obtained an unsecured, non-revolving line of credit for \$3,200,000 with Mid-State Bank (the DC Line). The DC Line called for monthly, interest only payments with all unpaid principal due at maturity in February 2009. The interest rate for the DC Line was 7%. All principal and interest under the DC Line was guaranteed by the Company. As such, the Company was required to consolidate the activities of the Donna Circle project since the Company was the primary beneficiary in Donna Circle (which is deemed to be variable interest entity). The DC Line was repaid by the Company in fiscal year 2008 with proceeds from the Rabobank credit facility (see Note 11).

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

5. Real Estate Development Assets/Assets Held for Sale (continued)

Donna Circle used proceeds of \$1,368,000 from the DC Line to purchase property in Paradise Valley, Arizona, for the construction of a luxury home. Additionally, Donna Circle used proceeds of \$1,621,000 from borrowings for site preparation, architect fees, and construction of the project. Total capitalized costs of \$2,989,000 are included in real estate development assets in the Company's consolidated balance sheet at October 31, 2008.

In December 2008, the Donna Circle project was completed (after incurring an additional \$407,000 of capitalized costs during fiscal 2009) and the property was listed for sale with a real estate broker. As such, the real estate development assets related to the Donna Circle project were classified by the Company as assets held for sale at that time. In June 2009, the Company decided not to sell Donna Circle and instead, executed a two-year lease agreement for the Donna Circle property with a third party (Renters) whereby the Company is to receive approximately \$7,600 a month in rental fees for a 24-month period (beginning in July 2009). Based on the terms of the lease agreement, the Renters have the option to extend the lease for 12 months (after the initial 24-month rental period) at \$8,000 per month and may purchase the home during the option period for approximately \$3,800,000. As such, the Company reclassified its capitalized real estate development assets from asset held for sale to property, plant, and equipment in the Company's consolidated balance sheet at October 31, 2009, as the Donna Circle property is being held and used by the Company to generate rental income. The Company recognized \$39,000 in rental income related to its Donna Circle property in fiscal year 2009. Such amounts are included in other revenues in the Company's consolidated statement of operations for the year ended October 31, 2009.

The net carrying value related to Donna Circle is \$2,750,000 at October 31, 2009, consisting of capitalized land costs with a basis of \$1,121,000 and capitalized building costs of \$1,629,000, net of (a) fiscal year 2009 depreciation expense on the capitalized building costs of \$43,000 and (b) a fiscal year 2009 impairment charge of \$603,000 (which was allocated pro-rata between the Company's basis in the capitalized land and building costs for the Donna Circle property). The fiscal 2009 impairment charge was the result of an independent appraisal which indicated that the fair value of the Donna Circle project was less than its carrying value at October 31, 2009.

In fiscal year 2007, the Company 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 business purpose of constructing and marketing an approximately 9,500 square-foot luxury home in Paradise Valley, Arizona (Cactus Wren project). In March 2007, Cactus Wren obtained an unsecured, non-revolving line of credit for \$3,900,000 with Mid-State Bank (the CW Line). The CW Line called for monthly, interest only payments with all unpaid principal due at maturity in March 2009. The interest rate for the CW Line was 7%. All principal and interest under the CW Line was guaranteed by the Company. As such, the Company was required to consolidate the activities of the Cactus Wren project since the Company was the primary beneficiary in Cactus Wren (which is deemed to be variable interest entity). The CW Line was repaid by the Company in fiscal year 2008 with proceeds from the Rabobank credit facility (see Note 11).

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

5. Real Estate Development Assets/Assets Held for Sale (continued)

Cactus Wren used proceeds of \$1,640,000 from the CW Line to purchase property in Paradise Valley, Arizona, for the construction of a luxury home. Additionally, Cactus Wren used proceeds of \$2,599,000 from borrowings for site preparation, architect fees, and construction of the project. Total capitalized costs of \$2,729,000 are included in real estate development assets in the Company's consolidated balance sheet at October 31, 2008.

In June 2009, the Cactus Wren project was completed (after incurring an additional \$1,510,000 of capitalized costs during fiscal year 2009) and the property was listed for sale with a real estate broker. The property remains unsold at October 31, 2009. As such, the real estate development assets related to the Cactus Wren project is classified by the Company as assets held for sale in the Company's consolidated balance sheet at October 31, 2009.

The net carrying value related to Cactus Wren is \$3,298,000 at October 31, 2009, consisting of capitalized land and land development costs, net of a fiscal year 2009 impairment charge of \$941,000. The fiscal year 2009 impairment charge was the result of an independent appraisal which indicated that the fair value of the Cactus Wren project was less than its carrying value at October 31, 2009.

6. Equity Investments

Limco Del Mar, Ltd.

The Company has a 1.3% interest in Limco Del Mar, Ltd. (Del Mar) as a general partner and a 22.1% interest as a limited partner. Based on the terms of the partnership agreement, the Company may be removed without cause from the partnership upon the vote of the limited partners owning an aggregate of 50% or more interest in the partnership. Since the Company has significant influence, but less than a controlling interest, the Company's investment in Del Mar is accounted for using the equity method of accounting.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

6. Equity Investments (continued)

The Company provided Del Mar with farm management, orchard land development, and accounting services, which resulted in cash receipts of \$134,000, \$136,000, and \$128,000 in fiscal years 2009, 2008, and 2007, respectively. The Company also performed contract lemon packing services for Del Mar in the amount of \$425,000, \$415,000, and \$528,000 in fiscal years 2009, 2008, and 2007, respectively. Fruit proceeds due to Del Mar were \$125,000 and \$354,000 at October 31, 2009 and 2008, respectively.

Vista Pointe, LLC

The Company and Priske Jones, Inc. each owned a 50% interest in Vista Pointe, LLC, which was formed in 1996 for the purpose of developing 9 estate lots and 28 single-family homes in Santa Paula, CA. Since the Company had significant influence, but less than a controlling interest, the Company's investment in Vista Pointe, LLC was accounted for using the equity method of accounting. In fiscal 2009, the 10-year liability period for construction defects expired, and Vista Pointe, LLC was liquidated. Prior to its liquidation, Vista Pointe, LLC distributed \$7,000 to the Company during fiscal year 2009. The remaining \$6,000 equity investment balance was written off by the Company during fiscal year 2009.

Windfall Investors, LLC

In September 2005, the Company, 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.

The Company and Windfall each made initial capital contributions to Investors of \$300 (15% ownership interest) and \$1,700 (85% ownership interest), respectively. To fund the purchase of the Ranch, Investors secured a long-term loan from Farm Credit West (the Bank) for \$9,750,000 (term loan). The remaining \$2,250,000 of the purchase was provided from an \$8,000,000 revolving line of credit (revolving line of credit) provided to Investors by the Bank under an agreement entered into between Investors and the Bank in September 2005. In May 2008, the Bank agreed to increase the total line of credit available to Investors from \$8,000,000 to \$10,500,000. The total indebtedness outstanding under the term loan and the revolving line of credit are guaranteed, jointly and severally, by the Company and Windfall. At October 31, 2009 and 2008, there was \$19,186,000 and \$18,056,000, respectively, outstanding under the term loan and the revolving line of credit.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

6. Equity Investments (continued)

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

The Company has a variable interest in Investors (which is deemed to be a variable interest entity). However, the Company is not required to consolidate Investors since the Company is not the primary beneficiary of Investors due to the Company not being required to absorb a majority of Investor's expected losses or receive a majority of Investor's expected residual returns.

Since the Company has significant influence, but less than a controlling interest, the Company accounts for its investment in Investors using the equity method of accounting. See Note 21 for details on the subsequent event transaction related to Investors.

Romney Property Partnership

In May 2007, the Company 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 Company paid \$489,000 in 2007 for 75% interest in Romney and contributed an additional \$30,000 to the partnership during fiscal 2008. The terms of the partnership agreement affirm the status of the Company as a noncontrolling investor in the partnership since the Company cannot exercise unilateral control over the partnership. Since the Company has significant influence, but less than a controlling interest, the Company's investment in Romney is accounted for using the equity method of accounting. Net profits, losses, and cash flows of Romney are shared by the Company and the individual 75% and 25%, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

6. Equity Investments (continued)

The following are condensed (unaudited) financial statements of the equity method investees for the years ended October 31, 2009, 2008, and 2007, respectively:

	Del Mar	Vista Pointe	Investors	Romney	Total
2009					
Assets	\$ 1,656,000	\$ –	\$ 12,435,000	\$ 680,000	\$ 14,771,000
Liabilities	\$ –	\$ –	\$ 19,492,000	\$ –	\$ 19,492,000
Equity (deficit)	1,656,000	–	(7,057,000)	680,000	(4,721,000)
Total liabilities and equity	\$ 1,656,000	\$ –	\$ 12,435,000	\$ 680,000	\$ 14,771,000
Revenues	\$ 846,000	\$ –	\$ 660,000	\$ 16,000	\$ 1,522,000
Expenses	735,000	10,000	1,948,000	19,000	2,712,000
Net income (loss)	\$ 111,000	\$ (10,000)	\$ (1,288,000)	\$ (3,000)	\$ (1,190,000)
2008					
Assets	\$ 1,857,000	\$ 10,000	\$ 12,616,000	\$ 683,000	\$ 15,166,000
Liabilities	\$ –	\$ –	\$ 18,385,000	\$ –	\$ 18,385,000
Equity (deficit)	1,857,000	10,000	(5,769,000)	683,000	(3,219,000)
Total liabilities and equity (deficit)	\$ 1,857,000	\$ 10,000	\$ 12,616,000	\$ 683,000	\$ 15,166,000
Revenues	\$ 2,430,000	\$ –	\$ 968,000	\$ 21,000	\$ 3,419,000
Expenses	698,000	2,000	2,879,000	19,000	3,598,000
Net income (loss)	\$ 1,732,000	\$ (2,000)	\$ (1,911,000)	\$ 2,000	\$ (179,000)
2007					
Assets	\$ 2,781,000	\$ 12,000	\$ 13,056,000	\$ 652,000	\$ 16,501,000
Liabilities	\$ –	\$ –	\$ 16,914,000	\$ –	\$ 16,914,000
Equity (deficit)	2,781,000	12,000	(3,858,000)	652,000	(413,000)
Total liabilities and equity (deficit)	\$ 2,781,000	\$ 12,000	\$ 13,056,000	\$ 652,000	\$ 16,501,000
Revenues	\$ 2,172,000	\$ –	\$ 1,638,000	\$ 12,000	\$ 3,822,000
Expenses	648,000	2,000	3,424,000	11,000	4,085,000
Net income (loss)	\$ 1,524,000	\$ (2,000)	\$ (1,786,000)	\$ 1,000	\$ (263,000)

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

6. Equity Investments (continued)

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

	<u>Del Mar</u>	<u>Vista Pointe</u>	<u>Investors</u>	<u>Romney</u>	<u>Total</u>
Investment balance October 31, 2006	\$ 1,352,000	\$ 13,000	\$ (1,036,000)	\$ –	\$ 329,000
Equity earnings (losses)	357,000	–	(268,000)	–	89,000
Cash distribution	(362,000)	–	–	–	(362,000)
Investment contributions	37,000	–	–	489,000	526,000
Investment balance October 31, 2007	<u>1,384,000</u>	<u>13,000</u>	<u>(1,304,000)</u>	<u>489,000</u>	<u>582,000</u>
Equity earnings (losses)	405,000	–	(252,000)	–	153,000
Cash distribution	(623,000)	–	–	–	(623,000)
Investment contributions	–	–	–	30,000	30,000
Investment balance October 31, 2008	<u>1,166,000</u>	<u>13,000</u>	<u>(1,556,000)</u>	<u>519,000</u>	<u>142,000</u>
Equity earnings (losses)	26,000	(6,000)	(186,000)	(4,000)	(170,000)
Cash distribution	(72,000)	(7,000)	–	–	(79,000)
Investment balance October 31, 2009	<u>\$ 1,120,000</u>	<u>\$ –</u>	<u>\$ (1,742,000)</u>	<u>\$ 515,000</u>	<u>\$ (107,000)</u>

The Company's equity method investment balances in Del Mar, Vista Pointe and Romney are included in equity in investments in the Company's consolidated balance sheets at October 31, 2009 and 2008, respectively.

The Company is required to record a negative equity method investment balance (which is subsequently reclassified to other-long term liabilities) for Investors since the Company has guaranteed Investor's outstanding indebtedness under its term loan and revolving line of credit. The Company's negative equity method investment balance for Investors is included in other long-term liabilities in the Company's consolidated balance sheets at October 31, 2009 and 2008, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

7. Investment in Calavo Growers, Inc.

In June 2005, the Company entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Company purchased 1,000,000 shares, or approximately 6.9%, of Calavo's common stock for \$10,000,000 and Calavo purchased 172,857 shares, or approximately 15.1%, of the Company's common stock for \$23,450,000. Under the terms of the agreement, the Company received net cash consideration of \$13,450,000. The Company has classified its marketable securities investment as available-for-sale.

In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of \$6,079,000; recognizing a total gain of \$2,729,000 which was recorded in other income (expense) in the Company's consolidated statement of operations for the year ended October 31, 2009. Additionally, the changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses for the remaining shares held by the Company. In fiscal year 2009, the Company recorded a total unrealized holding gain of \$5,070,000 due to the increase in the market value of the Company's remaining 665,000 shares of Calavo common stock at October 31, 2009. In fiscal year 2008, the Company recorded a total unrealized holding loss of \$12,760,000 due to the decrease in the market value of its 1,000,000 shares of Calavo common stock at October 31, 2008.

8. Notes Receivable

In fiscal year 2004, the Company sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and the resulting gain on sale of \$161,000 was deferred. In connection with the sale, the Company recorded a note receivable of \$4,263,000. Principal of \$2,963,000 and interest was paid in April 2005 and \$112,000 of the deferred gain was recognized as income at that time. The remaining \$49,000 balance of the deferred gain is included in accrued liabilities in the Company's consolidated balance sheets at October 31, 2009 and 2008. The remaining principal balance of \$1,300,000 and the related accrued interest was initially payable in April 2009 and was recorded in current notes receivable in the Company's consolidated balance sheet at October 31, 2008. However, the Company and the buyer of the Morro Bay land executed a note extension agreement in March 2009. Based on the terms of the note extension agreement, the remaining principal balance of \$1,300,000 and the related accrued interest is now required to be paid in full on April 1, 2014, and is being recorded in noncurrent notes receivable in the Company's consolidated balance sheet at October 31, 2009. Interest continues to accrue at 7.0% on the principal balance of the note.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

8. Notes Receivable (continued)

In connection with the lease of a retail facility, the Company 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. The note receivable balance was \$350,000 at October 31, 2009 and 2008, respectively and is being recorded in noncurrent notes receivable in the Company's consolidated balance sheets.

In connection with Company's stock grant program (see Note 18), the Company has recorded total notes receivable and accrued interest from related parties of \$1,803,000 and \$1,456,000 at October 31, 2009 and 2008, respectively. These notes were issued in connection with payments made by the Company on behalf of its employees for payroll taxes on stock compensation. These notes bear interest at the mid-term applicable federal rate then in effect, with principal and accrued interest due and payable within 24 months from the date of the note. A portion of the notes receivable and accrued interest balance related to three employees (the Officers) became due in November and December 2009. As such, the total \$1,519,000 notes receivable and accrued interest due to be paid by the Officers within one year at October 31, 2009 is recorded in current notes receivable – related parties in the Company's consolidated balance sheet at October 31, 2009. The remaining \$284,000 notes receivable and accrued interest balance from employees that are not due to be paid within one year at October 31, 2009 is recorded in noncurrent notes receivable – related parties in the Company's consolidated balance sheet at October 31, 2009. See Note 21 for details on the subsequent event related to these Officers notes receivable balances.

9. Other Assets

Other assets at October 31 are comprised of the following:

	<u>2009</u>	<u>2008</u>
Investments in mutual water companies	\$ 1,205,000	\$ 1,175,000
Acquired water and mineral rights	1,536,000	1,536,000
Definite-lived intangibles and other assets	1,052,000	628,000
Revolving funds and memberships	514,000	575,000
	<u>\$ 4,307,000</u>	<u>\$ 3,914,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

9. Other Assets (continued)

Investments in Mutual Water Companies

The Company's investments in various not-for-profit mutual water companies provide the Company with the right to receive a proportionate share of water from each of the not-for-profit mutual water companies that have been invested in and do not constitute voting shares and/or rights. Since the Company does not have the ability to control or exercise significant influence over the operating and financial policies of each of these not-for-profit mutual water companies, the Company is accounting for such investments at historical cost.

Acquired Water and Mineral Rights

Acquired water and mineral rights are indefinite-life intangible assets not subject to amortization. No impairments were identified for these indefinite-life intangible assets for the years ended October 31, 2009 and 2008, respectively.

In July 2007, the Company entered into an agreement to purchase 300 membership shares from a member of the Santa Paula Basin Pumpers Association (SPBPA) for \$1,500,000. The \$1,500,000 acquisition price resulted from a bargained exchange transaction that was conducted at arm's length. As such, the Company recorded its SPBPA acquired water rights at its acquisition price and is included in other assets in the Company's consolidated balance sheets. The Company's acquisition of the 300 membership shares of SPBPA constitutes a purchase of water rights with an indefinite life as the water rights go into perpetuity. The Company also acquired other water rights from an unrelated third party in the amount of \$12,000, which is being accounted for consistently with the SPBPA acquired water rights.

The Company's ownership of mineral rights consists of oil and gas deposits located within the Company's Ventura County property boundaries. Similar to its acquired water rights, the Company's acquired mineral rights have an indefinite life as the mineral rights go into perpetuity. The \$24,000 acquisition price resulted from a bargained exchange transaction that was conducted at arm's length. As such, the Company recorded its acquired mineral rights at its acquisition price and is included in other assets in the Company's consolidated balances sheets.

Definite-Lived Intangibles and Other Assets

In fiscal 2003, the Company paid \$150,000 to obtain certain propagation rights (Patent) for an agricultural variety. During fiscal years 2005 and 2006, the Company incurred an additional \$72,000 in costs related to the Patent. The Patent was issued in fiscal year 2007 and is being amortized over its legal life of 17 years. The gross carrying value of the Patent was \$222,000 as of October 31, 2009 and 2008, respectively. The related accumulated amortization was \$34,000 and \$21,000 at October 31, 2009 and 2008, respectively. The Company recorded amortization expense of \$13,000 for fiscal years 2009 and 2008, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

9. Other Assets (continued)

The Company expects to amortize \$13,000 each year for fiscal years 2010 through 2014 related to its Patent. The remaining amounts in other assets consist primarily of deferred borrowing costs (see Note 11), amounts invested in the racing career of Charlie Kimball (see Note 13), deferred rent asset (See Note 17) and prepaid pollination equipment (see Note 17).

Revolving Funds and Memberships

Revolving funds and memberships represent the Company's investments in various cooperative associations. The Company 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 Company. Revolving funds related to the Company's fruit packed at outside packinghouses are withheld from payments made to the Company during the year and also refunded, typically in five years.

10. 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.

In October 2006, the Company 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 Company approved a plan to exit the retail coffee and coffee distribution business. Sales and operating losses for fiscal year 2009 were \$8,000 and \$22,000, respectively. Sales and operating losses for fiscal year 2008 were \$181,000 and \$418,000, respectively. Sales and operating losses for fiscal 2007 were \$1,101,000 and \$408,000, respectively. During fiscal year 2007, as a result of an arbitration agreement, the Company 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 fiscal year 2007 the Company wrote down the carrying value of a retail building by \$100,000. In fiscal year 2008, the Company ceased operations in all of Mocha's retail facilities, sold the business along with certain assets, and 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 Company and the Company initiated the process of foreclosure procedures.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

10. Discontinued Operations (continued)

As a result, the retail coffee and coffee distribution business incurred a charge to income of \$86,000 in fiscal year 2008. The foreclosure was finalized in fiscal year 2009, at which time the ownership rights to the building reverted back to the Company.

The assets and liabilities of the coffee business at October 31 are comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash	\$ 4,000	\$ 1,000
Accounts receivable	3,000	14,000
Prepaid expenses	2,000	1,000
Deferred taxes	277,000	301,000
Notes receivable	161,000	156,000
Total assets	<u>\$ 447,000</u>	<u>\$ 473,000</u>
Accounts payable	\$ 2,000	\$ 5,000
Accrued liabilities	-	21,000
Total liabilities	<u>\$ 2,000</u>	<u>\$ 26,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

11. Long-Term Debt

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

	<u>2009</u>	<u>2008</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 2013.	\$ 61,671,000	\$ 57,123,000
Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,674,000. The interest rate is variable and was 3.25% at October 31, 2009. The loan is payable in quarterly installments through November 2022.	7,094,000	7,483,000
Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,674,000. The interest rate is variable and was 3.25% at October 31, 2009. The loan is payable in monthly installments through May 2032.	951,000	976,000
Subtotal	<u>69,716,000</u>	<u>65,582,000</u>
Less current portion	<u>465,000</u>	<u>382,000</u>
Total long-term debt, less current position	<u>\$ 69,251,000</u>	<u>\$ 65,200,000</u>

In October 2001, the Company 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 2004 and May 2006, and increased to \$15,000,000 in March 2007. There were no amounts outstanding at October 31, 2008, under this arrangement. Additionally, the credit arrangement allowed for an additional \$5,000,000 to be made available to the Company for equipment acquisition loans. Loans for equipment expenditures were payable in 16 substantially equal quarterly installments. There were no amounts outstanding at October 31, 2008, 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. This credit arrangement expired in fiscal year 2008.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

11. Long-Term Debt (continued)

In August 2008, the Company entered into a credit arrangement with Rabobank whereby it could borrow up to \$80,000,000 on a secured line of credit. The initial agreement was superseded by amended agreements in December 2008 and May 2009. All outstanding amounts due under the credit arrangement with City National Bank were repaid with proceeds from the Rabobank credit facility and the City National Bank credit facility which was allowed to expire.

In fiscal year 2009, the Company incurred \$124,000 of costs to Rabobank and other third parties in conjunction with finalizing its debt agreement with Rabobank. Such costs were capitalized and are being amortized using the straight-line method over the terms of the amended Rabobank credit agreement. Included in other assets in the Company's consolidated balance sheet was \$101,000 of capitalized deferred borrowing costs at October 31, 2009. Accumulated amortization related to the capitalized deferred borrowing costs was \$23,000 as of October 31, 2009. The amortization of the deferred borrowing costs is recorded as interest expense in the Company's consolidated statement of operations for the year ended October 31, 2009.

The Company, under the terms of the Rabobank credit arrangement, is subject to an annual financial covenant. At October 31, 2009, the Company was out of compliance with its annual financial covenant for which a covenant waiver was received from Rabobank for the year ended October 31, 2009. Under the terms of the credit arrangement with Rabobank, the financial covenant is not subsequently measured again until October 31, 2010. The Company anticipates being in compliance with its annual financial covenant at October 31, 2010.

In January 2009, the Company and Farm Credit West (FCW) entered into an agreement whereby FCW agreed to convert the fixed interest portion of the two Central Coast Federal Land Bank Association loans to variable rates. The Company incurred \$42,000 of costs to FCW for this rate conversion. Such costs were capitalized and are being amortized using the straight-line method over the terms of the FCW credit agreement. Included in other assets in the consolidated balance sheet was \$40,000 of capitalized deferred borrowing costs at October 31, 2009. Accumulated amortization related to the capitalized deferred borrowing costs was \$2,000 as of October 31, 2009. The amortization of the deferred borrowing costs is recorded as interest expense in the consolidated statement of operations for the year ended October 31, 2009.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

11. Long-Term Debt (continued)

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

2010	\$ 465,000
2011	480,000
2012	496,000
2013	62,183,000
2014	529,000
Thereafter	5,563,000
Total	<u>\$ 69,716,000</u>

Beginning in fiscal year 2004, the Company utilizes standby letters of credit to satisfy workers' compensation insurance security deposit requirements. At October 31, 2009, these outstanding letters of credit totaled \$472,000.

12. Derivative Instruments and Hedging Activities

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

	Notional Amount		Fair Value Net Liability	
	2009	2008	2009	2008
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2013	\$ 22,000,000	\$ 22,000,000	\$ 1,678,000	\$ 541,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2010	10,000,000	10,000,000	287,000	96,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2010	10,000,000	-	206,000	-
Total	<u>\$ 42,000,000</u>	<u>\$ 32,000,000</u>	<u>\$ 2,171,000</u>	<u>\$ 637,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

12. Derivative Instruments and Hedging Activities (continued)

These interest rate derivatives qualify as cash flow hedges. Therefore, the fair value adjustments to the underlying debt are deferred and included in accumulated other comprehensive income (loss) in the Company's consolidated balance sheets at October 31, 2009 and 2008.

13. Related-Party Transactions

The Company rents certain of its residential housing assets to its employees, including its agribusiness employees. The Company records the rental income generated from these employees in rental revenues in the Company's consolidated statements of operations.

A member of the Company's Board of Directors is currently a Director of a mutual water company in which the Company is an investor. The mutual water company provided water to the Company, for which the Company paid \$267,000 and \$228,000 in fiscal years 2009 and 2008, respectively. Water payments due to the mutual water company were \$51,000 and \$54,000 at October 31, 2009 and 2008, respectively.

The Company has invested in the career of Charlie Kimball, a Formula 1 racing driver, who is related to a member of the Company's Board of Directors. Recorded in other assets in the Company's consolidated balance sheets are total investments made to Charlie Kimball of \$300,000 and \$200,000 as of October 31, 2009 and 2008, respectively.

The amount invested by the Company is to be used by Charlie Kimball to further his career goal of becoming a Formula One driver. The terms of the investments provide that each \$100,000 investment will be repaid to the Company upon the first to occur of any of the following: (a) Charlie Kimball enters university as a full-time student, which the Company refers to as the student trigger; (b) Charlie Kimball reaches the position of a full-time salaried driver in the Formula One World Championship, which the Company refers to as the F1 trigger; and (c) the Company exercises the option to have its investment repaid, which may not occur prior to January 23, 2010, which is referred to as the investor trigger. For each \$100,000 investment, the Company will be repaid the following amounts: (x) in the event of the student trigger, the Company will be repaid the amount of its investment; (y) in the event of the F1 trigger, the Company will be repaid twice its investment in three equal annual installments beginning 120 days following the day the F1 trigger occurs; and (z) in the event of the investor trigger, the Company will be repaid the amount of its investment within one year after the investor trigger is exercised with an additional \$25,000 payment if Charlie Kimball is a professional (salaried) racing driver on the day the investor trigger is exercised.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

13. Related Party Transactions (continued)

In fiscal years 2009, 2008, and 2007, the Company recorded dividend income of \$350,000, \$350,000, and \$320,000, respectively, on its investment in Calavo; which is included in other income (loss), net in the Company's consolidated statements of operations. Sales of the Company's avocados by Calavo totaled \$4,026,000, \$3,502,000, and \$3,185,000 for fiscal years 2009, 2008 and 2007, respectively. Such amounts are included in agriculture revenues in the Company's consolidated statements of operations. There were no amounts that were receivable by the Company from Calavo at October 31, 2009 or 2008. Additionally, the Company leases office space to Calavo and received annual rental income of \$229,000, \$220,000, and \$220,000 in fiscal years 2009, 2008, and 2007, respectively. Such amounts are included in rental revenues in the Company's consolidated statements of operations.

14. Income Taxes

The components of the provisions for income taxes (from continuing operations) for fiscal years 2009, 2008, and 2007 are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current:			
Federal	\$ 459,000	\$ 1,347,000	\$ 663,000
State	225,000	528,000	208,000
Total current provision	<u>684,000</u>	<u>1,875,000</u>	<u>871,000</u>
Deferred:			
Federal	(2,306,000)	182,000	230,000
State	(669,000)	71,000	76,000
Total deferred (benefit) provision	<u>(2,975,000)</u>	<u>253,000</u>	<u>306,000</u>
Total (benefit) provision	<u>\$ (2,291,000)</u>	<u>\$ 2,128,000</u>	<u>\$ 1,177,000</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 reflect the net of temporary differences between the carrying amount of the assets and liabilities for financial reporting and income tax purposes.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

The components of deferred income tax assets (liabilities) at October 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Current deferred income tax assets:		
Labor accruals	\$ 196,000	\$ 150,000
Property taxes	(201,000)	(191,000)
State income taxes	65,000	175,000
Prepaid insurance	<u>93,000</u>	<u>(6,000)</u>
Total current deferred income tax assets:	<u>153,000</u>	<u>128,000</u>
Noncurrent deferred income tax liabilities:		
Depreciation	(2,986,000)	(2,926,000)
Amortization	(2,000)	(1,000)
Impairment of real estate development	3,005,000	534,000
Derivative instruments	865,000	254,000
Pension	1,736,000	(30,000)
Other	171,000	312,000
Calavo stock	(2,076,000)	(57,000)
Book and tax basis difference of acquired assets	<u>(9,477,000)</u>	<u>(9,627,000)</u>
Total noncurrent deferred income tax liabilities	<u>(8,764,000)</u>	<u>(11,541,000)</u>
Deferred tax asset related to loss on discontinued operations	277,000	301,000
Net deferred income tax liabilities	<u>\$ (8,334,000)</u>	<u>\$ (11,112,000)</u>

The current deferred income tax asset is being recorded in prepaid expenses and other current assets in the Company's consolidated balance sheets at October 31, 2009 and 2008. The deferred tax asset related to loss on discontinued operations is included in noncurrent assets of discontinued operations in the Company's consolidated balance sheets at October 31, 2009 and 2008.

The income tax provision differs from that computed using the federal statutory rate applied to income before taxes as follows for fiscal years 2009, 2008, and 2007:

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Provision at statutory rates	\$ (1,753,000)	(34.0)%	\$ 2,006,000	34.0%	\$ 1,218,000	34.0%
State income tax, net of federal benefit	(299,000)	(5.6)%	387,000	6.6%	211,000	5.9%
Dividend exclusion	(83,000)	(1.6)%	(94,000)	(1.6)%	(93,000)	(2.6)%
Production deduction	(127,000)	(2.5)%	(204,000)	(3.5)%	(33,000)	(0.9)%
Change in unrecognized tax benefits	(144,000)	(2.8)%	11,000	0.2%	—	—
Other nondeductible items	115,000	2.2%	22,000	0.4%	(126,000)	(3.5)%
Total income tax (benefit) provision	<u>\$ (2,291,000)</u>	<u>(44.3)%</u>	<u>\$ 2,128,000</u>	<u>36.1%</u>	<u>\$ 1,177,000</u>	<u>32.9%</u>

On November 1, 2007, the Company adopted the provisions related to uncertain tax positions. The Company 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 of unrecognized tax benefits at the beginning and end of fiscal years 2009 and 2008 are as follows:

	2009	2008
Unrecognized tax benefits at the beginning of the year	\$ 164,000	\$ 164,000
Increases in tax positions taken in the prior year	—	—
Decreases in tax positions taken in the prior year	—	—
Increases in tax positions for current year	—	—
Settlements	—	—
Lapse in statute of limitations	(126,000)	—
Unrecognized tax benefits at the end of the year	<u>\$ 38,000</u>	<u>\$ 164,000</u>

Approximately \$33,000 of the unrecognized tax liabilities at October 31, 2009, if recognized, would affect the effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company files income tax returns in the U.S. and California. The Company is no longer subject to U.S. income tax examinations for the fiscal years prior to fiscal year October 31, 2006, and is no longer subject to state income tax examinations for years prior to October 31, 2005. The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. There was \$10,000 of accrued interest and penalties associated with uncertain tax positions as of October 31, 2009.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Retirement Plans

Effective December 31, 1991, the Company 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 Company. 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 \$300,000 and \$1,200,000, respectively, for fiscal years 2009 and 2008. 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, 2009 and 2008, by asset category, are as follows:

	<u>2009</u>	<u>2008</u>
Asset category:		
Equity	51%	49%
Fixed income	47	47
Cash	2	4
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 Company'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.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Retirement Plans (continued)

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

The net periodic pension costs for the Company's Defined Benefit Pension Plan for fiscal years 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Service cost	\$ 87,000	\$ 85,000
Interest cost	888,000	847,000
Expected return on plan assets	(1,026,000)	(969,000)
Recognized actuarial loss	21,000	358,000
Net periodic pension cost	<u>\$ (30,000)</u>	<u>\$ 321,000</u>

Following is a summary of the Plan's funded status as of October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 11,175,000	\$ 13,963,000
Service cost	87,000	85,000
Interest cost	888,000	847,000
Benefits paid	(957,000)	(884,000)
Actuarial loss (gain)	3,852,000	(2,836,000)
Benefit obligation at end of year	<u>\$ 15,045,000</u>	<u>\$ 11,175,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 11,250,000	\$ 13,794,000
Actual return on plan assets	1,666,000	(2,860,000)
Employer contributions	300,000	1,200,000
Benefits paid	(957,000)	(884,000)
Fair value of plan assets at end of year	<u>\$ 12,259,000</u>	<u>\$ 11,250,000</u>
Funded status:		
(Unfunded) funded status at end of year	<u>\$ (2,786,000)</u>	<u>\$ 75,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Retirement Plans (continued)

	<u>2009</u>	<u>2008</u>
Amounts recognized in statements of financial position:		
Noncurrent assets	\$ —	\$ 75,000
Current liabilities	—	—
Noncurrent liabilities	(2,786,000)	—
Net amount recognized in statement of financial position	<u>\$ (2,786,000)</u>	<u>\$ 75,000</u>
Additional year-end information:		
Accumulated benefit obligation	\$ 15,045,000	\$ 11,175,000
Projected benefit obligation	15,045,000	11,175,000
Fair value of plan assets	12,259,000	11,250,000
Weighted-average assumptions as of October 31, 2009 and 2008, used to determine benefit obligations:		
Discount rate	5.75%	8.25%
Expected long-term return on plan assets	7.50%	7.50%
Weighted-average assumption used to determine net periodic benefit cost:		
Discount rate	8.25%	6.25%
Expected long-term return on plan assets	7.50%	7.50%

The Company expects to contribute \$1,200,000 to the Plan in fiscal year 2010. Additionally, the following benefit payments are expected to be paid as follows:

2010	\$ 857,000
2011	882,000
2012	894,000
2013	915,000
2014	942,000
2015-2019	5,267,000
Total	<u>\$ 9,757,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Retirement Plans (continued)

Effective June 30, 2004, the Company 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 Company 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 Company, beginning in January 2005, began contributing 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 Company makes additional "dollar for dollar" matching contribution on these deferrals up to 4% of an employee's annual earnings. Employees are 100% vested in the Company's contribution after six years of employment. Participants vest in any matching contribution at a rate of 20% per year beginning after one year of employment. During fiscal years 2009 and 2008, the Company contributed to the new plan and recognized expenses of \$486,000 and \$463,000, respectively.

16. Rental Operating Leases

The Company rents certain of its assets under net operating lease agreements ranging from one month to 20 years. The cost of the land subject to such leases was \$1,658,000 at October 31, 2009. The total cost and accumulated depreciation of buildings, equipment, and building improvements subject to such leases was \$7,870,000 and \$3,185,000, respectively, at October 31, 2009. The Company recognized rental income from its rental operating lease activities of \$3,557,000 in fiscal year 2009, \$3,550,000 in fiscal year 2008, and \$3,358,000 in fiscal year 2007. The Company also recognized contingent rental income related to its organic recycling business of \$209,000 in fiscal year 2009, \$168,000 in fiscal year 2008, and \$158,000 in fiscal year 2007. Such amounts are included in rental revenues in the Company's consolidated statements of operations. The future minimum lease payments to be received by Company related to these net operating lease agreements as of October 31, 2009, are as follows:

2010	\$ 1,549,000
2011	1,431,000
2012	1,329,000
2013	438,000
2014	400,000
Thereafter	<u>2,020,000</u>
Total	<u>\$ 7,167,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Commitments and Contingencies

Operating Leases

The Company has entered into three operating leases for agricultural land totaling 480 acres for purposes of expanding the Company's production of citrus and avocados. One lease provides for an adjustment to rent for inflation. The Company also has operating leases for pollinating equipment, packinghouse equipment, and photovoltaic generators (see below). Total lease expense for fiscal years 2009, 2008 and 2007 was \$1,681,000, \$449,000, and \$377,000, respectively. In addition, the Company has made prepayments for the lease of the pollination equipment totaling \$159,000. These prepayments are included in other assets in the Company's consolidated balance sheets at October 31, 2009 and 2008, respectively, and will be expensed over the last year of the lease based on the terms of the arrangement with the lessor.

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

Additionally in fiscal year 2008, the Company entered into a contract with Perpetual to install a second 1,000 KW photovoltaic generator in order to provide electrical power for the Company's farming operations in Ducor, California. Farm Credit West provided the financing for the generator and when construction was completed, Perpetual sold the generator to Farm Credit West. The Company then entered into a 10-year operating lease agreement with Farm Credit West for this facility. The generator in Ducor, California became operational in December 2008. Included in other assets in the Company's consolidated balance sheet at October 31, 2009, is \$195,000 of deferred rent asset related to the Company's Ducor solar lease as the minimum lease payments exceed the straight-line rent expense during the earlier terms of the lease.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Commitments and Contingencies (continued)

Minimum future lease payments are as follows:

2010	\$ 1,620,000
2011	1,561,000
2012	1,462,000
2013	1,339,000
2014	853,000
Thereafter	3,341,000
Total	<u>\$10,176,000</u>

Litigation

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

18. Stockholders' Equity

Series B Convertible Preferred Stock:

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., the Company issued 30,000 shares of Series B Convertible Preferred Stock at \$100 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 ten votes on all matters submitted to a vote of the stockholders of the Company

Redemption: The Company, at the option of the Board of Directors, may redeem the Series B Stock, as a whole or in part, at any time or from time to time on or after 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.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

18. Stockholders' Equity (continued)

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

The Company is not mandatorily required to redeem the Series B Stock and the redemption of the Series B Stock is within the control of the Company. The Series B Stock is not redeemable at a fixed date or at the option of the Series B Stock shareholders. In addition, the Series B Stock is redeemable upon the occurrence of an event that is solely within the control of the Company. Lastly, any potential settlement of the Series B Stock between the Company and the Series B Stock shareholders would be required to be settled in cash. As such, the Company has recorded its \$3,000,000 equity contribution related to its Series B Stock in stockholders' equity in the Company's consolidated balance sheets.

Series A Junior Participating Preferred Stock:

On October 31, 2006, the Company designated 20,000 shares of preferred stock as Series A Junior Participating Preferred Stock at \$.01 par value (the Series A Stock). Additionally, on October 31, 2006, the Company declared a dividend to be distributed on December 20, 2006, to each holder of record of the Company's Common Stock the right to purchase one one-hundredth of a share of Series A Stock. If a triggering event 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.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

18. Stockholders' Equity (continued)

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 Company.

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 Company 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, 2009 and 2008, there were no stock options outstanding. There are currently 51,430 shares outstanding that are subject to repurchase by the Company with an estimated repurchase price value of \$156,000 at October 31, 2009. The Company has determined that the terms of the shares outstanding subject to repurchase constitute a liability due to the repurchase right. This repurchase obligation is included in other long-term liabilities in the Company's consolidated balance sheet at October 31, 2009.

In August 2007, the Company adopted a stock grant performance bonus program (the Program) for senior management. In fiscal 2008, 3,750 shares of common stock (37,500 shares after adjusting for the stock split that became effective on March 24, 2010) were granted to senior management in recognition of the achievement of certain performance goals during fiscal year 2007. In fiscal year 2007, 7,500 shares of common stock (75,000 shares after adjusting for the stock split that became effective on March 24, 2010) were granted to senior management in recognition of performance in years prior to fiscal year 2007. All shares granted under the Program were fully vested as of the date of issuance. In fiscal year 2007, the Company recognized compensation expense of \$3,187,000 in connection with the grants. This expense was included in selling, general and administrative expense in the Company's consolidated statement of operations during fiscal year 2007. A mark-to-market reduction of expenses of approximately \$78,000 was recorded in fiscal year 2008 for the shares granted in fiscal year 2008 but having been authorized in fiscal year 2007.

Shares issued under the Program are subject to a right-of-first refusal by the Company during the first two years following issuance of such shares. The Company, 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 Company, in its sole discretion, can make loans to the grantees in amounts sufficient to pay the income tax liabilities associated with the grants. Each loan is evidenced by a promissory note bearing interest at the mid-term applicable federal rate then in effect, with principal and accrued interest due and payable within 24 months from the date of the note. The notes are secured by delivery to the Company of a share certificate having a value equal to 120% of the amount of the loan.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

18. Stockholders' Equity (continued)

On an ongoing basis, the Board of Directors establishes performance goals during the first quarter of a fiscal year, and at the end of that fiscal year, a determination is made as to the level of attainment of those established goals. Based on that level of attainment, up to 3,750 (37,500 shares after adjusting for the stock split that became effective on March 24, 2010) 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 fiscal year 2008, the Company adopted a compensation program for its Board of Directors providing for, among other things, stock-based compensation. In fiscal year 2009, 1,086 (10,860 shares after adjusting for the stock split that became effective on March 24, 2010) shares were granted to the Board of Directors and the Company recognized \$168,000 of expense in connection with these grants. In fiscal year 2008, 774 (7,740 shares after adjusting for the stock split that became effective on March 24, 2010) shares were granted to the Board of Directors and the Company recognized \$180,000 of expense in connection with these grants.

Additionally in fiscal year 2008, the Company adjusted its stock grant performance bonus program to include additional members of management. In December 2008, 11,962 (119,620 shares after adjusting for the stock split that became effective on March 24, 2010) shares were issued to management, with one-third of the shares vesting as of the December 2008 issue date and the remaining shares vesting in fiscal years 2009, 2010, and 2011. In fiscal year 2009, the Company recognized \$446,000 of expense in connection with the vesting of these shares. In fiscal year 2008, the Company recognized \$498,000 of expense in connection with the program for the achievement of certain performance goals during fiscal year 2008.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

18. Stockholders' Equity (continued)

Shareholder Rights Agreement:

During fiscal year 2007, the Company entered into a shareholder rights agreement with The Bank of New York acting as rights agent. In connection with this agreement, on October 31, 2006, the Company'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 Company'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.

19. Segment Information

During fiscal year 2009, the Company operated and tracked results in three reportable operating segments; agri-business, rental operations, and real estate development. The reportable operating segments of the Company are strategic business units with different products and services, distribution processes and customer bases. The agri-business segment includes farming and citrus packing operations. The rental operations segment includes housing and commercial rental operations, leased land, and organic recycling. The real estate development segment includes real estate development operations. The Company measures operating performance, including revenues and earnings, of its operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income (expense), interest expense, income tax expense and assets, or specifically identify them to its operating segments. Revenues from Sunkist represent \$22,252,000 of the Company's agri-business revenues for fiscal year 2009.

Segment information for year ended October 31, 2009:

	<u>Agri-business</u>	<u>Rental Operations</u>	<u>Real Estate Development</u>	<u>Corporate and Other</u>	<u>Total</u>
Revenues	\$ 31,033,000	\$ 3,766,000	\$ 39,000	\$ –	\$ 34,838,000
Costs and expenses	27,281,000	2,061,000	318,000	6,469,000	36,129,000
Impairment charges	–	–	6,203,000	–	6,203,000
Loss on sale of assets	–	–	–	10,000	10,000
Operating income (loss)	<u>\$ 3,752,000</u>	<u>\$ 1,705,000</u>	<u>\$ (6,482,000)</u>	<u>\$ (6,479,000)</u>	<u>\$ (7,504,000)</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

19. Segment Information (continued)

Segment information for year ended October 31, 2008:

	<u>Agri-business</u>	<u>Rental Operations</u>	<u>Real Estate Development</u>	<u>Corporate and Other</u>	<u>Total</u>
Revenues	\$ 49,794,000	\$ 3,718,000	\$ –	\$ –	\$ 53,512,000
Costs and expenses	34,805,000	2,236,000	991,000	8,292,000	46,324,000
Impairment charges	–	–	1,341,000	–	1,341,000
Loss on sale of assets	–	–	–	11,000	11,000
Operating income (loss)	<u>\$ 14,989,000</u>	<u>\$ 1,482,000</u>	<u>\$ (2,332,000)</u>	<u>\$ (8,303,000)</u>	<u>\$ 5,836,000</u>

Segment information for year ended October 31, 2007:

	<u>Agri-business</u>	<u>Rental Operations</u>	<u>Real Estate Development</u>	<u>Corporate and Other</u>	<u>Total</u>
Revenues	\$ 44,751,000	\$ 3,516,000	\$ –	\$ –	\$ 48,267,000
Costs and expenses	32,036,000	2,073,000	1,160,000	9,627,000	44,896,000
Impairment charges	–	–	–	–	–
Loss on sale of assets	–	–	–	56,000	56,000
Operating income (loss)	<u>\$ 12,715,000</u>	<u>\$ 1,443,000</u>	<u>\$ (1,160,000)</u>	<u>\$ (9,683,000)</u>	<u>\$ 3,315,000</u>

The following table sets forth revenues by category, by segment for fiscal years 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Lemons	\$ 22,252,000	\$ 40,290,000	\$ 35,345,000
Avocados	4,026,000	3,502,000	3,185,000
Navel oranges	1,933,000	2,412,000	3,184,000
Valencia oranges	688,000	663,000	776,000
Specialty citrus and other crops	2,134,000	2,927,000	2,261,000
Agri-business revenues	<u>31,033,000</u>	<u>49,794,000</u>	<u>44,751,000</u>
Rental operations	2,130,000	2,140,000	2,095,000
Leased land	1,427,000	1,410,000	1,263,000
Organic recycling	209,000	168,000	158,000
Rental operations revenues	<u>3,766,000</u>	<u>3,718,000</u>	<u>3,516,000</u>
Real estate operations	39,000	–	–
Real estate revenues	<u>39,000</u>	<u>–</u>	<u>–</u>
Total revenues	<u>\$ 34,838,000</u>	<u>\$ 53,512,000</u>	<u>\$ 48,267,000</u>

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

20. 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 \$1,227,000 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 Company will record the amounts ultimately disbursed by FGS as reductions of carton purchases when received. The Company received dividends of \$123,000 and \$62,000 in fiscal years 2009 and 2008, respectively.

21. Subsequent Events

The Company has evaluated events subsequent to October 31, 2009, to assess the need for potential recognition or disclosure in this report. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or disclosure in the consolidated financial statements other than the following subsequent events:

On November 15, 2009, the Company and Windfall entered into an agreement whereby Windfall irrevocably assigned to the Company its entire 85% interest in Investors. In conjunction with obtaining Windfall's 85% interest in Investors, the Company agreed to release Windfall and its individual members from any and all liabilities including any losses with respect to Windfall's previous interest in Investors and any secured and unsecured financing for Investors. The Company has accounted for its acquisition of Windfall's 85% interest in Investors utilizing the business combination guidance noted in FASB ASC 805, *Business Combinations*.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

21. Subsequent Events (continued)

The following unaudited pro forma condensed consolidated balance sheet presented below illustrates the combined balance sheet of the Company as if the acquisition of the Company's interest in Investors as described above occurred at October 31, 2009:

	Limoneira Company 10/31/2009	Windfall Investors, LLC 10/31/2009	Pro Forma Adjustments	Pro Forma Balance Sheet
Assets				
Current assets	\$ 7,618,000	\$ 500,000	\$ –	\$ 8,118,000
Property, plant and equipment, net	53,817,000	–	–	53,817,000
Real estate development	53,125,000	11,890,000	5,634,000(1)	70,649,000
Assets held for sale	6,774,000	–	–	6,774,000
Equity in investments	1,635,000	–	–	1,635,000
Investment in Calavo Growers, Inc.	11,870,000	–	–	11,870,000
Notes receivable	2,284,000	–	–	2,284,000
Other assets	4,307,000	45,000	–	4,352,000
Non-current assets of discontinued operations	438,000	–	–	438,000
Total assets	\$ 141,868,000	\$ 12,435,000	\$ 5,634,000	\$ 159,937,000
Liability and stockholders' equity				
Current liabilities	\$ 5,189,000	\$ 10,468,000	\$ –	\$ 15,657,000
Long-term liabilities	84,918,000	9,024,000	(1,423,000)(2)	92,519,000
Stockholders' equity:				
Series B Convertible Preferred Stock	3,000,000	–	–	3,000,000
Series A Junior Participating Preferred Stock	–	–	–	–
Common stock	11,000	–	–	11,000
Additional paid-in capital	34,820,000	–	–	34,820,000
Retained earnings	16,386,000	(7,057,000)	7,057,000(3)	16,386,000
Accumulated other comprehensive income (loss)	(2,456,000)	–	–	(2,456,000)
Total stockholders' equity	51,761,000	(7,057,000)	7,057,000	51,761,000
Total liabilities and stockholders' equity	\$ 141,868,000	\$ 12,435,000	\$ 5,634,000	\$ 159,937,000

Pro forma adjustments to the condensed consolidated Balance Sheet at October 31, 2009, include:

- (1) Adjustment to reflect the estimated fair value on October 31, 2009, of the real estate development assets acquired.
- (2) Adjustments to eliminate Limoneira Company's equity in losses (net of income taxes) of Windfall Investors, LLC as of October 31, 2009.
- (3) Adjustments to eliminate Windfall Investors, LLC accumulated deficits as of October 31, 2009.

The Company remeasured its previously held noncontrolling equity interest in Investors at fair value on the November 15, 2009 acquisition date of Investors. In remeasuring its previously held noncontrolling interest, the Company considered the fair value of the assets and liabilities of Windfall as of the acquisition date and also considered whether there was a control premium that would not have been present in the previous noncontrolling interest.

The Company calculated that its acquisition date fair value of its previous equity interest in Investors was approximately \$1,700,000. The Company did not recognize any gain or loss as a result of remeasuring the fair value of its equity interest held in Investors just prior to the business combination as the fair value approximated the carrying value of the noncontrolling interest previously accounted for under the equity method of accounting.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

21. Subsequent Events (continued)

The following unaudited pro forma condensed consolidated statement of operations presented below illustrates the results of operations of the Company as if the acquisition of Investors on November 15, 2009, had occurred at November 1, 2008:

	Year Ended October 31, 2009			
	Limoneira Company Year Ending 10/31/2009	Windfall Investors, LLC 12 months ended 10/31/2009	Pro Forma Adjustments	Pro Forma Statement of Operations
Revenues	\$ 35,188,000	\$ 660,000	\$ –	\$ 35,848,000
Costs and expenses	39,613,000	848,000	–	40,461,000
Operating (loss) income	(4,425,000)	(188,000)	–	(4,613,000)
Other income (expense):				
Other income (loss), net	(94,000)	–	–	(94,000)
Interest income	225,000	–	–	225,000
Interest expense	(692,000)	(1,100,000)	–	(1,792,000)
Total other expense	(561,000)	(1,100,000)	–	(1,661,000)
Loss from continuing operations before income taxes and equity earnings	(4,986,000)	(1,288,000)	–	(6,274,000)
Income tax benefit	2,291,000	–	515,000(1)	2,806,000
Equity in earnings (losses) of investments	(170,000)	–	186,000(2)	16,000
(Loss) income from continuing operations	(2,865,000)	(1,288,000)	701,000	(3,452,000)
Loss from discontinued operations, net of income taxes	(12,000)	–	–	(12,000)
Net (loss) income	(2,877,000)	(1,288,000)	701,000	(3,464,000)
Preferred dividends	(262,000)	–	–	(262,000)
Net (loss) income applicable to common stock	\$ (3,139,000)	\$ (1,288,000)	\$ 701,000	\$ (3,726,000)
Basic net loss per share	\$ (0.28)			\$ (0.33)
Diluted net loss per share	\$ (0.28)			\$ (0.33)
Weighted-average shares outstanding-basis	11,242,000			11,242,000
Weighted-average shares outstanding-diluted	11,254,000			11,254,000

Pro forma adjustments to the condensed consolidated statement of operations for the year ended October 31, 2009 include:

- (1) Adjustment to reflect the tax benefit of the Windfall Investors, LLC pre-tax net loss based on Limoneira Company's tax structure and an estimated tax rate of 40%.
- (2) Adjustment to eliminate Limoneira Company's equity in losses of Windfall Investors, LLC for the year ended October 31, 2009.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

21. Subsequent Events (continued)

Other Subsequent Events

At October 31, 2009, the Company had recorded notes receivable and accrued interest related to three employees (the Officers) totaling \$1,707,000; of which \$1,519,000 was recorded in current notes receivable – related parties and \$188,000 was recorded in noncurrent notes receivable –related parties in the Company's consolidated balance sheet. These notes were issued in connection with payments made by the Company on behalf of the Officers for payroll taxes on stock compensation. Subsequent to October 31, 2009, the Officers notes receivable and accrued interest were paid down by \$1,020,000 through the repurchase of 6,758 Company shares with a fair market value of \$150.98 per share (at the time of the exchange) that were held by the Officers to the Company. The remaining Officers notes receivable and accrued interest of \$687,000 was forgiven by the Company resulting in compensation expense recorded in fiscal year 2010.

The revolving line of credit for Investors matured in November 2009 and the maturity date was subsequently extended by Farm Credit West until March, 1, 2010. The Company is in the process of refinancing the revolving line of credit on a long-term basis through amendment to the Farm Credit West agreement or alternatively through its existing facility with Rabobank.

On January 4, 2010, the Company paid a \$0.3125 per share dividend in the aggregate amount of \$352,000 to stockholders of record on December 15, 2009.

In December 2009, the Company's Board of Directors approved the Limoneira Company 2010 Omnibus Incentive Plan. The purposes of the 2010 Omnibus Incentive Plan are to promote the interests of the Company and its stockholders by (i) attracting and retaining employees and directors of, and consultants to, the Company and its affiliates, as defined; (ii) motivating such individuals by means of performance-related incentives to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of the Company. The 2010 Omnibus Incentive Plan will become effective when it is approved by the Company's stockholders.

In February 2010, the Company and HM Manager, LLC formed a limited liability company, HM East Ridge, LLC, for the purpose of developing one of the four Templeton land parcels. The Company made a capital contribution of land into HM Eastridge, LLC. Since the Company has significant influence, but less than a controlling interest, the Company plans on accounting for its investment in HM Eastridge, LLC using the equity method of accounting.

On March 23, 2010, the Company's stockholders approved the Limoneira Company 2010 Omnibus Incentive Plan.

Effective March 24, 2010, the Company amended our certificate of incorporation to increase the authorized number of shares of common stock, and effected a ten-for-one split of our common stock. All references in the accompanying consolidated financial statements to (i) the value and number of shares of the Company's common stock, (ii) the authorized number of shares of the Company's common stock and preferred stock, and (iii) loss per share and dividends per share have been retroactively adjusted to reflect these changes.

LIMONEIRA COMPANY
UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 AND 2009

Preface

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

The unaudited interim consolidated condensed financial statements for the three months ended January 31, 2010 and 2009 and balance sheet as of January 31, 2010 included herein have not been audited by an independent registered public accounting firm, but in our opinion, all adjustments (which include only normal recurring adjustments) necessary to make a fair statement of the financial position at January 31, 2010 and the results of operations and the cash flows for the periods presented herein have been made. The results of operations for the three months ended January 31, 2010 are not necessarily indicative of the operating results expected for the full fiscal year.

The unaudited interim consolidated condensed financial statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. Although we believe the disclosures made are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules or regulations. These interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere in this registration statement.

Limoneira Company

Consolidated Condensed Statements of Operations (unaudited)

	Three months ended January 31	
	2010	2009
Revenues:		
Agriculture	\$ 5,272,000	\$ 4,005,000
Rental	955,000	911,000
Other	135,000	-
Total revenues	6,362,000	4,916,000
Costs and expenses:		
Agriculture	6,893,000	6,639,000
Rental	507,000	580,000
Other	327,000	83,000
Selling, general, and administrative	3,416,000	1,478,000
Total cost and expenses	11,143,000	8,780,000
Operating loss	(4,781,000)	(3,864,000)
Other income (expense):		
Other		
Other income (expense), net	363,000	336,000
Interest income	29,000	37,000
Interest expense	(428,000)	(213,000)
Total other income (expense)	(36,000)	160,000
Loss from continuing operations before income tax benefit and equity in losses of investments	(4,817,000)	(3,704,000)
Income tax benefit	1,709,000	1,652,000
Equity in losses of investments	(16,000)	(24,000)
Loss from continuing operations	(3,124,000)	(2,076,000)
Loss from discontinued operations, net of income taxes	(8,000)	(1,000)
Net loss	(3,132,000)	(2,077,000)
Preferred dividends	(66,000)	(66,000)
Net loss applicable to common stock	\$ (3,198,000)	\$ (2,143,000)
Per common share-basic:		
Continuing operations	\$ (0.28)	\$ (0.19)
Discontinued operations	(0.00)	(0.00)
Basic net loss per share	\$ (0.28)	\$ (0.19)
Per common share-diluted:		
Continuing operations	\$ (0.28)	\$ (0.19)
Discontinued operations	(0.00)	(0.00)
Diluted net loss per share	\$ (0.28)	\$ (0.19)
Dividends per common share	\$ 0.03	\$ 0.03
Weighted-average shares outstanding – basic	11,246,000	11,195,000
Weighted-average shares outstanding – diluted	11,246,000	11,234,000

See Notes to Consolidated Condensed Financial Statements.

Limoneira Company

Consolidated Condensed Balance Sheets (unaudited)

	January 31, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 603,000
Accounts receivable	6,545,000	3,735,000
Notes receivable – related parties	-	1,519,000
Inventoried cultural costs	562,000	858,000
Prepaid expenses and other current assets	1,328,000	894,000
Income taxes receivable	1,709,000	-
Current assets of discontinued operations	5,000	9,000
Total current assets	<u>10,149,000</u>	<u>7,618,000</u>
Property, plant, and equipment, net	54,039,000	53,817,000
Real estate development	71,392,000	53,125,000
Assets held for sale	6,774,000	6,774,000
Equity in investments	1,636,000	1,635,000
Investment in Calavo Growers, Inc.	11,145,000	11,870,000
Notes receivable-related parties	92,000	284,000
Notes receivable	2,086,000	2,000,000
Other assets	4,486,000	4,307,000
Noncurrent assets of discontinued operations	438,000	438,000
Total assets	<u>\$ 162,237,000</u>	<u>\$ 141,868,000</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 679,000	\$ 970,000
Growers payable	1,966,000	988,000
Accrued liabilities	3,325,000	2,764,000
Current portion of long-term debt	10,999,000	465,000
Current liabilities of discontinued operations	-	2,000
Total current liabilities	<u>16,969,000</u>	<u>5,189,000</u>
Long-term liabilities:		
Long-term debt, less current portion	84,762,000	69,251,000
Deferred income taxes	8,868,000	8,764,000
Other long-term liabilities	4,876,000	6,903,000
Total long-term liabilities	<u>98,506,000</u>	<u>84,918,000</u>
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at January 31, 2010 and October 31, 2009) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – \$.01 par value (50,000 shares authorized: 0 issued or outstanding at January 31, 2010 and October 31, 2009)	-	-
Common Stock – \$.01 par value (19,900,000 shares authorized: 11,194,460 and 11,262,880 shares issued and outstanding at January 31, 2010 and October 31, 2009, respectively)	113,000	113,000
Additional paid-in capital	33,651,000	34,718,000
Retained earnings	12,836,000	16,386,000
Accumulated other comprehensive loss	(2,838,000)	(2,456,000)
Total stockholders' equity	<u>46,762,000</u>	<u>51,761,000</u>
Total liabilities and stockholders' equity	<u>\$ 162,237,000</u>	<u>\$ 141,868,000</u>

See Notes to Consolidated Condensed Financial Statements.

Limoneira Company

Consolidated Condensed Statements of Comprehensive Loss (unaudited)

	Three months ended January 31	
	2010	2009
	<u> </u>	<u> </u>
Net loss	\$ (3,132,000)	\$ (2,077,000)
Other comprehensive (loss) income:		
Minimum pension liability adjustment, net of tax	101,000	3,000
Unrealized holding (losses) gains of security available-for-sale, net of tax	(469,000)	1,142,000
Unrealized losses resulting from changes in fair values of derivative instruments, net of tax	(14,000)	(902,000)
Total other comprehensive (loss) income, net of tax	<u>(382,000)</u>	<u>243,000</u>
Comprehensive loss	<u>\$ (3,514,000)</u>	<u>\$ (1,834,000)</u>

See Notes to Consolidated Condensed Financial Statements.

Limoneira Company

Consolidated Condensed Statements of Cash Flows (unaudited)

	Three months ended January 31	
	2010	2009
Operating activities		
Net loss	\$ (3,132,000)	\$ (2,077,000)
Less: Net loss from discontinued operations	(8,000)	(1,000)
Net loss from continuing operations	(3,124,000)	(2,076,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	587,000	578,000
Stock compensation expense	162,000	154,000
Expense related to Officers notes receivable forgiveness and payroll taxes	687,000	-
Equity in losses of investments	16,000	23,000
Amortization of deferred financing costs	7,000	-
Changes in operating assets and liabilities:		
Accounts and notes receivable	(2,287,000)	(1,415,000)
Inventoried cultural costs	296,000	388,000
Prepaid expenses and other current assets	(329,000)	(17,000)
Income taxes receivable	(1,709,000)	(1,649,000)
Other assets	(37,000)	(29,000)
Accounts payable and growers payable	488,000	(1,189,000)
Accrued liabilities	(93,000)	(1,663,000)
Other long-term liabilities	(152,000)	(299,000)
Net cash used in operating activities from continuing operations	(5,488,000)	(7,194,000)
Net cash used in operating activities from discontinued operations	(6,000)	(3,000)
Net cash used in operating activities	(5,494,000)	(7,197,000)
Investing activities		
Capital expenditures	(1,304,000)	(2,403,000)
Equity investment contributions	(17,000)	-
Issuance of notes receivable	(23,000)	(284,000)
Investments in mutual water companies and water rights	(95,000)	(5,000)
Other	(7,000)	(100,000)
Net cash used in investing activities from continuing operations	(1,446,000)	(2,792,000)
Net cash used in investing activities from discontinued operations	-	(5,000)
Net cash used in investing activities	(1,446,000)	(2,797,000)
Financing activities		
Borrowings of long-term debt	8,494,000	11,474,000
Repayments of long-term debt	(1,739,000)	(1,093,000)
Dividends paid – Common	(352,000)	(348,000)
Dividends paid – Preferred	(66,000)	(66,000)
Payments of debt financing costs	-	(42,000)
Net cash provided by financing activities	6,337,000	9,925,000
Net decrease in cash and cash equivalents	(603,000)	(69,000)
Cash and cash equivalents at beginning of period	603,000	90,000
Cash and cash equivalents at end of period	\$ -	\$ 21,000
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	\$ 1,077,000	\$ 875,000
Cash paid during the period for income taxes, net of (refunds) received in period	\$ 623,000	\$ -
Non-cash investing, financing, and other comprehensive income (loss) transactions:		
Unrealized holding loss (gain) on security, net of tax benefit	\$ 480,000	\$ (1,142,000)
Unrealized loss from derivatives, net of tax benefits	\$ 15,000	\$ 902,000
Capital expenditures accrued but not paid at period-end	\$ 105,000	\$ 57,000

On November 15, 2009, the Company and Windfall, LLC (Windfall) entered into an agreement whereby Windfall irrevocably assigned to the Company its entire 85% interest in Windfall Investors, LLC (Investors). In conjunction with obtaining Windfall's 85% interest in Investors, the Company agreed to release Windfall and its individual members from any and all liabilities including any losses with respect to Windfall's previous interest in Investors and any secured and unsecured financing for Investors.

The following table summarizes the estimated fair value of non-cash assets acquired liabilities assumed at the date of the acquisition.

	At November 15, 2009
Current assets	\$ 246,000

Property, plant and equipment	186,000
Real estate development	17,531,000
Other assets	50,000
Total assets acquired	\$ 18,013,000
Current liabilities	(152,000)
Current portion of long-term debt	(10,141,000)
Deferred tax liability	(314,000)
Long-term debt	(9,148,000)
Net liabilities assumed	\$ (1,742,000)

See Notes to Consolidated Condensed Financial Statements.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Business

Limoneira Company, a Delaware Company (the Company), engages primarily in growing citrus and avocados, picking and hauling citrus, packing lemons, and housing rentals and other real estate operations. The Company is also engaged in real estate development.

The Company markets its agricultural products primarily through Sunkist Growers, Inc. (Sunkist) and Calavo Growers, Inc. (Calavo).

Most of the Company's citrus production is marketed and sold under the Sunkist brand to the food service industry, wholesalers and retail operations throughout North America, Asia, and certain other countries primarily through Sunkist, an agricultural marketing cooperative of which the Company is a member. As an agricultural cooperative, Sunkist coordinates the sales and marketing of the Company's citrus products which are processed through the Company's packinghouse.

The Company provides all of its avocado production to Calavo, a packing and marketing company listed on NASDAQ under the symbol CVGW. Calavo's customers include many of the largest retail and food service companies in the United States and Canada. The Company's avocados are packed by Calavo, sold and distributed under its own brands to its customers primarily in the United States and Canada.

The unaudited interim consolidated condensed financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. All significant intercompany transactions have been eliminated. The unaudited interim condensed 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, Templeton Santa Barbara, LLC and Windfall Investors, LLC (see Note 3). All variable interest entities for which the Company is considered the primary beneficiary are consolidated. These variable interest entities are 6037 East Donna Circle, LLC and 6146 East Cactus Wren Road, LLC. All significant inter-company accounts and transactions have been eliminated in consolidation.

2. Recently Adopted Accounting Pronouncements

In August 2009, the FASB issued Accounting Standards Update No. 2009-5, *Measuring Liabilities at Fair Value* (ASU No. 2009-05). ASU No. 2009-05 amends ASC 820, *Fair Value Measurements*. Specifically, ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU No. 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The Company's adoption of the provisions of ASU No. 2009-05 during the first quarter of fiscal 2010 did not have a material impact on the Company's financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB ASC 810 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*) which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The Company's adoption of the provisions of FASB ASC 810 (SFAS No. 160) during the first quarter of fiscal 2010 did not have a material impact on the Company's financial position, results of operations or liquidity.

In December 2008, the FASB issued FASB ASC 805 (SFAS No. 141R (revised 2008), *Business Combinations*), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company adopted FASB ASC 805 (SFAS No. 141R) during the first quarter of fiscal 2010 and utilized provisions noted in the guidance to account for its business combination of Windfall Investors, LLC. See Note 3.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

2. Recently Adopted Accounting Pronouncements (Continued)

In April 2008, the FASB issued FASB ASC 350-30 (FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*). FASB ASC 350-30 (FSP FAS No. 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350 (SFAS No. 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under FASB ASC 350 (SFAS No. 142) and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805 (SFAS No. 141R) and other generally accepted account principles. The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FASB ASC 350-30 (FSP FAS No. 142-3) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company's adoption of the provisions of FASB ASC 350-30 (FSP FAS No. 142-3) during the first quarter of fiscal 2010 did not have a material impact on the Company's financial position, results of operations or liquidity.

3. Business Combination

In September 2005, the Company, 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 Windfall Ranch), for \$12,000,000.

The Company and Windfall each made initial capital contributions to Investors of \$300 (15% ownership interest) and \$1,700 (85% ownership interest), respectively. To fund the purchase of the Windfall Ranch, Investors secured a long-term loan from Farm Credit West (the Bank) for \$9,750,000 (term loan). The remaining \$2,250,000 of the purchase was provided from an \$8,000,000 revolving line of credit (revolving line of credit) provided to Investors by the Bank under an agreement entered into between Investors and the Bank in September 2005. In May 2008, the Bank agreed to increase the total line of credit available to Investors from \$8,000,000 to \$10,500,000. The total indebtedness outstanding under the term loan and the revolving line of credit are guaranteed, jointly and severally, by the Company and Windfall. At October 31, 2009, there was \$19,186,000, outstanding under the term loan and the revolving line of credit.

Prior to November 15, 2009, the Company had a variable interest in Investors (which was deemed to be a variable interest entity). However, the Company was not required to consolidate Investors since the Company was not the primary beneficiary of Investors due to the Company not being required to absorb a majority of Investor's expected losses or receive a majority of Investor's expected residual returns.

Prior to November 15, 2009, the Company accounted for its 15% ownership interest in Investors as an equity method investment since the Company had significant influence, but less than a controlling interest in Investors. The Company was also required to record a negative equity method investment balance (which was subsequently reclassified to other-long term liabilities) for Investors since the Company had previously guaranteed Investor's outstanding indebtedness under its term loan and revolving line of credit.

On November 15, 2009, the Company and Windfall entered into an agreement whereby Windfall irrevocably assigned to the Company its entire 85% interest in Investors. In conjunction with obtaining Windfall's 85% interest in Investors, the Company agreed to release Windfall and its individual members from any and all liabilities including any losses with respect to Windfall's previous interest in Investors and any secured and unsecured financing for Investors. The Company has accounted for its acquisition of Windfall's 85% interest in Investors utilizing the business combination guidance noted in FASB ASC 805 (SFAS No. 141R).

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

3. Business Combination (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition. Such estimates are preliminary and are subject to change upon finalization of certain valuation and income tax analyses:

At November 15, 2009	
Current assets	\$ 246,000
Property, plant and equipment	186,000
Real estate development	17,531,000
Other assets	50,000
Total assets acquired	18,013,000
Current liabilities	(152,000)
Current portion of long-term debt	(10,141,000)
Deferred income taxes	(314,000)
Long-term debt, less current portion	(9,148,000)
Net liabilities assumed	\$ (1,742,000)

The Company remeasured its previously held noncontrolling equity interest in Investors at fair value on the November 15, 2009 acquisition date of Investors. In remeasuring its previously held noncontrolling interest, the Company considered the fair value of the assets and liabilities of Windfall as of the acquisition date and also considered whether there was a control premium that would not have been present in the previous noncontrolling interest.

The Company calculated that its acquisition date fair value of its previous equity interest in Investors was approximately \$1,700,000. The Company did not recognize any gain or loss as a result of remeasuring the fair value of its equity interest held in Investors just prior to the business combination as the fair value approximated the carrying value of the noncontrolling interest previously accounted for under the equity method of accounting.

4. Seasonality

Cultural Costs

Costs of bringing crops to harvest are inventoried when incurred. Such costs are expensed when the crops are sold. Costs during the current year related to the next year's crop are inventoried and carried in inventory until the matching crop is harvested and sold, which traditionally occurs during the first and second quarters of each year. During the three months ended January 31, 2010, the Company expensed \$296,000 of the \$858,000 of cultural costs carried in inventory at October 31, 2009. During the three months ended January 31, 2009, the Company expensed \$388,000 of the \$1,146,000 of cultural costs carried in inventory at October 31, 2008.

5. Fair Value Measurements

Under the FASB ASC 820 (SFAS No. 157), a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table sets forth the Company's financial assets and liabilities as of January 31, 2010, that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

LIMONEIRA COMPANY

**NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)**

5. Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value:				
Available- for -sale securities	\$ 11,145,000	\$ –	\$ –	\$ 11,145,000
Liabilities at fair value:				
Derivatives	–	2,193,000	–	2,193,000

Available-for-sale securities consist of marketable securities in Calavo Growers, Inc. common stock. The Company currently own approximately 4.6% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at January 31, 2010 and October 31, 2009 equaled \$16.76 per share and \$17.85 per share, respectively. See Note 7.

Derivatives consist of interest rate swaps whose fair values are estimated using industry-standard valuation models. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs. See Note 11.

6. Real Estate Development Assets/Assets Held for Sale

Real estate development assets consist of the following:

	<u>January 31, 2010</u>	<u>October 31, 2009</u>
East Areas 1 and 2:		
Land and land development costs	\$ 38,298,000	\$ 37,788,000
Templeton Santa Barbara, LLC:		
Land and land development costs	15,494,000	15,337,000
Windfall Investors, LLC:		
Land and land development costs	17,600,000	–
Total included in real estate development asset	<u>\$ 71,392,000</u>	<u>\$ 53,125,000</u>

Assets held for sale consist of the following:

	<u>January 31, 2010</u>	<u>October 31, 2009</u>
Templeton Santa Barbara, LLC and Arizona Development Project:		
Land and land development costs	\$ 6,774,000	\$ 6,774,000
Total included in assets held for sale	<u>\$ 6,774,000</u>	<u>\$ 6,774,000</u>

East Areas 1 and 2

In fiscal year 2005, the Company 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. The initial net book value of the land associated with this project was \$8,253,000. During fiscal year 2008, the Company purchased a 63-acre parcel of land within the project boundary for \$22,000,000, which is included in real estate development assets in the Company's consolidated balance sheets at January 31, 2010 and October 31, 2009. During the three months ended January 31, 2010 and January 31, 2009, the Company capitalized \$510,000 and \$454,000, respectively, of costs related to these real estate development projects. Additionally, in relation to this project, the Company has incurred expenses of \$9,000 and \$82,000 in the three months ended January 31, 2010 and 2009, respectively.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

6. Real Estate Development Assets/Assets Held for Sale (continued)

Templeton Santa Barbara, LLC

In December 2006, the Company entered into an agreement with Templeton Santa Barbara, LLC (Templeton) whereby the Company provided a \$20,000,000 loan to Templeton (the Bridge Loan). Templeton used these funds to purchase four residential development parcels in Santa Maria, California (Templeton project). The Company 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 matured on April 30, 2008 (see note 10). Interest on the Bridge Loan was equal to the Prime rate plus 2%. The \$20,000,000 principal balance on the Bridge Loan was due and payable on March 31, 2008, with the remaining outstanding balance due on October 31, 2009. Under the terms of the agreement with Templeton, the Company had the option to participate in the Templeton project as a 20% equity partner or participate as a lender receiving a preferred interest rate.

In December 2008, the Company amended its credit arrangement with City National Bank to extend the maturity date of the Term Loan issued to the Company under that credit arrangement from December 31, 2007 to April 30, 2008. The Company 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 Company from December 31, 2007 to March 31, 2008. Interest payable to the Company by Templeton during the extension period was at a rate of Prime plus 2%. The Agreement called for Templeton to exercise its "best efforts" to sell and/or refinance the Templeton project using the proceeds from the Bridge Loan. The Agreement also prioritized the use of all funds received upon the sale or refinance of the Templeton project as well as defined the Company's participation in the ultimate disposition of the Templeton project.

At March 31, 2008, Templeton was unable to meet its obligation under the terms of the Agreement with the Company. As a result, the Company assumed a 75% controlling interest in the Templeton project and began consolidating all of the activities of the Templeton project beginning in April 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 Templeton project. The Term Loan was repaid by the Company in fiscal 2008 with proceeds from the Rabobank credit facility (see Note 10). Templeton's minority interest basis in the Templeton project was zero at October 31, 2008. Templeton assigned its remaining 25% interest in the Templeton project to the Company in March 2009.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

6. Real Estate Development Assets/Assets Held for Sale (continued)

The Company wrote down the carrying value of its Templeton project by \$4,659,000 in fiscal year 2009 and \$1,341,000 in fiscal year 2008 based on the results of independent appraisals which indicated that the fair value of the land and land development costs related to the Templeton project was less than its carrying value at October 31, 2009 and 2008, respectively.

In October 2008, the Company received an offer from a third party to purchase one of the four real estate development parcels within the Templeton project. The net carrying value (inclusive of impairment charges) related to this particular real estate development parcel was \$6,270,000 and was recorded in assets held for sale in the Company's consolidated balance sheet at October 31, 2008. The sale of this real estate development parcel fell out of escrow during fiscal 2009 and is no longer being held for sale. As such, the net carrying value (inclusive of impairment charges) of this real estate development parcel is included in real estate development assets in the Company's consolidated balance sheets at January 31, 2010 and October 31, 2009.

In September 2009, another of the four real estate development parcels within the Templeton project went into escrow. The net carrying value (inclusive of impairment charges) related to this particular real estate development parcel is \$3,476,000 and is recorded in assets held for sale in the Company's consolidated balance sheets at January 31, 2010 and October 31, 2009.

The three real estate development parcels not included in assets held for sale are included in real estate development assets in the Company's January 31, 2010 and October 31, 2009 consolidated balance sheets.

Arizona Development Projects

In fiscal year 2007, the Company 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 (Donna Circle project). In February 2007, Donna Circle obtained an unsecured, non-revolving line of credit for \$3,200,000 with Mid-State Bank (the DC Line). The DC Line called for monthly, interest only payments with all unpaid principal due at maturity in February 2009. The interest rate for the DC Line was 7%. All principal and interest under the DC Line was guaranteed by the Company. As such, the Company was required to consolidate the activities of the Donna Circle project since the Company was the primary beneficiary in Donna Circle (which is deemed to be variable interest entity). The DC Line was repaid by the Company in fiscal year 2008 with proceeds from the Rabobank credit facility (see Note 10).

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

6. Real Estate Development Assets/Assets Held for Sale (continued)

Donna Circle used proceeds of \$1,368,000 from the DC Line to purchase property in Paradise Valley, Arizona, for the construction of a luxury home. Additionally, Donna Circle used proceeds of \$1,621,000 from borrowings for site preparation, architect fees, and construction of the project. Total capitalized costs of \$2,989,000 are included in real estate development assets in the Company's consolidated balance sheet at October 31, 2008.

In December 2008, the Donna Circle project was completed (after incurring an additional \$407,000 of capitalized costs during fiscal 2009) and the property was listed for sale with a real estate broker. As such, the real estate development assets related to the Donna Circle project were classified by the Company as assets held for sale at that time. In June 2009, the Company decided not to sell Donna Circle and instead, executed a two-year lease agreement for the Donna Circle property with a third party (Renters) whereby the Company is to receive approximately \$7,600 a month in rental fees for a 24-month period (beginning in July 2009). Based on the terms of the lease agreement, the Renters have the option to extend the lease for 12 months (after the initial 24-month rental period) at \$8,000 per month and may purchase the home during the option period for approximately \$3,800,000. As such, the Company reclassified its capitalized real estate development assets from asset held for sale to property, plant, and equipment in the Company's consolidated balance sheet at October 31, 2009, as the Donna Circle property is being held and used by the Company to generate rental income. The Company recognized \$23,000 in rental income related to its Donna Circle property in the three months ended January 31, 2010. Such amounts are included in other revenues in the Company's consolidated statement of operations for the three months ended January 31, 2010.

The net carrying value related to Donna Circle is \$2,747,000 at January 31, 2010, consisting of capitalized land costs with a basis of \$1,121,000 and capitalized building costs of \$1,626,000, net of (a) accumulated depreciation on the capitalized building costs of \$46,000 and (b) a fiscal year 2009 impairment charge of \$603,000 (which was allocated pro-rata between the Company's basis in the capitalized land and building costs for the Donna Circle property). The fiscal 2009 impairment charge was the result of an independent appraisal which indicated that the fair value of the Donna Circle project was less than its carrying value at October 31, 2009.

In fiscal year 2007, the Company 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 business purpose of constructing and marketing an approximately 9,500 square-foot luxury home in Paradise Valley, Arizona (Cactus Wren project). In March 2007, Cactus Wren obtained an unsecured, non-revolving line of credit for \$3,900,000 with Mid-State Bank (the CW Line). The CW Line called for monthly, interest only payments with all unpaid principal due at maturity in March 2009. The interest rate for the CW Line was 7%. All principal and interest under the CW Line was guaranteed by the Company. As such, the Company was required to consolidate the activities of the Cactus Wren project since the Company was the primary beneficiary in Cactus Wren (which is deemed to be variable interest entity). The CW Line was repaid by the Company in fiscal year 2008 with proceeds from the Rabobank credit facility (see Note 10).

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

6. Real Estate Development Assets/Assets Held for Sale (continued)

Cactus Wren used proceeds of \$1,640,000 from the CW Line to purchase property in Paradise Valley, Arizona, for the construction of a luxury home. Additionally, Cactus Wren used proceeds of \$2,599,000 from borrowings for site preparation, architect fees, and construction of the project.

In June 2009, the Cactus Wren project was completed and the property was listed for sale with a real estate broker. The property remains unsold at January 31, 2009. As such, the real estate development assets related to the Cactus Wren project is classified by the Company as assets held for sale in the Company's consolidated balance sheet at January 31, 2010.

The net carrying value related to Cactus Wren is \$3,298,000 at January 31, 2010, consisting of capitalized land and land development costs, net of a fiscal year 2009 impairment charge of \$941,000. The fiscal year 2009 impairment charge was the result of an independent appraisal which indicated that the fair value of the Cactus Wren project was less than its carrying value at October 31, 2009.

Windfall Ranch Development Project

As of the November 15, 2010 acquisition date (see Note 3), the preliminary fair value estimate of the Windfall Ranch's land and land development costs acquired was \$17,531,000 which the Company recorded as real estate development assets. Subsequent to its acquisition, the Company capitalized an additional \$69,000 of costs related to its real estate development of the Windfall Ranch during the three months ended January 31, 2010.

The Company is currently marketing for sale certain parcels of 724 acres of Windfall Ranch. However, the Company is not classifying any of its real estate development assets related to Windfall Ranch as asset held for sale at January 31, 2010 since certain of the criteria required for an asset held for sale classification have not been met at January 31, 2010.

7. Investment in Calavo Growers, Inc.

In June 2005, the Company entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Company purchased 1,000,000 shares, or approximately 6.9%, of Calavo's common stock for \$10,000,000 and Calavo purchased 172,857 shares, or approximately 15.1%, of the Company's common stock for \$23,450,000. Under the terms of the agreement, the Company received net cash consideration of \$13,450,000. The Company has classified its marketable securities investment as available-for-sale.

In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of \$6,079,000; recognizing a total gain of \$2,729,000 which was recorded in other income (expense) in the Company's consolidated statement of operations for the year ended October 31, 2009. Additionally, the changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses for the remaining shares held by the Company. In the three months ended January 31, 2010, the Company recorded a total unrealized holding loss of \$725,000 due to the decrease in the market value of the Company's remaining 665,000 shares of Calavo common stock at January 31, 2010.

8. Notes Receivable

In fiscal year 2004, the Company sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and the resulting gain on sale of \$161,000 was deferred. In connection with the sale, the Company recorded a note receivable of \$4,263,000. Principal of \$2,963,000 and interest was paid in April 2005 and \$112,000 of the deferred gain was recognized as income at that time. The remaining \$49,000 balance of the deferred gain is included in accrued liabilities in the Company's consolidated balance sheets at October 31, 2009. The remaining principal balance of \$1,300,000 and the related accrued interest was initially payable in April 2009 and was recorded in current notes receivable in the Company's consolidated balance sheet at October 31, 2008. However, the Company and the buyer of the Morro Bay land executed a note extension agreement in March 2009. Based on the terms of the note extension agreement, the remaining principal balance of \$1,300,000 and the related accrued interest is now required to be paid in full on April 1, 2014, and is being recorded in noncurrent notes receivable in the Company's consolidated balance sheets at January 31, 2010 and October 31, 2009. Interest continues to accrue at 7.0% on the principal balance of the note.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

8. Notes Receivable (continued)

In connection with the lease of a retail facility, the Company 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. The note receivable balance was \$350,000 at January 31, 2010 and October 31, 2009, respectively and is being recorded in noncurrent notes receivable in the Company's consolidated balance sheets.

In connection with Company's stock grant program, the Company has recorded total notes receivable and accrued interest from related parties of \$92,000 and \$1,803,000 at January 31, 2010 and October 31, 2009, respectively. These notes were issued in connection with payments made by the Company on behalf of its employees for payroll taxes on stock compensation. These notes bear interest at the mid-term applicable federal rate then in effect, with principal and accrued interest due and payable within 24 months from the date of the note. A portion of the notes receivable and accrued interest balance related to three employees (the Officers) became due in November and December 2009. As such, the total \$1,519,000 notes receivable and accrued interest due to be paid by the Officers within one year at October 31, 2009 is recorded in current notes receivable – related parties in the Company's consolidated balance sheet at October 31, 2009. The remaining \$284,000 notes receivable and accrued interest balance from employees that are not due to be paid within one year at October 31, 2009 is recorded in noncurrent notes receivable – related parties in the Company's consolidated balance sheet at October 31, 2009.

In December 2010, the Officers notes receivable and accrued interest were paid down by \$1,020,000 through the repurchase of 6,758 of Company shares with a fair market value of \$150.98 per share (at the time of the exchange) that were held by the Officers of the Company. The remaining Officers notes receivable and accrued interest of \$687,000 was forgiven by the Company resulting in compensation expense recorded in the three months ended January 31, 2010. The Company also recorded compensation expense of \$603,000 during the three months ended January 31, 2010 representing additional compensation to be paid by the Company to the Officers relating to the Officers payroll taxes on the notes receivable forgiveness.

In December 2010, the Company issued new notes to the Officers totaling \$208,000 in connection with payments made by the Company on behalf of the Officers for payroll taxes associated with the vesting of shares under the Company's stock grant bonus program. The \$208,000 note receivable balance was subsequently paid down through the repurchase of 1,398 Company shares with a fair market value of \$150.98 (at the time of the exchange) that were held by the Officers of the Company.

The Company's \$92,000 notes receivable and accrued interest balance from employees that are not due to be paid within one year at January 31, 2010 is recorded in noncurrent notes receivable - related parties in the Company's consolidated balance sheet at January 31, 2010.

9. 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.

In October 2006, the Company 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 Company approved a plan to exit the retail coffee and coffee distribution business. Sales and operating losses for the three months ended January 31, 2010 were \$2,000 and \$8,000, respectively. Sales and operating losses for the three months ended January 31, 2009 were \$3,000 and \$1,000, respectively. During fiscal year 2007, as a result of an arbitration agreement, the Company 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 fiscal year 2007 the Company wrote down the carrying value of a retail building by \$100,000. In fiscal year 2008, the Company ceased operations in all of Mocha's retail facilities, sold the business along with certain assets, and 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 Company and the Company initiated the process of foreclosure procedures. As a result, the retail coffee and coffee distribution business incurred a charge to income of \$86,000 in fiscal year 2008.

LIMONEIRA COMPANY

**NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)**

9. Discontinued Operations (continued)

The assets and liabilities of the coffee business are comprised of the following:

	January 31, 2010	October 31, 2009
Cash	\$ —	\$ 4,000
Accounts receivable	—	3,000
Prepaid expenses	—	2,000
Deferred income taxes	277,000	277,000
Notes receivable	161,000	161,000
Total assets	\$ 438,000	\$ 447,000
Accounts payable	\$ —	\$ 2,000
Accrued liabilities	—	—
Total liabilities	\$ —	\$ 2,000

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

10. Long-Term Debt

Long-term debt is comprised of the following:

	January 31, 2010	October 31, 2009
Rabobank revolving credit facility secured by property with a net book value of \$12,260,000 at January 31, 2010 and October 31, 2009. 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 2013.	\$ 68,185,000	\$ 61,671,000
Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,659,000 at January 31, 2010 and \$11,674,000 at October 31, 2009. The interest rate is variable and was 3.25% at January 31, 2010. The loan is payable in quarterly installments through November 2022.	6,986,000	7,094,000
Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,659,000 at January 31, 2010 and \$11,674,000 at October 31, 2009. The interest rate is variable and was 3.25% at January 31, 2010. The loan is payable in monthly installments through May 2032.	944,000	951,000
Farm Credit West revolving line of credit. The interest rate is variable and was 3.50% at January 31, 2010. Interest is payable monthly and the principal is due in full in May 2010.	10,394,000	-
Farm Credit West term loan secured by property with an appraised value of \$17,531,000 at November 15, 2009. The interest rate is fixed at 6.73% until November 2011, becoming variable for the remainder of the loan. The loan is payable in monthly installments through October 2035.	9,252,000	-
Subtotal	<u>95,761,000</u>	<u>69,716,000</u>
Less current portion	<u>10,999,000</u>	<u>465,000</u>
Total long-term debt, less current portion	<u>\$ 84,762,000</u>	<u>\$ 69,251,000</u>

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

10. Long-Term Debt (continued)

In August 2008, the Company entered into a credit arrangement with Rabobank whereby it could borrow up to \$80,000,000 on a secured line of credit. The initial agreement was superseded by amended agreements in December 2008 and May 2009. All outstanding amounts due under the previous credit arrangement were repaid with proceeds from the Rabobank credit facility.

In fiscal year 2009, the Company incurred \$124,000 of costs to Rabobank and other third parties in conjunction with finalizing its debt agreement with Rabobank. Such costs were capitalized and are being amortized using the straight-line method over the terms of the amended Rabobank credit agreement. Included in other assets in the Company's consolidated balance sheets was \$95,000 and \$101,000 of capitalized deferred borrowing costs at January 31, 2010 and October 31, 2009, respectively. Accumulated amortization related to the capitalized deferred borrowing costs was \$29,000 as of January 31, 2010. The amortization of the deferred borrowing costs is recorded as interest expense in the Company's consolidated statement of operations for the three months ended January 31, 2010.

The Company, under the terms of the Rabobank credit arrangement, is subject to an annual financial covenant. At October 31, 2009, the Company was out of compliance with its annual financial covenant for which a covenant waiver was received from Rabobank for the year ended October 31, 2009. Under the terms of the credit arrangement with Rabobank, the financial covenant is not subsequently measured again until October 31, 2010. The Company anticipates being in compliance with its annual financial covenant at October 31, 2010.

In January 2009, the Company and Farm Credit West (FCW) entered into an agreement whereby FCW agreed to convert the fixed interest portion of the two Central Coast Federal Land Bank Association loans to variable rates. The Company incurred \$42,000 of costs to FCW for this rate conversion. Such costs were capitalized and are being amortized using the straight-line method over the terms of the FCW credit agreement. Included in other assets in the consolidated balance sheets was \$39,000 and \$40,000 of capitalized deferred borrowing costs at January 31, 2010 and October 31, 2009, respectively. Accumulated amortization related to the capitalized deferred borrowing costs was \$3,000 as of January 31, 2010. The amortization of the deferred borrowing costs is recorded as interest expense in the consolidated statement of operations for the three months ended January 31, 2010.

In November 2009, the Company assumed the long-term debt of Windfall Investors, LLC with the acquisition of the business (see Note 3). The debt is held by FCW and consists of a secured long-term loan with an original principal balance of \$9,750,000 and a revolving line of credit of \$10,500,000. At the time of the acquisition on November 15, 2009, there was \$19,290,000 outstanding under the term loan and the revolving line of credit. The due date for the revolving line of credit was originally November 2010 and has been extended until May 2010 (see Note 17).

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

11. Derivative Instruments and Hedging Activities

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

	Notional Amount		Fair Value Net Liability	
	January 31, 2010	October 31, 2009	January 31, 2010	October 31, 2009
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing 2013	\$ 22,000,000	\$ 22,000,000	\$ 1,768,000	\$ 1,678,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing November 2010	10,000,000	10,000,000	240,000	287,000
Pay fixed-rate, receive floating-rate interest rate swap designated as cash flow hedge, maturing November 2010	10,000,000	10,000,000	184,000	206,000
Total	<u>\$ 42,000,000</u>	<u>\$ 42,000,000</u>	<u>\$ 2,192,000</u>	<u>\$ 2,171,000</u>

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

11. Derivative Instruments and Hedging Activities (continued)

These interest rate derivatives qualify as cash flow hedges. Therefore, the fair value adjustments to the underlying debt are deferred and included in accumulated other comprehensive income (loss) and the net liability balance is being recorded in accrued liabilities in the Company's consolidated balance sheets at January 31, 2010 and October 31, 2009.

12. Basic and Diluted Net Loss per Share

Basic net loss per common share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of share-based compensation. Diluted net loss per common share is calculated using 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 zero for the three months ended January 31, 2010 and 39,000 for the three months ended January 31, 2009. The Series B convertible preferred shares are anti-dilutive for the three months ended January 31, 2010 and January 31, 2009, respectively. Basic and diluted net loss per share was calculated after giving effect to the ten-for-one stock split (see Note 17).

13. Related-Party Transactions

The Company rents certain of its residential housing assets to its employees, including its agribusiness employees. The Company records the rental income generated from these employees in rental revenues in the Company's consolidated statements of operations.

A member of the Company's Board of Directors is currently a Director of a mutual water company in which the Company is an investor. The mutual water company provided water to the Company, for which the Company paid \$92,000 and \$56,000 in the three months ended January 31, 2010 and 2009, respectively. Water payments due to the mutual water company were \$17,000 and \$51,000 at January 31, 2010 and October 31, 2009, respectively.

The Company has invested in the career of Charlie Kimball, a Formula 1 racing driver, who is related to a member of the Company's Board of Directors. Recorded in other assets in the Company's consolidated balance sheets are total investments made to Charlie Kimball of \$300,000 as of January 31, 2010 and October 31, 2009.

The amount invested by the Company is to be used by Charlie Kimball to further his career goal of becoming a Formula One driver. The terms of the investments provide that each \$100,000 investment will be repaid to the Company upon the first to occur of any of the following: (a) Charlie Kimball enters university as a full-time student, which the Company refers to as the student trigger; (b) Charlie Kimball reaches the position of a full-time salaried driver in the Formula One World Championship, which the Company refers to as the F1 trigger; and (c) the Company exercises the option to have its investment repaid, which may not occur prior to January 23, 2010, which is referred to as the investor trigger. For each \$100,000 investment, the Company will be repaid the following amounts: (x) in the event of the student trigger, the Company will be repaid the amount of its investment; (y) in the event of the F1 trigger, the Company will be repaid twice its investment in three equal annual installments beginning 120 days following the day the F1 trigger occurs; and (z) in the event of the investor trigger, the Company will be repaid the amount of its investment within one year after the investor trigger is exercised with an additional \$25,000 payment if Charlie Kimball is a professional (salaried) racing driver on the day the investor trigger is exercised. None of the triggers had been exercised as of January 31, 2010.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

13. Related Party Transactions (continued)

In the quarters ended January 31, 2009 and 2008, the Company recorded dividend income of \$333,000 and \$350,000, respectively, on its investment in Calavo; which is included in other income (loss), net in the Company's consolidated statements of operations. Sales of the Company's avocados by Calavo totaled \$225,000 and \$5,000 for the three months ended January 31, 2010 and 2009, respectively. Such amounts are included in agriculture revenues in the Company's consolidated statements of operations. There was \$219,000 receivable by the Company from Calavo at January 31, 2010 and no amounts were receivable at October 31, 2009. Additionally, the Company leases office space to Calavo and received rental income of \$57,000 in each of the three month periods ended January 31, 2010 and 2009. Such amounts are included in rental revenues in the Company's consolidated statements of operations.

14. Income Taxes

The Company's projected annual effective tax rate for fiscal 2010 is approximately 35.3%. As such, the 35.3% effective tax rate was utilized by the Company for the first quarter of fiscal 2010 to calculate its income tax provision (benefit).

There has been a no material changes to the Company's uncertain tax position for the three month period ended January 31, 2010. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has accrued approximately \$13,000 of interest and penalties associated with uncertain tax positions as of January 31, 2010.

15. Retirement Plans

Effective December 31, 1991, the Company 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 Company. 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 \$300,000 during each of the three month periods ended January 31, 2010 and 2009.

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

15. Retirement Plans (continued)

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

The net periodic pension costs for the Company's Defined Benefit Pension Plan for the quarters ending January 31 were as follows:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 37,000	\$ 22,000
Interest cost	210,000	222,000
Expected return on plan assets	(255,000)	(256,000)
Recognized actuarial loss	156,000	5,000
Net periodic pension cost	<u>\$ 148,000</u>	<u>\$ (7,000)</u>

LIMONEIRA COMPANY

**NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)**

16. Segment Information

The Company operates and tracks results in three reportable operating segments; agri-business, rental operations, and real estate development. The reportable operating segments of the Company are strategic business units with different products and services, distribution processes and customer bases. The agri-business segment includes farming and citrus packing operations. The rental operations segment includes housing and commercial rental operations, leased land, and organic recycling. The real estate development segment includes real estate development operations. The Company measures operating performance, including revenues and earnings, of its operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income (expense), interest expense, income tax expense and assets, or specifically identify them to its operating segments. Revenues from Sunkist represent \$3,389,000 of the Company's agri-business revenues for the three months ended January 31, 2010 and \$3,236,000 of the Company's agri-business revenues for the three months ended January 31, 2009.

Segment information for the three months ended January 31, 2010:

	<u>Agri-business</u>	<u>Rental Operations</u>	<u>Real Estate Development</u>	<u>Corporate and Other</u>	<u>Total</u>
Revenues	\$ 5,272,000	\$ 955,000	\$ 135,000	\$ –	\$ 6,362,000
Costs and expenses	6,893,000	507,000	327,000	3,416,000	11,143,000
Impairment charges	–	–	–	–	–
Loss on sale of assets	–	–	–	–	–
Operating income (loss)	<u>\$ (1,621,000)</u>	<u>\$ 448,000</u>	<u>\$ (192,000)</u>	<u>\$ (3,416,000)</u>	<u>\$ (4,781,000)</u>

LIMONEIRA COMPANY

NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)

16. Segment Information (continued)

Segment information for the three months ended January 31, 2009:

	<u>Agri-business</u>	<u>Rental Operations</u>	<u>Real Estate Development</u>	<u>Corporate and Other</u>	<u>Total</u>
Revenues	\$ 4,005,000	\$ 911,000	\$ —	\$ —	\$ 4,916,000
Costs and expenses	6,639,000	580,000	83,000	1,478,000	8,780,000
Impairment charges	—	—	—	—	—
Loss on sale of assets	—	—	—	—	—
Operating income (loss)	<u>\$ (2,634,000)</u>	<u>\$ 331,000</u>	<u>\$ (83,000)</u>	<u>\$ (1,478,000)</u>	<u>\$ (3,864,000)</u>

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

	<u>January 31, 2010</u>	<u>January 31, 2009</u>
Lemons	\$ 3,389,000	\$ 3,236,000
Avocados	225,000	5,000
Navel oranges	577,000	301,000
Valencia oranges	149,000	126,000
Specialty citrus and other crops	932,000	337,000
Agri-business revenues	<u>5,272,000</u>	<u>4,005,000</u>
Rental operations	530,000	514,000
Leased land	381,000	360,000
Organic recycling	44,000	37,000
Rental operations revenues	<u>955,000</u>	<u>911,000</u>
Real estate operations	135,000	—
Real estate revenues	<u>135,000</u>	<u>—</u>
Total revenues	<u>\$ 6,362,000</u>	<u>\$ 4,916,000</u>

LIMONEIRA COMPANY

**NOTES TO UNAUDITED INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(CONTINUED)**

17. Subsequent Events

The Company has evaluated events subsequent to January 31, 2010 to assess the need for potential recognition or disclosure. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition in the financial statements (other than the March 24, 2010 capital structure changes as described below) and that the following items represents events that merit disclosure herein:

The revolving line of credit for Investors matured in November 2009 and the maturity date was subsequently extended by Farm Credit West until March, 1, 2010. Farm Credit West subsequently extended the maturity date to May 1, 2010. The Company is in the process of refinancing the revolving line of credit on a long-term basis through amendment to the Farm Credit West agreement or alternatively through its existing facility with Rabobank.

In February 2010, the Company and HM Manager, LLC formed a limited liability company, HM East Ridge, LLC, for the purpose of developing one of the four Templeton land parcels. The Company made a capital contribution of land into HM Eastridge, LLC. Since the Company has significant influence, but less than a controlling interest, the Company plans on accounting for its investment in HM Eastridge, LLC using the equity method of accounting.

On March 23, 2010, the Company's stockholders approved the Limoneira Company 2010 Omnibus Incentive Plan.

Effective March 24, 2010, the Company amended our certificate of incorporation to increase the authorized number of shares of common stock, and effected a ten-for-one split of our common stock. All references in the accompanying unaudited interim consolidated condensed financial statements to (i) the value and number of shares of the Company's common stock, (ii) the authorized number of shares of the Company's common stock and preferred stock, and (iii) loss per share and dividends per share have been retroactively adjusted to reflect these changes.

Windfall Investors, LLC

Financial Statements

Year Ended December 31, 2008

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WINDFALL INVESTORS, LLC
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

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Independent Auditors' Report

Board of Directors
Windfall Investors, LLC
Santa Paula, CA 93060

We have audited the accompanying balance sheet of Windfall Investors, LLC as of December 31, 2008, and the related statements of income and members' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Windfall Investors, LLC as of December 31, 2008, and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Glenn, Burdette, Phillips & Bryson
Certified Public Accountants
A Professional Corporation
San Luis Obispo, California

January 29, 2010

WINDFALL INVESTORS, LLC
BALANCE SHEET
DECEMBER 31, 2008

ASSETS

Current Assets

Cash and cash equivalents	\$ 17,409
Trade receivables, net	106,730
Inventory	52,270
Prepaid expenses and other current assets	28,023
Deferred crop costs	45,100
Current portion of note receivable	8,989
Total current assets	<u>258,521</u>

<u>Property, Plant, and Equipment, Net</u>	12,321,390
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<u>Other Assets, Net</u>	<u>66,744</u>
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Total Assets	<u>\$ 12,646,655</u>
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LIABILITIES AND MEMBERS' DEFICIT

Current Liabilities

Accounts payable	\$ 144,164
Accrued liabilities	6,839
Deposits	2,550
Lines of credit	8,956,814
Current portion of notes payable	135,150
Total current liabilities	<u>9,245,517</u>

Long-Term Liabilities

Notes payable, net of current portion	<u>9,262,778</u>
Total long-term liabilities	9,262,778

<u>Members' Deficit</u>	<u>(5,861,640)</u>
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Total Liabilities and Members' Deficit	<u>\$ 12,646,655</u>
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The accompanying notes are an integral part of these financial statements.

WINDFALL INVESTORS, LLC
STATEMENT OF INCOME AND MEMBERS' DEFICIT
YEAR ENDED DECEMBER 31, 2008

<u>Revenues</u>	\$ 823,253
<u>Cost of Revenues</u>	<u>252,251</u>
Gross Profit	571,002
<u>Operating Expenses</u>	1,575,655
Loss from operations	(1,004,653)
<u>Other Income (Expense)</u>	
Interest expense	(1,105,267)
Loss from sale of assets	(74,688)
Other income, net	<u>195,922</u>
Total other income (expense)	(984,033)
Net loss before provision for income taxes	(1,988,686)
Provision for income taxes	<u>6,800</u>
Net Loss	(1,995,486)
<u>Members' Deficit - Beginning of Year</u>	<u>(3,866,154)</u>
<u>Members' Deficit - End of Year</u>	<u>\$ (5,861,640)</u>

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

WINDFALL INVESTORS, LLC
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

<u>Cash Flows From Operating Activities</u>	
Net loss	\$ (1,995,486)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	175,585
Bad debt expense	536,004
Impairment of other assets	43,226
Loss on sale of assets	74,688
Change in assets and liabilities:	
Increase in trade receivables	(98,700)
Increase in inventory	(13,918)
Decrease in prepaid expenses and other current assets	74,279
Increase in deferred crop costs	(45,100)
Decrease in accounts payable	(104,957)
Increase in accrued liabilities	3,599
Increase in deposits	2,550
Total adjustments	647,256
Net cash used by operating activities	(1,348,230)
<u>Cash Flows From Investing Activities</u>	
Purchases of fixed assets	(73,272)
Purchases of other assets	(75,000)
Proceeds from sale of other assets	52,925
Net cash used by investing activities	(95,347)
<u>Cash Flows From Financing Activities</u>	
Changes in note receivable	(5,383)
Repayments under notes payable	(120,603)
Advances on lines of credit, net	1,582,634
Net cash provided by financing activities	1,456,648
Net increase in cash	13,071
<u>Cash and Cash Equivalents - Beginning of Year</u>	4,338
<u>Cash and Cash Equivalents - End of Year</u>	\$ 17,409
<u>Schedule of Payments for Interest and Taxes</u>	
Payments for interest	\$ 1,105,267
Payments for income taxes	\$ 6,800

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

WINDFALL INVESTORS, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1 - Summary of Significant Accounting Policies

A. Nature of Business

Windfall Investors, LLC (the Company) is a farming operation located in Paso Robles, California. The Company also provides services for horse training and boarding.

B. Inventory

Inventories are stated at lower of cost (first-in, first-out) or market.

C. Property, Plant and Equipment

Property, plant and equipment are stated at cost with depreciation provided on the straight-line basis over the estimated useful lives ranging from five to thirty-nine years.

D. Income Taxes

The Company has been formed as a Limited Liability Company (LLC) with taxation treatment as a partnership. As such, income or losses will be passed through the Company to its members for purposes of income taxation. Under current California law, an LLC is subject to an annual \$800 LLC tax as well as an LLC fee based on gross receipts. The LLC fee for the year ended December 31, 2008 was \$6,800.

On July 13, 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109 (SFAS 109, Accounting for Income Taxes)*. FIN 48 clarifies SFAS 109 to indicate a criterion that an individual tax position would have to meet for some or all of the income tax benefit to be recognized in the financial statements. Originally effective for fiscal years beginning after December 15, 2006, the FASB subsequently issued two deferrals for nonpublic enterprises, including pass-through entities and not-for-profit organizations, the most recent being FASB Staff Position 48-3 (FSP 48-3) in December 2008. FSP 48-3 deferred the effective date of FIN 48 until years beginning after December 15, 2008.

E. Fair Value Measurements

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company has adopted this standard.

Note 1 - Summary of Significant Accounting Policies (Continued)

F. Concentrations

The Company maintains cash balances at a financial institution covered under Federal Deposit Insurance Corporation (FDIC). As of October 3, 2008, the FDIC increased coverage up to \$250,000 and fully insured non-interest bearing accounts. The Company did not have any uninsured cash at December 31, 2008.

Approximately 38% of the Company's accounts receivables at December 31, 2008 were from two customers.

Approximately 28% of the Company's sales during the year ended December 31, 2008 were from three customers.

G. Use of 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 certain 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 reported period. Actual results could differ from those estimates.

H. Allowance for Doubtful Accounts

It is the policy of management to review the outstanding accounts receivable at year-end, as well as historical bad debt write-offs, and establish an allowance for doubtful accounts for estimated uncollectible amounts. The Company has not recorded an allowance for doubtful accounts as of December 31, 2008.

I. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company has no cash equivalents at December 31, 2008.

J. Revenue and Cost Recognition

The Company's revenue is recognized on the accrual basis as earned based on date of delivery. Expenditures are recorded on the accrual basis whereby expenses are recorded when incurred, rather than when paid.

K. Deferred Crop Costs

Costs associated with the following year's crop are deferred at year-end and are reversed into cost of sales the following year.

Note 1 - Summary of Significant Accounting Policies (Continued)

L. Other Assets

Other assets include horses and related costs that are used for training and breeding, which are amortized on a straight-line basis over seven years, and loan costs, which are amortization over term of the loan. Amortization expense for the year ended December 31, 2008 totaled \$28,275.

Note 2 - Stock in Credit Association

The Company holds stock in the farm credit association with which the Company has loans. The farm credit association requires that borrowers invest in the credit association in order to obtain a loan. The investment is offset dollar for dollar by a stock loan from the credit association, which is adjusted by the association as the outstanding loan balance is paid down.

Note 3 - Note Receivable

The Company advances from time to time amounts under a note receivable arrangement with a related party. The note receivable does not bear interest and is due upon demand. The balance outstanding on the note was \$8,989 as of December 31, 2008 and has been classified as current in the financial statements.

Note 4 - Inventory

Inventory consists of finished goods at December 31, 2008.

Note 5 - Property, Plant and Equipment

Property, plant and equipment are summarized by major classification as follows:

	<u>2008</u>
Land	\$ 11,025,220
Buildings and building improvements	1,125,815
Irrigation	105,336
Farming and transportation equipment	412,205
Office equipment	<u>3,432</u>
	12,672,008
Accumulated depreciation	<u>(350,618)</u>
	<u>\$ 12,321,390</u>

Depreciation expense totaled \$147,310 for the year ended December 31, 2008.

Note 6 - Lines of Credit

The Company has a two revolving lines of credit with Farm Credit West with a total credit line of \$10,500,000. The lines of credit are unsecured and are guaranteed by a member of the Company. The lines of credit allow for borrowings based on either a fixed rate of interest (6.67% at December 31, 2008) or a variable rate of interest based on the prime rate less .75% (2.25% at December 31, 2008). Total outstanding on the lines of credit as of December 31, 2008 was \$8,956,814. The lines of credit mature on March 1, 2010.

Note 7 - Notes Payable

Notes payable at December 31, 2008 consist of the following:

Note payable to Farm Credit West, with a fixed interest rate of 6.73%; due October 2035, with monthly payments of \$63,092, including interest; secured by real property of the Company and guaranteed by members of the Company.	\$ 9,391,753
Note payable to a related party due upon demand; secured by related party accounts receivable	<u>6,175</u>
Total notes payable	\$ 9,397,928
Less current portion of notes payable	<u>135,150</u>
Notes payable, net of current portion	<u>\$ 9,262,778</u>

The aggregate maturities of long-term debt are as follows for the year ending December 31:

<u>Year Ending December 31,</u>	
2009	\$ 135,150
2010	137,927
2011	147,502
2012	157,741
2013	168,690
Thereafter	<u>8,650,918</u>
	<u>\$9,397,928</u>

Note 8 - Related Party Transactions

In March of 2005, Windfall, LLC, a member of Windfall Investors, LLC, formed Creston Ag., LLC for the purpose of providing agricultural-related labor and management services to the agricultural industry. During 2008, Creston Ag., LLC provided labor and payroll tax services to the Company totaling \$305,122. As discussed in Note 7, the amount due to Creston Ag., LLC at December 31, 2008 was \$6,175 and is secured by a note receivable from the Creston Ag., LLC totaling \$8,989 at December 31, 2008 (see Note 8).

The Company has also made advances to a related party, Templeton Enterprises, which totaled \$11,612 at December 31, 2008, and are included in accounts receivable.

WINDFALL INVESTORS, LLC
BALANCE SHEET (unaudited)
SEPTEMBER 30, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 30,057
Trade receivables, net	127,329
Inventory	-
Prepaid expenses and other current assets	11,158
Deferred crop costs	45,100
Current portion of note receivable	8,589
Total current assets	<u>222,233</u>

<u>Property, Plant and Equipment, Net</u>	12,177,048
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<u>Other Assets, Net</u>	<u>54,178</u>
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Total Assets	<u>\$ 12,453,459</u>
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LIABILITIES AND MEMBERS' DEFICIT

Current Liabilities

Accounts payable	\$ 139,687
Accrued Liabilities	53,020
Deposits	6,250
Lines of credit	9,773,309
Current portion of notes payable	135,150
Total current liabilities	<u>10,107,416</u>

Long-Term Liabilities

Notes payable, net of current portion	<u>9,160,689</u>
Total long-term liabilities	9,160,689

<u>Members' Deficit</u>	<u>(6,814,645)</u>
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Total Liabilities and Members' Deficit	<u>\$ 12,453,459</u>
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WINDFALL INVESTORS, LLC
STATEMENT OF INCOME (unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2009

Revenues	\$ 424,934
Cost of Revenues	<u>84,211</u>
Gross Profit	340,724
Operating Expenses	546,760
Loss from operations	(206,036)
Other Income (Expenses)	
Interest expense	(814,386)
Loss from disposal of assets	(17,978)
Other income, net	<u>89,745</u>
Total other income (expense)	(742,619)
Net loss before provision for income taxes	(948,656)
Provision for income taxes	<u>(4,350)</u>
Net Loss	(953,006)
Members' Deficit - Beginning of Year	<u>(5,861,640)</u>
Members' Deficit - Nine months ended September 2009	<u>\$ (6,814,645)</u>

WINDFALL INVESTORS, LLC
STATEMENT OF CASH FLOWS (unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2009

<u>Cash Flows From Operating Activities</u>	
Net loss	\$ (953,006)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	128,077
Loss on disposal of assets	17,978
Change in assets and liabilities	
Increase in trade receivables	(20,599)
Decrease in inventory	52,270
Decrease in prepaid expenses and other current assets	16,865
Decrease in accounts payable	(4,477)
Increase in accrued liabilities	46,181
Increase in deposits	3,700
Other	11,272
Total adjustments	251,267
Net cash used by operating activities	(701,739)
<u>Cash Flows From Investing Activities</u>	
Purchases of fixed assets	(419)
Net cash used by investing activities	(419)
<u>Cash Flows From Financing Activities</u>	
Changes in note receivable	400
Repayments under notes payable	(102,089)
Advances on lines of credit, net	816,495
Net cash provided by financing activities	714,806
Net Increase in cash	12,648
<u>Cash and Cash Equivalents - Beginning of Year</u>	17,409
<u>Cash and Cash Equivalents - End of Year</u>	\$ 30,057

Delaware

PAGE 1

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "LIMONEIRA COMPANY", FILED IN THIS OFFICE ON THE TWENTY-FOURTH DAY OF MARCH, A.D. 2010, AT 1:07 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

2227679 8100

100312143

You may verify this certificate online
at corp.delaware.gov/authver.shtml




Jeffrey W. Bullock, Secretary of State
AUTHENTICATION: 7889455

DATE: 03-24-10

AMENDMENT TO
CERTIFICATE OF INCORPORATION
OF
LIMONEIRA COMPANY
(a Delaware corporation)

Limoneira Company (the "*Corporation*"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "*DGCL*"), DOES HEREBY CERTIFY:

FIRST: The name of the Corporation is Limoneira Company.

SECOND: The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of Delaware on April 12, 1990, amended pursuant to a Restated Certificate of Incorporation on July 6, 1990, and further amended pursuant to a Certificate of Amendment of Certificate of Incorporation on May 6, 2003 (as amended, the "*Certificate of Incorporation*").

THIRD: That the Board of Directors of the Corporation, by majority consent in accordance with Section 141 of the DGCL, approved, ratified and duly adopted resolutions setting forth the following amendments to the Certificate of Incorporation to increase the authorized shares of common stock and effectuate a ten-for-one stock split, declaring such amendments to be advisable:

A. Article FOURTH, section (a) of the Certificate of Incorporation of the Corporation is amended and restated in its entirety to read as follows:

FOURTH: (a) The total number of shares of all classes of capital stock that the Corporation shall have authority to issue is 20,000,000 shares of stock consisting of (i) 19,900,000 shares of common stock, par value \$.01 per share (the "*Common Stock*"), (ii) 50,000 shares of preferred stock, par value \$.01 per share (the "*Class A Preferred Stock*"), and (iii) 50,000 shares of preferred stock, par value \$100 per share (the "*Class B Preferred Stock*" and collectively with the Class A Preferred Stock, the "*Preferred Stock*"). The Class A Preferred Stock may be issued in one or more series. The first series shall consist of 20,000 shares of Series A Junior Participating Preferred Stock, \$0.01 Par Value and shall have the voting powers, preferences and relative, participating, optional and other special rights, and qualifications, limitations and restrictions as set forth in the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, \$.01 Par Value, of Limoneira Company filed with the Secretary of State of Delaware on November 30, 2006. The Class B Preferred Stock may be issued in one or more series. The first series shall consist of 30,000 of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B and shall have the voting powers, preferences and relative, participating, optional and other special rights, and qualifications, limitations and restrictions as set forth in the Amended Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B, of Limoneira Company filed with the Secretary of State of Delaware on July 1, 1997. The remaining shares of

Preferred Stock may be issued from time to time in accordance with Section (b) of this Article Fourth.

B. Article FOURTH of the Certificate of Incorporation of the Corporation is amended to insert new section (c) as follows:

- (c) Effective as of the filing of this Certificate with the Secretary of State of the State of Delaware (the "*Effective Time*"), a ten-for-one stock split of the Corporation's common stock shall become effective, pursuant to which:
 - (i) each share of common stock, \$0.01 par value, outstanding and held of record by each stockholder of the Corporation immediately prior to the Effective Time (the "*Old Common Stock*") and each share of Old Common Stock held in the treasury of the Corporation immediately prior to the Effective Time shall (A) be reclassified as and subdivided into 10 shares of Common Stock (as defined in section (a) of this Article FOURTH) automatically and without any action by the holder thereof upon the Effective Time, and (B) shall represent 10 shares of Common Stock from and after the Effective Time;
 - (ii) no fractional shares of common stock of the Corporation will be issued as a result of such reclassification and split; and
 - (iii) each stock certificate that, immediately prior to the Effective Time, represented shares of Old Common Stock shall, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of shares of Common Stock into which the shares of capital stock represented by such certificate shall have been reclassified and subdivided pursuant to this section (c), provided, however, that each person of record holding a certificate evidencing and representing shares of common stock of the Corporation held prior to the Effective Time shall receive, upon surrender of such certificate, a new certificate evidencing and representing that number of shares of common stock of the Corporation into which such shares of Old Common Stock shall have been reclassified and subdivided.

FOURTH: That thereafter, pursuant to a resolution of its Board of Directors, the annual meeting of the stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

FIFTH: That said amendment was duly adopted in accordance with the provisions of Section 242 of the DGCL.

SIXTH: That the capital of the Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by its President and Chief Executive Officer this 24th day of March, 2010.

By: /s/ Harold S. Edwards
Harold S. Edwards
President & Chief Executive Officer

AMENDMENT TO AMENDED AND RESTATED LINE OF CREDIT AGREEMENT

This First Amendment to Amended and Restated Line of Credit Agreement ("Amendment") is dated and made effective as of May 12, 2009 between LIMONEIRA COMPANY, a Delaware corporation (the "Borrower") and RABOBANK, N.A., a national banking association (the "Bank"). Borrower and Bank agree as follows:

PRELIMINARY STATEMENT. Borrower and Bank have entered into that certain Amended and Restated Line of Credit Agreement dated as of December 15, 2008, (that credit agreement as amended herein and by any and all other modifications or amendments thereto is hereinafter referred to as the "Credit Agreement"; the terms defined in the Credit Agreement are used herein as therein defined). Borrower and Bank wish to amend the Credit Agreement.

NOW, THEREFORE, Borrower and Bank agree as follows:

Section 1.01 Amendment to Section 2.06(a) of the Credit Agreement. Section 2.06(a) of the Credit Agreement is hereby amended in its entirety as follows:

(a) Prior to May 15, 2009, the Borrower shall provide Lender with additional real estate as Collateral (the "Additional Real Estate") and Borrower shall satisfy all of the following in relation to the Additional Real Estate:

(i) Borrower shall provide Lender an executed amendment to the deed of trust in form and substance acceptable to Lender (the "Deed of Trust Amendment");

(ii) Borrower shall provide a CLTA lender's title insurance policy effective as of a date no earlier than the date and time of recording of the Deed of Trust Amendment, which insures the priority Lien position in favor of Lender and includes any endorsements as may be required by Lender (the "Additional Title Policy");

(iii) Borrower shall have completed an environmental questionnaire for the Additional Real Estate;

(iv) Borrower shall provide Lender evidence of a source of water on the Additional Real Estate sufficient for Borrower's operations;

(v) Lender shall have received an appraisal of the Additional Real Estate at the expense of the Borrower and in form and substance satisfactory to Lender in Lender's sole discretion;

(vi) Borrower shall provide Lender evidence of insurance coverage on the Additional Real Estate, as required by this Agreement or any other Loan Document;

(vii) Borrower shall provide Lender evidence that all required licenses, permits or other documentation from any Governmental Authority for the Borrower's operations and business on the Additional Real Estate have been received; and

(viii) Borrower shall provide Lender with any other evidence or documentation related to the Additional Real Estate as Lender may reasonably require.

Section 1.02 Amendment to Section 2.06(b) of the Credit Agreement. Section 2.06(b) of the Credit Agreement is hereby amended in its entirety as follows:

(b) On May 15, 2009, Lender shall reduce the Line of Credit Maximum Amount to the greater of (i) \$69,900,000.00 or (ii) \$63,900,000.00 plus 60% of the appraised value of any

Additional Real Estate that has satisfied all of the terms and conditions of Section 2.06(a); provided, however, that at no time shall the Line of Credit Maximum Amount exceed \$80,000,000.00. Borrower shall be required to make any mandatory repayments required by Section 2.05 as a result of any reduction in the Line of Credit Maximum Amount. Once reduced in accordance with this Section 2.06, the Line of Credit Maximum Amount may not be increased.

Section 1.03 Effectiveness. This Amendment shall become effective when and only when Bank shall have received (a) counterparts of this Amendment duly executed by Borrower; (b) payment by Borrower for all outstanding legal fees and costs, including any fees or costs set forth in Section 1.08 below; and (c) such other documents, actions or assurances as Bank may reasonably request.

Section 1.04 Representations and Warranties of Borrower.

(a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of California.

(b) The execution, delivery and performance by Borrower of this Amendment and the Credit Agreement, as amended hereby, are within Borrower's powers, have been duly authorized by all necessary company action and do not contravene Borrower's articles of incorporation or bylaws, or any law or any contractual restriction binding on or affecting Borrower, or result in, or require, the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of the properties.

(c) No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by Borrower of this Amendment or the Credit Agreement, as amended hereby.

(d) This Amendment and the Credit Agreement, as amended hereby, constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

(e) No event listed in Section 12.01 of the Credit Agreement has occurred and is continuing.

Section 1.05 Reference to and Effect on the Credit Agreement.

(a) On and after the date hereof, each reference in the Credit Agreement to "this Agreement", "hereunder" "hereof", "herein" or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

(b) Except as specifically amended by any prior amendments, the Credit Agreement shall remain in full force and effect and is hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Bank under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

Section 1.06 Execution in Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

Section 1.07 Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws (without giving effect to the conflicts of laws principles thereof) of the State of California.

Section 1.08 Expenses. Borrower shall pay on demand all costs and expenses incurred by Bank in connection with the preparation, execution, delivery, filing, and administration of this Amendment
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(including, without limitation, Legal Fees incurred in connection with the preparation of this Amendment and advising Bank as to its rights, and the cost of any credit verification reports or field examinations of Borrower's properties or books and records). Borrower's obligations to Bank under this Section shall survive termination of this Agreement and repayment of Borrower's obligations to Bank under the Credit Agreement.

[NO FURTHER TEXT ON THIS PAGE]

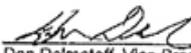
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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first above written.

BORROWER

LIMONEIRA COMPANY, a Delaware corporation

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

By: 
Don Dumatoff, Vice President of Finance and Administration and Chief Financial Officer

BANK:

RABOBANK, N.A., a national banking
association

By: 
Name: STEPHEN N. SHINSKY
Title: SENIOR VICE PRESIDENT

REVOLVING EQUITY LINE OF CREDIT
PROMISSORY NOTE AND LOAN AGREEMENT

Loan Number 0500574400

October 28, 1997

Arroyo Grande, California

1. PROMISE TO PAY.

FOR VALUE RECEIVED, the undersigned ("Borrower", whether one or more) jointly and severally promises to pay to the order of Central Coast Federal Land Bank Association, FLCA ("Lender") a corporation organized and existing under the laws of the United States of America, at its principal office at Arroyo Grande, California or at such other place as may be designated in writing by Lender, the principal sum of Nine Million One Thousand and no/100 dollars (\$ 9,001,000.00), including capital stock or participation certificates ("Maximum Loan Amount"), or so much of that sum as may be advanced or re-advanced by Lender under this Revolving Equity Line of Credit Promissory Note and Loan Agreement ("Note"), with interest on the unpaid principal balance.

2. REVOLVING LINE OF CREDIT.

- A. Lender shall make available to Borrower a revolving line of credit in a principal amount not to exceed at any one time the Maximum Loan Amount. Subject to the terms and conditions of this Note, as amounts borrowed hereunder are repaid during the Draw Period as defined below, they may be reborrowed. Borrower shall purchase capital stock or participation certificates in the amount required by Lender's bylaws, which are subject to change.
- B. Until November 01, 2007 ("Draw Period"), Borrower may draw amounts hereunder, subject to the terms and conditions of this Note. The Draw Period may be terminated by Borrower at any time by written notice to Lender. Subject to the terms and conditions of this Note, and provided Borrower is not in default under paragraph 6 of this Note, Lender shall make advances to Borrower upon request. If such an event of default occurs, one of Lender's remedies includes Lender's right to terminate Borrower's right to make draws. Such termination may be with or without notice to Borrower.
- C. Draws must be in increments of not less than Ten Thousand and no/100 dollars (\$ 10,000.00), or the remaining amount available under the Note, whichever is less. All draws requested hereunder by Borrower shall be drawn in accordance with procedures established by Lender.

3. REPAYMENT.

A. Principal And Interest Shall Be Payable To Lender As Follows:

(X) 1. During the Draw Period:

(X) Interest Only: During the Draw Period, Borrower shall pay on February 01, 1998 and every three months thereafter, all interest then accrued during the billing period based on the daily principal balance.

() [Loan Matures at End of Draw Period:] On _____ ("Maturity Date") Borrower shall pay the entire unpaid principal sum together with all interest accrued thereon.

() Principal Reduction and Interest: Beginning on _____ and on that date each year thereafter during the Draw Period, the Maximum Loan Amount shall each be reduced by _____ dollars (\$ _____) ["Adjustment Amount"]. If, after reducing the Maximum Loan Amount, the outstanding principal balance

exceeds the reduced Maximum Loan Amount, Borrower shall pay the difference within thirty days of written request by Lender. Borrower shall also pay on _____ and every _____ thereafter, all interest then accrued during the billing period based on the daily principal balance.

() [Loan Matures at End of Draw Period] On _____ ("Maturity Date") Borrower shall pay the entire unpaid principal sum together with all interest accrued thereon.

(x) 2. During the Amortized Balance Period :

- a. Provided the Borrower is not then in default and there is no event which with the passage of time would become an event of default under the terms of this Note, then on the first day after the end of the Draw Period, the outstanding principal balance then due ("Amortized Balance") shall be fully amortized in accordance with the terms hereof over the remaining term of the Note ("Amortized Balance Period"). Provided Borrower is current on all scheduled payments due under the Draw Period, any interest accrued and unpaid since the last scheduled payment under the Draw Period shall be added to the first installment due under the Amortized Balance Period.
- b. Borrower shall make equally amortized payments of principal and interest based on the Amortized Balance beginning on February 1, 2008 and every three months until November 1, 2022 ("Maturity Date") at which time the entire remaining principal balance, together with all accrued interest and all other obligations evidenced by this Note shall be fully due and payable.

() 3. Repayment Per Attached Schedule :

- a. Borrower shall make interest and principal payments during the Draw Period, and the Amortized Balance Period if applicable, per the attached Repayment Schedule.

B. Repayment Upon Early Termination.

1. If Borrower terminates the Draw Period, the obligation evidenced by this Note shall be equally amortized over the remaining term of the Note based on the repayment frequency for principal payments specified in Paragraphs 3(A)(2)(b), or if none, then based on the interest only payment frequency specified in Paragraph 3(A)(1).
2. If Lender elects not to accelerate the loan in conjunction with the termination of the Draw Period in the event of a default, then if the loan originally provided for an Amortized Balance Period under Paragraph 3(A)(2), the outstanding obligation shall be immediately equally amortized over the remaining term of the Note based on the repayment frequency for payments specified in Paragraph 3(A)(2). If the loan originally provided for the loan to mature at the end of the Draw Period, interest only payments shall continue until the Maturity Date specified in Paragraph 3(A).
3. The terms of Paragraph 3(C)(1) shall also apply to any early amortization of the Note.

C. Additional Terms of Repayment. Borrower shall also be subject to the following terms for repayment:

1. The amount of the installments shall be increased or decreased to reflect any increase or decrease in the interest rate described in Paragraph 4 below. Any payment received by Lender after Lender has closed its books for the day will be applied on the subsequent business day.
2. Provided Borrower is not in default under this Note, Borrower has the right to make payments in advance of the scheduled payment dates. Such an advance payment is referred to as "prepayment". If Borrower, in making a prepayment, intends the prepayment to be applied to reduce the principal balance of the Note, Borrower must so inform Lender in writing accompanying the prepayment. Absent such a writing, or unless agreed to in writing otherwise, Lender may apply all payments, including regular installments, received from or on behalf of Borrower and all proceeds of real or personal property collateral to principal, interest or any part of the indebtedness as defined in the deed of trust, mortgage or security agreement as Lender, in its sole discretion, may choose. Borrower may make a full prepayment or partial prepayment without paying a prepayment fee. If Borrower makes a partial prepayment, there will be no delays in the due dates of Borrower's installment payments unless Lender agrees in writing to those delays. Unless Borrower and Lender agree otherwise, Lender at its sole discretion may reamortize the Note on the basis of the new principal balance; otherwise, the making of a prepayment will operate only to discharge the Note at an earlier date.

4. **INTEREST.**

- A. **Initial Interest Rate.** The rate of interest applicable to the Note is a variable interest rate and shall change in accordance with Paragraphs 4(B) through (D) below. Interest shall accrue at the variable interest rate as established by Lender for the interest rate group to which this Note is assigned. The initial interest rate that will be charged commencing on the date Lender disburses principal is 7.25 % per annum. Interest will be charged on that part of outstanding principal which has not been paid and shall be calculated on the basis of a 360-day year and a 30-day month. During the Draw Period interest shall be calculated daily on this basis. Interest charged hereunder, including any accelerated interest rate described in Section 6 below, shall not be limited by the laws of any state relating to a legal rate or other rate of interest, but shall be governed solely by applicable federal laws.
- B. **Change in Interest Rate and Interest Rate Group.** The interest rate applicable to this Note may be adjusted automatically as of the first day of any month to the rate then made applicable to the Note's assigned interest rate group under the provisions of Lender's variable interest rate plan in effect at that time. In adjusting the rate, Lender considers certain standard factors set forth in the plan, including but not limited to, changes in its costs of funds, operating expenses, earnings requirements to meet certain capital objectives, credit risk factors, and the competitive environment, which factors may change during the term of the loan. Upon any adjustment to the rate of interest, the installments of principal and/or interest due hereunder shall be increased or decreased so that the indebtedness will be repaid within the original loan term. Borrower understands and agrees that (1) the interest rate group to which this Note is assigned may be changed at any time to any other interest rate group based on Lender's evaluation of the change in Borrower's credit quality, quality of collateral, costs of servicing the loan, and other factors which are set forth in Lender's interest rate plan in effect at that time; and (2) the interest rate group shall be automatically adjusted to the highest interest rate group if a default or event of default shall occur under this Note or under any other note or agreement between Borrower and Lender.
- C. **Notice.** If Lender changes Borrower's interest rate, Lender will give Borrower notice of the change in rate as required by the then applicable law.
- D. **Conversion Option.** Provided Borrower is not in default, Borrower shall have the option to convert at the end of the Draw Period from the variable interest rate to any other interest rate program Lender may offer for loans in amount and terms similar to Borrower's. Such conversion is subject to approval by Lender and payment of all applicable fees, charges and accrued interest.

5. **INTEREST AND LATE CHARGES FOR OVERDUE PAYMENTS.**

Any installment of principal or interest not received by Lender by the end of the fifteenth (15th) calendar day after the day it is due shall bear interest from such due date until such amount is fully paid at a variable interest rate equal to the interest rate in effect at that time plus 4.00 % per annum. As the interest rate is increased or decreased, the late charge rate shall be likewise adjusted. Borrower shall also be obligated to pay a late charge of \$25.00 for each installment of principal and/or interest not received by Lender by the end of the fifteenth (15th) calendar day after the date it is due.

6. **DEFAULT.**

Borrower is in default of this Note under the following circumstances: (a) Borrower fails to pay principal or interest as set forth in this Note; (b) Borrower breaches any term, condition or representation in this Note or in any document in connection with this Note or in connection with any other loan of this Lender, or any other lender; (c) If any of Borrower's representations to this, or any other lender in connection with any loan prove to be materially false or misleading; (d) Lender determines that Borrower is unable to repay the sums owed Lender under this Note as agreed or Lender in good faith otherwise deems itself insecure; (e) If, in Lender's reasonable determination, there shall occur any material adverse change in the financial condition of Borrower or in the value of the collateral; (f) Borrower's death, dissolution, incapacity or termination of existence; (g) Borrower's insolvency, business failure, application for or consent to appointment of a receiver/custodian or trustee for itself or any of its assets, assignment to an agent authorized to liquidate any substantial amount of assets, assignment for the benefit of creditors by, or commencement of any proceeding under any bankruptcy or insolvency law by or against Borrower, or any guarantor, endorser, or surety for Borrower; (h) Any judgment, writ, levy, lien, attachment, notice of tax lien, tax lien, or similar process shall be entered or filed against Borrower or any guarantor or any of Borrower's or any of guarantor's properties and is not vacated, bonded, or stayed to the satisfaction of Lender; (i) An event of default shall occur under any guaranty given to Lender as security for this Note, or any guarantor shall purport to terminate, repudiate or contest any such guaranty; any guarantor who is a natural person shall die; or any guarantor that is not a natural person shall be dissolved or terminated; (j) Borrower sells, leases, conveys, alienates, or transfers, or enters into any agreement for the sale, lease, conveyance, alienation, transfer or nonuse of any water or water right, or similar term such as Water Asset, as may be defined in any deed of trust, mortgage, security agreement or other agreement relating to the pledge of water or water rights.

- A. Remedies. If an event of default shall occur, Lender shall have all rights, powers and remedies available under this Note or any other loan document, or agreement, or accorded by law or at equity, including the right to suspend or terminate the right of Borrower to make draws hereunder, to foreclose on any and all collateral and to exercise any or all of the rights of a mortgagee, trust deed beneficiary, or secured party pursuant to applicable law. All rights, powers, and remedies of Lender may be exercised at any time by Lender and from time to time after the occurrence of an event of default. All rights, powers, and remedies of Lender in connection with this Note and any loan document are cumulative and not exclusive and shall be in addition to any other rights, powers, or remedies provided by law or equity. Lender may enforce any security interest or lien given or provided for under this Note or any other document in such manner and in such order, as to all or any part of the collateral as Lender, in its sole judgment, deems to be necessary or appropriate, and Borrower, to the extent Borrower can, waives any and all rights, obligations, or defenses now or hereafter established by law relating to the foregoing. The mortgage, deed of trust or security agreement provides that advances made by Lender shall become a part of the principal evidenced by this Note, and also states additional conditions under which the entire Note may be accelerated and become immediately due and payable and will be subject to interest and acceleration interest.
- B. Acceleration and Interest Upon Acceleration. On Borrower's default, and at Lender's option, all unpaid principal, including amounts advanced for taxes, insurance, and other expenses provided herein, accrued unpaid interest and amounts charged in Section 5, shall become immediately due and payable without presentment, demand, notice of non-payment, or protest. Interest on said accelerated amount shall be 4.00 % per annum above the interest rate in effect at the time as stated in Section 4(A)-(D) above.
- C. Waiver. Any delay, failure or discontinuance of Lender in exercising any right or remedy shall not waive that right or remedy or any other right or remedy. Any explicit waiver of default by Lender must be in writing and signed by Lender. No waiver of default by Lender shall operate as a waiver of any other default or of the same default on a future occasion.

7. USE OF FUNDS.

Borrower represents and warrants that any funds drawn hereunder will be used primarily for business or agricultural purposes and not for personal, family, or household purposes. Borrower understands and acknowledges that Lender has relied on this representation in establishing this revolving line of credit in favor of Borrower and will rely on this representation in making any advance under this Note.

8. APPOINTMENT OF AGENT.

Borrower hereby appoints Lori Le Suer ("Agent") to draw loan funds under this Note during the Draw Period. Lender, at its sole option, may require that all requests for loan funds be in writing, signed by Agent, in a form acceptable to Lender. If oral requests for loan funds are permitted, Lender's records shall be conclusive evidence of such requests for loan funds. Facsimile documents may be accepted by Lender as originals. Any draw by Agent constitutes an ongoing representation and warranty by Borrower that there is not at the time of request or payment of any draw, any event of default pending under the Note or any deed of trust or mortgage securing the Note, and that title to any such security has not been transferred.

Draws shall be paid according to Agent's instructions, except that checks representing loan funds shall always be made payable to at least one Borrower and wire transfers shall only be permitted if Borrower has authorized the account into which the funds are to be deposited. The appointment of the above-named Agent pursuant to this paragraph shall remain in full force and effect until written notice of revocation of appointment signed by any one of the undersigned has been received by Lender. Upon receipt of such written revocation, until a new agent is appointed in writing by Borrower, draw requests submitted with less than all the Borrowers' signatures shall be made payable to all Borrowers.

Borrower shall indemnify and hold Lender harmless from loss or liability of any kind arising from or related to any action or inaction taken by Lender in good faith in reliance on this appointment or any instructions from the Agent or Borrower pursuant to this provision.

STANDARD CONDITIONS

While this Note is in effect Borrower will: (1) at Lender's request, furnish information to Lender relating to Borrower's business and financial affairs and permit Lender to examine Borrower's books and records; (2) maintain all other loans with Lender in a current status; (3) allow Lender to inspect and appraise Lender's collateral; (4) promptly notify Lender of any potential material adverse change in financial condition or notify Lender in writing of any possible default under this Note or any other loan agreement with Lender or with any other lender or of any event which would become an event of default upon the lapse of time or the giving of notice or both; (5) execute all other documents as Lender may lawfully require in connection with this Note; and (6) comply with all terms and conditions of all other documents executed in connection with this Note.

TRANSFER BY LENDER. Lender may sell, transfer or assign this Note or any portion thereof, and deliver to the transferee(s) ("Noteholder") all or any portion of the property then held by it as security hereunder, and the Noteholder shall thereupon become vested with all the power and rights herein given to Lender with respect thereto and at such time the term "Lender" as herein used shall be deemed to mean and include the "Noteholder"; and Lender shall thereafter be forever relieved and fully discharged from any and all liability or responsibility to Borrower, but Lender shall retain all rights and powers hereby given with respect to property not so transferred, sold or assigned.

FINANCIAL REPORTS. Borrower shall furnish Lender as soon as possible, but in no event later than 120 days after each fiscal year, financial reports for each of the undersigned, including a balance sheet and a profit and loss statement.

FEES AND CHARGES OF ATTORNEYS AND OTHERS. In the event that Lender employs attorneys, accountants, appraisers, consultants, or other professional assistance, including the services of any such person who is a direct employee of Lender, in connection with any of the following, then, the reasonable amount of costs, expenses and fees incurred by Lender shall be payable on demand. Lender may, at its option, add the amount of such costs, expenses and reasonable fees to the principal amount of the loan and an appropriate amount of capital stock or participation certificates as required by Lender's bylaws and Farm Credit Administration ("FCA") regulations. Lender thereafter may charge interest on such amount at the interest rate then applicable to the principal.

Costs, expenses and reasonable fees of professionals covered by this provision include such charges for the following:

- (A) The preparation, modification, or renewal of this Note, or any security agreement, deed of trust, or mortgage ("Security Instrument"), or any other documentation incident to the loan transaction;
- (B) Advising Lender subsequent to the initial disbursement of loan proceeds concerning its legal rights and obligations with regard to the Note or security given for the Note, including advising Lender with regard to Borrower's exercise of any rights under the provisions of the Farm Credit Act, as amended, FCA regulations, any policy or program of Lender, or any state or federal law or regulation and bankruptcy laws and rules;
- (C) Any litigation, dispute, proceeding or action, whether instituted by Lender, Borrower, or any other person, relating to the Note, security given for the Note, or Borrower's affairs, including representation of Lender in any bankruptcy, insolvency, or reorganization case or proceeding instituted by or against Borrower, and any attempt by Lender to enforce any rights against Borrower;
- (D) In the event of any controversy, claim or dispute relating to the Note, security given for the Note, any Security Instrument or other agreements between Borrower and Lender, including but not limited to any action to construe or enforce the terms of the loan obligations and security agreements, the prevailing party shall be entitled to recover its reasonable costs, expenses, and reasonable attorney fees;
- (E) In the event of bankruptcy or insolvency proceedings (whether state or federal) instituted by or against Borrower or third parties with whom Borrower has entered contractual relationships, the Lender may recover all costs, expenses and reasonable attorney fees incurred to protect or defend Lender's right under the Note, any Security Instrument and other documents underlying the loan transactions whether such costs, expenses, and attorney fees be contractual or bankruptcy related, including costs, expenses, and attorney fees for meetings, sessions, matters, proceedings and litigation involving issues solely distinct to federal bankruptcy law, rules and proceedings as well as other federal and state litigation and proceedings;
- (F) The inspection, verification, protection, collection, processing, sale, liquidation, or disposition of security given for the Note;
- (G) The cost of any appraisal or collateral evaluation of all or any part of the real property security, which Lender may from time to time obtain as part of Lender's reasonable administration of the Note;
- (H) Any of the type of expenses referred to in (A) through (G) above incurred by Lender in connection with any guaranty of the Note.

TRANSACTION SUMMARY. All disbursements and repayments of indebtedness shall be posted on Lender's accounting records. Periodically, Lender shall send Borrower a transaction summary or a similar loan accounting. If Borrower fails to object to the accounting in writing within 30 days of its mailing by Lender, Borrower shall have waived any right to object to the accuracy of the accounting and the accounting may be admitted into evidence by Lender for the purpose of establishing the balance due Lender in any legal proceeding arising between the parties.

NOTICES. Borrower shall promptly give written notice to Lender of: (a) any enforcement action brought against Borrower by any governmental regulatory body or law enforcement authority or any dispute between Borrower and any such authority or body; (b) any pending or threatened litigation or court proceeding brought against Borrower; (c) the death or disability of any Borrower or guarantor; (d) any material adverse change in Borrower's financial condition; and (e) the occurrence of any event of default or any event that with a lapse of time or the giving of notice or both would become an event of default.

LOAN CHARGES. If a law, which applies to this Note and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this Note exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected which exceeded permitted limits will be refunded to Borrower, without interest thereon. Lender may choose to make this refund by reducing the principal Borrower owes under this Note or by making a direct payment to Borrower. If a refund reduces principal, the reduction will be treated as a partial prepayment.

DISCLOSURE AND INQUIRIES. By signing this Note, Borrower agrees that Lender may disclose financial information to other Farm Credit System institutions. Borrower further authorizes Lender from time to time, to make such inquiries and gather such information as Lender deems necessary and reasonable to administer the Note. Lender is also authorized from time to time to make credit inquiries, verify credit, verify employment, and obtain credit agency reports regarding Borrower or any spouse of Borrower.

BORROWER'S GUARANTEES. By signing this Note, Borrower warrants that Borrower has legal authority to enter into this transaction, that the terms and conditions of this contract do not contravene the terms and conditions of any other contract(s) of Borrower, that Borrower's representations in connection with this loan are true and accurate, and that Borrower is not involved in, or has any expectations of involvement in, any legal action that might impair Borrower's financial condition or ability to continue business.

SEVERABILITY. In the event that one or more of the provisions of this Note or any other loan documents should be deemed or held to be invalid, illegal, unenforceable or against public policy in any respect, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired.

CAPTIONS. Captions used in this Note are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope or intent of any term or provision.

APPLICABLE LAW. Enforcement of this Note, any Security Instrument, and any other document executed in connection herewith shall be governed by and construed in accordance with federal laws to the extent applicable, and shall otherwise be governed by the laws of the state specified on page one of this Note, immediately above Section 1.

INTEGRATION CLAUSE; AMENDMENTS MUST BE IN WRITING. This Note, any Security Instrument and modifications thereof, executed by Lender and Borrower in connection herewith, or as required by this Note, constitute the entire agreement between Borrower and Lender and supersedes all prior negotiations, communications, discussions, oral agreements, and promises concerning this loan. The Note shall not include any loan application or any written correspondence submitted by Borrower to Lender that has not been agreed to by Lender in writing. To the extent that any of the terms or provisions contained in this Note are inconsistent with those contained in any previous loan agreement or security agreement or any other agreements executed prior to this Note, the terms and provisions contained herein shall control. Otherwise, such provisions shall be considered cumulative. This Note may be amended or modified only by a written instrument executed by each party hereto.

HAZARDOUS SUBSTANCE INDEMNITY. Borrower indemnifies and agrees to hold Lender harmless from any losses or damages suffered by Lender that arise from the release, threatened release, discharge, manufacture, use, storage, transportation or presence of any hazardous substance in connection with the business of Borrower or on any real property owned or occupied by Borrower, whether pledged as security for this Note or not. The indemnity covers the officers, directors, agents, and attorneys of Lender and extends to attorneys fees and other costs and expenses incurred by Lender in connection with the foregoing. The term "hazardous substance" shall mean any material or substance which is now or hereafter considered "hazardous" or "toxic" or subject to any other deleterious classification under any federal, state, or local law. NOTWITHSTANDING ANY OTHER PROVISION OF THIS NOTE OR THE LOAN DOCUMENTS, THIS INDEMNITY SHALL SURVIVE REPAYMENT OF THE INDEBTEDNESS.

OBLIGATIONS OF PERSONS UNDER THIS NOTE. The liability of each Borrower executing this Note shall be that of co-maker and not that of an endorser, guarantor or accommodation party and shall be joint and several. The separate property of any married person executing this Note shall be liable for the indebtedness evidenced hereby.

SPECIFIC WAIVERS OF EACH BORROWER. The indebtedness of each Borrower is independent of the indebtedness of all other Borrowers. Each Borrower expressly waives any right to require Lender to proceed against any other Borrower, to proceed against or exhaust any collateral, to pursue any remedy Lender may have at any time, and the benefit of any statute of limitations affecting its liability under this Note or any other loan document. Each Borrower waives any and all defenses by reason of (a) any disability or other defense of any other Borrower with respect to the indebtedness owed to Lender, (b) the termination for any reason whatsoever of the liability of any other Borrower, (c) any act or omission of Lender that directly or indirectly results in or aids the discharge or release of any other Borrower, any guarantor, or any security provided by any Borrower or guarantor, (d) the failure by Lender to perfect any security interest or lien on any collateral, and (e) an election of remedies by the Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for this Note, has destroyed the Borrower's rights of subrogation, contribution, reimbursement, indemnity, set off, or other recourse against another Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

Each Borrower agrees that Lender may at any time, without notice, release all or any part of the security for this Note (including all or any part of the premises covered by the referenced mortgage or deed of trust), grant extensions, change terms of payment, deferments, renewals or reamortizations of any part of the debt evidenced by this Note, and release from personal liability any one or more of the parties who are or may become liable for this debt; all without affecting the personal liability of any other party. The Borrower and endorser of this Note also severally waive any and all other defense or right of offset against the holder hereof. No Borrower shall have any right of subrogation, contribution, reimbursement, indemnity, set off, or other recourse and waives the benefit of, or any right to participate in, any collateral until such time as all of the obligations owed by Borrower to Lender under this Note shall have been paid in full. Each Borrower, to the extent it may lawfully do so, waives any defense under California anti-deficiency statutes, or comparable provisions of the laws of any other state to the recovery of a deficiency after a foreclosure sale of such property.

Each Borrower represents and warrants to Lender that it has established adequate means of obtaining from each other Borrower, on a continuing basis, information pertaining to the businesses, operations and conditions (financial or otherwise) of each other Borrower and its properties, and each Borrower now is and will be familiar with the businesses, operations and conditions (financial or otherwise) of each other Borrower and its properties. Each Borrower waives and relinquishes any duty on the part of Lender (if such duty exists) to disclose to any Borrower any matter, fact or thing related to the businesses, operations, or conditions (financial or otherwise) of any other Borrower or its properties. Without limiting the generality of the foregoing, each Borrower waives any defenses or rights arising under or of the kind described in California Civil Code sections 2795, 2808, 2809, 2810, 2815, 2819 through 2825 (inclusive), 2832, 2839, and 2845 through 2850 (inclusive) and similar laws in other jurisdictions.

UNIFORM SECURED NOTE. This Note is a uniform instrument with limited variations in some jurisdictions. In addition to the protections given to Lender under this Note, the Security Instrument securing this Note protects Lender from possible losses which might result if Borrower does not keep the promises made in this Note. That Security Instrument describes how and under what conditions Borrower may be required to make immediate payment in full of all amounts owed under this Note. One of those conditions relates to any transfer of the property covered by the deed of trust, which provides as follows:

Continued on following page.

Initials: PYT: 

LLS: 

10. (a) In the event the herein-described Property, or any part thereof, or any interest therein, is sold, agreed to be sold, conveyed, alienated or further encumbered or transferred, including any water transfer as defined in subsection (b) below, by Trustor, or by operation of law or otherwise, without Beneficiary's prior written consent, all Indebtedness, irrespective of the maturity dates, at the option of the holder hereof, and without demand or notice, shall immediately become due and payable. Failure to exercise such option shall not constitute a waiver of the right to exercise this option in the event of subsequent sale, agreement to sell, conveyance or alienation.

(b) A water transfer is any transfer, assignment, sale, agreement to sell, conveyance, exchange, gift, encumbrance, pledge, hypothecation, alienation, grant of option to purchase, or other disposition of, directly, indirectly or in trust, voluntarily or involuntarily, by operation of law or otherwise, or the entry into a binding agreement to do any of the foregoing with respect to all or any part of any existing or hereafter created or acquired Water Assets.

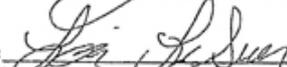
The representatives of Lender are not authorized to make any oral agreements or assurances. Do not sign this Note if you believe that there are any agreements or understandings between you and Lender that are not set forth in writing in this Note or the other loan documents.

BY SIGNING, BORROWER ACKNOWLEDGES THAT BORROWER HAS READ AND AGREES TO THE TERMS OF THIS NOTE, INCLUDING THE STANDARD CONDITIONS, AND HAS RECEIVED A COMPLETED COPY OF THIS NOTE AND THE RELATED MORTGAGE, DEED OF TRUST OR OTHER SECURITY DOCUMENTS WITH ALL APPLICABLE BLANKS FILLED IN PRIOR TO OR AS A PART OF THE CONSUMMATION OF THIS TRANSACTION.

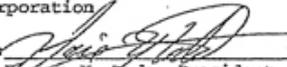
For additional Terms and Conditions see the Addendum, attached hereto and made a part hereof.

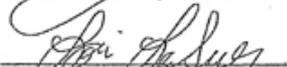
Limoneira Company, a Delaware Corporation

By: 
Pierre Y. Tada, President

By: 
Lori Le Suez, Secretary

Limoneira Groves, Inc., a California Corporation

By: 
Pierre Y. Tada, President

By: 
Lori Le Suez, Secretary

INDORSEMENT - The within Note is hereby indorsed by the payee named in the body of said Note as if the name of the payee were actually executed under the indorsement.

PAY TO THE ORDER OF WESTERN FARM CREDIT BANK, Sacramento, California.

**ADDENDUM TO REVOLVING EQUITY LINE OF CREDIT
PROMISSORY NOTE AND LOAN AGREEMENT**

The following terms and conditions are hereby added and incorporated into the Note at the sections designated:

Section 2, "Revolving Line of Credit":

D. At any time during the Draw Period, Borrower may elect to convert, effective at the first of the following month, any portion of the outstanding balance of the Note from the variable interest rate described in Section 4 of the Note to any one or combination of the following interest rate programs offered by Lender:

- (i) 5-Year Variable, Fixed Rate priced at 175 basis points over the yield of the five-year U.S. Treasury Security.
- (ii) 10-Year Variable, Fixed Rate priced at 200 basis points over the yield of the ten-year U.S. Treasury Security.
- (iii) 15-Year Variable, Fixed Rate priced at 200 basis points over the yield of the fifteen-year U.S. Treasury Security.

The yield of the five- or ten-year U.S. Treasury Security will be defined as the greater of:

- (1) The most recent weekly average yield of the Borrower-elected U.S. Treasury Securities adjusted to constant maturity as made available by the Federal Reserve Board; or
- (2) If the U.S. Treasury Security yield determined in (1) is 9 basis points or more below the closing yield of Borrower-elected U.S. Treasury Securities based on yields (calculated on "bid" prices) reported in the widely distributed financial publication of Lender's choice for the Tuesday preceding the Borrower's conversion request, the closing yield of Borrower-elected U.S. Treasury Securities based on yields (calculated on "bid" prices) reported in the widely distributed financial publication of Lender's choice for the Tuesday preceding the Borrower's conversion request.

The yield of the fifteen-year U.S. Treasury Security will be defined as the most recent yield for the U.S. Treasury Security with a maturity closest to, but not less than, fifteen years based on the closing yield (calculated on "bid" prices) reported in the widely distributed financial publication of Lender's choice for the Tuesday preceding the Borrower's conversion request.

Any such conversions to any of the interest rate programs must be in minimum increments of \$1,000,000. The amount of commitment available to Borrower under the revolving line of credit shall be reduced by any such amounts converted to the interest rate programs

described in (i)-(iii) above. Repayment of such amounts during the Draw Period shall restore a like amount available to Borrower under the revolving line of credit up to the Maximum Loan Amount.

- E. Borrower will be responsible to advise Lender of such conversions as described in Section 2.D. above. If Borrower does not designate an interest rate program selection, or the draw is for less than \$1,000,000, then any such draw will be placed in the variable rate program described in Section 4 of the Note.
- F. Borrower hereby agrees to execute such documents as Lender deems necessary to effect the conversions elected by Borrower pursuant to Sections 2.D. and 2.E. above.

In the event there are any inconsistencies between this Addendum and the Note, the terms of this Addendum shall be controlling.

LEASE AND OPTION AGREEMENT

THIS LEASE AND OPTION AGREEMENT is made and entered into as of January 1, 1992, by and between PHILA M. CALDWELL AND GORDON B. CRARY, JR., AS TRUSTEES OF THE CALDWELL SURVIVOR'S TRUST UTA DATED 9/29/86 (T.I.N. [REDACTED]), AND THE CALDWELL MARITAL TRUST UTA DATED 9/29/86 (T.I.N. [REDACTED]) ("Lessor") and SANTA PAULA LAND COMPANY, INC., a wholly owned subsidiary of LIMONEIRA COMPANY, a Delaware corporation ("Lessee").

1. **PREMISES:** Lessor, for and in consideration of the covenants hereinafter contained and made on the part of the Lessee, does hereby lease to Lessee, and Lessee does hereby lease from Lessor, that certain parcel of land located in the County of Santa Barbara, State of California, more particularly described on Exhibit A attached hereto and made a part hereof, together with all of Lessor's easements, rights and appurtenance thereto (the "Premises"), subject to the exceptions shown in Exhibit A. The three (3) areas lying within the "Lease Boundary" lines shown on the Martin, Northart & Spencer Survey Plat attached to Exhibit A are excluded from the Premises and are hereinafter referred to as the "Lessor reserved property." In a separate letter agreement to be attached to this Lease at the time it is executed the parties will set forth their crop and expense allocation formula and their equipment and supplies inventory for the beginning and end of the Lease Term.

2. **LEASE TERM:** Lessee shall have and hold the Premises for a term commencing on the date hereof (the "Commencement Date") and ending ten (10) years from the Commencement Date, unless sooner terminated as hereinafter provided.

3. **RENT:** Lessee covenants to pay Lessor as rent the following sums without deduction of offset:

(a) During the first year of the term hereof, Lessee shall pay basic annual rental of \$41,700.00, payable in equal quarterly installments on the first day of each third month, beginning as of April 1, 1992 and continuing quarterly thereafter.

(b) On the first anniversary of the Commencement Date and on each successive anniversary date thereafter during the term of this Lease, annual rental shall be adjusted in accordance with the Consumer Price Index for All Urban Consumers, All Items, Los Angeles metropolitan area. The base index to be used shall be the index figure for the month in which the lease commences. The index for the adjustment date shall be the one reported in the index published by the U.S. Department of Labor, Bureau of Labor statistics then in use for the month closest to the first anniversary date and most nearly similar to the base index; if a different base year is used in the new index, the base figure shall be converted under a formula supplied by the Bureau. If the described index is no longer published, another generally recognized index shall be selected by the parties.

4. **LESSOR'S WARRANTIES AND COVENANTS:** Lessor hereby covenants, represents and warrants that the Premises are free and clear of all liens, encumbrances, restrictions and tenancies, whether oral or written, except as shown on the preliminary title report attached hereto as Exhibit B and except for a cattle grazing agreement dated May 5, 1992 with Landon Stableford which is cancelable on 30 days notice (a copy of which has been delivered to Lessee), that Lessee shall have sole and actual possession of the Premises from the commencement Date except as otherwise provided herein and that Lessor has no knowledge of any governmental restriction or physical condition of the Premises or other matter which would restrict the ability of Lessee to use the Premises for the purpose of cultivating avocados, lemons or other citrus. Lessor hereby acknowledges that Lessee is relying upon said covenants, representations and warranties in executing this Lease and that the matters so represented and warranted are material ones. Lessor, accordingly, agrees that any breach of warranty or misrepresentation shall be grounds for Lessee to elect, at its option, to terminate this Lease or cure Lessor's default(s) and deduct its costs to cure said defaults from rent

thereafter accruing. These remedies are in addition to all other remedies Lessee may have in law or equity. Except for the Lessor's express representations and warranties as herein set forth, the Lessee acknowledges (a) that it is fully familiar with the condition, utility and value of the Premises and any and all improvements thereto covered by the Lease, including but not limited to the trees, irrigation systems, wind machines, water wells, sources of water and the water supply, and the Lessee takes and accepts the same in their present condition and strictly "as is, where is and with all faults" and (b) that neither the Lessor nor any of the Lessor's agents has made any oral or written representation or warranty whatsoever with respect to the Premises and/or any improvements thereto and the Lessee accepts the same subject to all existing surface and subsurface conditions of the soil and all improvements thereto.

5. **INSURANCE AND INDEMNITY:** Lessee covenants at its own expense to maintain and keep in force for the mutual benefit of Lessor and Lessee general public liability insurance against claims for personal injury, death, or property damage occurring in, on or about the Premises to afford protection to the limit of not less than \$1,000,000 combined single limit liability coverage. Lessee shall furnish Lessor with certificates showing such insurance to be in force at all times throughout the term of this Lease. All liability policies shall name Lessor as the additional insured. No policy shall be amended or canceled without thirty (30) days' prior written notice to Lessor, and each policy shall so provided. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, employees and representatives from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, permits, attorney's and consultant's fees, expenses and/or liabilities arising out of, involving or in dealing with the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees, or invitees and/or any default or breach by Lessee in the performance in a timely manner of any and all obligations on Lessee's part to be performed under this Lease. The foregoing shall include but not be limited to the defense or pursuit of any claim or any action or

proceeding involved therein, whether or not in the case of claims made against Lessor, litigated and or reduced to judgment, whether well founded or not. If any such action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense, by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Nothing herein shall require Lessor to first pay any such claim in order to be indemnified by Lessee in accordance with foregoing provisions.

6. **TAXES:**

(a) Lessee shall pay prior to delinquency all taxes, assessments, or other impositions imposed by any governmental authority against the Premises or any improvements, fixtures and equipment thereon. Lessee's obligation shall extend only to taxes assessed against the Premises, and Lessee shall not be required to pay any franchise, gross receipts, income, or other tax assessed against the Lessor. Lessee shall provide Lessor with evidence of payment promptly upon payment of any taxes. If Lessee fails to pay any such taxes within the time set forth above, Lessor may pay the taxes and Lessee shall reimburse Lessor with the next due rental payment, plus interest at the greater of 8-1/2 percent per annum or the maximum rate permitted by California law. Lessor shall deliver tax bills to Lessee promptly upon receipt thereof.

(b) Lessor and Lessee acknowledge and agree that the Premises will continue to be assessed and taxed as one Parcel (Assessor's I.D. No. 081-200-17-00), with other property owned by Lessor and not included in the Premises, i.e., the Lessor reserved property. Lessee's obligation for the payment of taxes shall be determined as follows: With respect to taxes assessed on the land, Lessee shall pay an amount equal to that portion of the taxes, assessments and other charges that bears the same ratio to the total of the taxes, assessments and other charges as the land area of the Premises bears to the land area of the total taxed property. With respect to the taxes assessed on the buildings and other improvements located on the property, Lessee shall pay an amount equal to that portion of the taxes, assessments and other charges that bears the same ratio to the total of the taxes, assessments and other charges as the square footage of the

buildings located on the Premises bears to the square footage of the total of all comparable buildings located on the taxed property, i.e., Lessor's liability for real property taxes shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined from the respective valuations assigned in the assessor's worksheets or such other information as may be reasonably available including the Ventura Appraisal Company appraisal obtained to provide the initial market value stated in paragraph 20 of this Lease. The parties shall fully cooperate in making a reasonable determination of Lessee's and Lessor's proportionate share of real property taxes. Provided that the Lessor shall pay and shall indemnify Lessee with respect to real property taxes resulting from actions taken by or for the account of the Lessor.

(c) Lessee may at its cost pursue any legal remedy to contest, obtain an abatement or reduction of any taxes, assessments, or other impositions, and Lessor shall cooperate to the extent reasonably necessary. Such action may be taken in Lessor's name if required by law. In such case, Lessee shall indemnify Lessor against any and all loss, cost, expense damage of liability arising from such action, and provide assurance reasonably satisfactory to Lessor that no tax lien will affect Lessor's interest in the property.

(d) Neither Lessor nor Lessee shall consent to or approve any bonds or other assessments, for any purpose, without the joint approval of the other party.

(e) Lessor shall pay all property taxes and assessments owing on the Premises or which may become a lien on the Premises prior to the Commencement Date, i.e., such taxes and assessments shall be pro-rated to the Commencement Date (and to the Termination Date).

7. **REPAIR AND MAINTENANCE, ETC.:** So far as known to Lessor, the Premises and every part thereof are in good condition and repair. It is intended by the parties hereto that the Lessor shall have no obligation whatsoever to repair or maintain the Premises, the improvements located thereon or the equipment

therein, whether structural or non-structural, all of which obligations are intended to be that of the Lessee under this Lease. It is the intention of the parties that the terms of this Lease govern the respective obligations of the parties as to maintenance and repair of the Premises. Lessee and Lessor expressly waive the benefit of any statute now or hereafter in effect to the extent that it is inconsistent with the terms of this Lease with respect to or which affords Lessee the right to make repairs at the expense of Lessor or to terminate this Lease by reason of any needed repairs. Accordingly, except as herein expressly provided, Lessee shall, at Lessee's sole cost and expense and at all times keep the Premises and all improvements thereto and every part thereof in good order, condition and repair, structural and non-structural, whether or not such portion of the Premises requiring repair or the means of repairing the same are reasonably or readily accessible to Lessee and whether or not need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises and, without limiting the generality of the foregoing, including all equipment and/or roads and other facilities serving the Premises and serving the Lessor reserved property and including all trees on the Lessor reserved property. Lessee shall not cause or permit any hazardous substance (as defined by applicable federal and/or California laws and/or Rules and Regulations promulgated thereunder), to be spilled or released in, on, under or about the Premises and shall promptly at Lessee's expense take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for clean-up of any contamination of and for the maintenance, security and/or monitoring of the Premises, the elements surrounding same or neighboring properties that was caused or materially contributed to by Lessee, or pertaining to or involving any hazardous substance and/or storage tank brought onto the Premises by or for Lessee or under its control. In keeping the Premises in good order condition and repair the Lessee shall exercise and perform good agricultural husbandry and good maintenance practices and Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or any part thereof in good order, condition and repair. With respect to environmental matters, Lessor's and Lessee's obligations

and liability shall be as set forth in Addendum No. 1 attached hereto and by this reference incorporated herein and made a part hereof.

8. **UTILITIES, ETC.:** Lessee may make such utility installations of a non-structural nature to the Premises as are consistent with or required by the management and operation of the Premises for agricultural purposes in accordance with the permitted uses as herein provided. Lessee shall pay for all such utility installations and all utilities services provided to the Premises. The Lessor reserved property and facilities shall be serviced by such utilities, including electrical, telephone and water supply, in accordance with the water supply and other facilities now available to the Lessor reserved property, without charge or expense to Lessor except that Lessor shall pay for its own telephone expense and for electricity and butane gas which are separately metered to the Lessor reserved property. The parties acknowledge that the water supply to the Premises and to the Lessor reserved property is from wells, streams and/or aquifers and that none of the water has ever been or is required or intended by the parties to be treated. Lessor's continued use of the water shall be at Lessor's sole risk and Lessor fully releases and indemnifies Lessee from and with respect to the just and lawful claims, rights and demands of Lessor, its agents, employees, guests and invitees resulting from the use of the water furnished by Lessee to the Lessor reserved property.

9. **DAMAGE TO OR DESTRUCTION OF TREES:** The Premises are currently planted in lemon and avocado trees and are operated for the production of such fruit. If the Premises shall be rendered inoperable by fire or other casualty during the last five (5) years of the term of this Lease, to the extent of 35% or more of the insurable value of the trees or the annual production therefrom, Lessee may, at Lessee's option, to be evidenced by notice in writing given to Lessor within thirty (30) days after the occurrence of such damage or destruction, elect to terminate this Lease as of the date of the damage or destruction, whereupon Lessee shall remove all of its equipment from the Premises and leave same in a neat rubble-free condition. All insurance proceeds from casualty insurance carried by Lessee shall belong to Lessee.

10. **USE, ALTERATIONS AND TITLE TO IMPROVEMENTS:**

(a) Lessee may use the Premises for any lawful agricultural purpose; provided, however, that before using the Premises for anything except the production of avocados, lemons or other citrus, and cattle grazing, Lessee shall first obtain Lessor's written consent in each instance, which consent shall not be unreasonably withheld or delayed.

(b) Lessee shall have the right to redevelop the orchard on the Premises consistent with customary cultural practices and make, construct, alter, add to, reconstruct, modify, remove, or demolish on the Premises such buildings (excluding single family homes), structures and other improvements as Lessee in its sole discretion shall determine (collectively, the "Project"). At the commencement of the term of this Lease, Lessee has projected capital expenditures of \$515,457 during the first six years of the term hereof, which expenditures are described on Exhibit C attached hereto. The Project shall be the property of the Lessee at all times during the term of this Lease, and Lessee may remove any portion of the Project at any time during the term of this Lease, and for a period of thirty (30) days after its termination. Lessor may require Lessee to remove any portion of the Project upon the termination of this Lease. Any Portion of the Project which Lessee has not removed after the expiration of such period of thirty (30) days or which Lessor does not require Lessee to remove shall be deemed to be an abandonment thereof, whereby the same shall become part of the real estate with title thereto vesting in the owner of the land. Any personal property left on the Premises after the expiration of a period of thirty (30) days after the termination of this Lease shall be deemed abandoned, and Lessor shall have the right to store such property at Lessee's expense or take any other action permitted by law. Lessor shall have the right at all times to enter the Premises to post any notice of non-responsibility with respect to any construction by Lessee. Lessee agrees to give Lessor at least 30 days written notice of Lessee's intention to remove the old barn on the Premises.

(c) Lessor shall cooperate with Lessee in the above-described development to the extent reasonably necessary and without cost to Lessor, including,

without limitation, execution of documents and applications for governmental approvals of the Project.

(d) Lessee shall give Lessor not less than ten (10) days prior written notice of Lessee intended commencement of any construction activities and Lessee shall pay or cause to be paid the total cost and expense of all works of improvement and Lessee shall not allow the enforcement against the Premises of any mechanics liens; Lessee may contest any mechanics lien, claim or demand by furnishing a mechanics lien release bond to Lessor in compliance with applicable California law. If Lessee does not discharge any mechanics lien for works of improvement performed for Lessee, Lessor shall have the right to discharge same and Lessee shall reimburse Lessor for the cost of discharging such mechanics lien including interest 8-1/2% and reasonable attorneys fees.

(e) Lessee intends to amortize the capital improvements described on Exhibit C attached hereto over a 20-year period commencing with the respective dates of installation of equipment and/or four years of planting of citrus or avocado orchards, as the case may be. If Lessee does not exercise the option described in paragraph 20 below prior to expiration of the Lease Term, Lessor shall be obligated to reimburse Lessee for the remaining unamortized cost of said capital improvements as shown on the books of Lessee within 30 days following expiration of the Lease Term. Said reimbursement shall be paid by Lessor in the form of a cashier's check made payable to Lessee or in other immediately available funds.

11. **ASSIGNMENT AND SUBLETTING:** Lessee shall not, voluntarily or by operation of law, assign, transfer, mortgage or otherwise encumber (collectively assignment) or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent, which consent Lessor shall not unreasonably withhold. A change in corporate control, meaning more than a 50% change in equity ownership of Lessee, shall be deemed an assignment. Provided that the occupancy of Lessee's employees of any living accommodations on the Premises shall not require Lessor's consent.

12. TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND/OR SUBLETTING:

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of base rent and other sums due Lessor under this Lease or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) The consent of Lessor to one assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. Neither a delay in the approval or disapproval of such assignment, nor the acceptance of any rent or performance, shall constitute a waiver of or estoppel as to Lessor's right to exercise its remedies for the default or breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility of or the appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

13. LESSOR'S RIGHT OF RE-ENTRY: If Lessee shall fail to pay any installments of rent promptly on the day when they become due and payable hereunder, and shall continue in default for a period of five (5) days after written notice thereof by Lessor, or if Lessee shall fail to promptly keep and perform any other affirmative covenants of this Lease and shall continue in default for a period of thirty (30) days after written notice thereof by Lessor of default and demand for performance, then

upon each such event, Lessor may (a) declare the Lease Term ended, and enter into the Premises, or any Part thereof, and expel Lessee or any person occupying the Premises of (b) re-let the Premises, applying said rent from the new tenant on this Lease, and Lessee shall be responsible for no more than the balance that may be due, should a balance exist. Anything hereinbefore contained to the contrary notwithstanding, if any default shall occur other than in the payment of money, which cannot with due diligence be cured within a period of thirty (30) days, and Lessee, prior to the expiration of thirty (30) days from the giving of notice as aforesaid, begins to cure such default, and diligently pursues such cure to completion, then the Lessor shall not have the right to declare the Lease Term ended by reason of such default.

14. **HOLDING OVER:** If Lessee continues to occupy the Premises after the last day of the Lease Term, or after the last day of any extension of the Lease Term, and the Lessor elects to accept rent, thereafter a tenancy from month to month only shall be created and not a tenancy for any longer period.

15. **CONDEMNATION:** If the whole or any part of the Premises or any improvements thereon shall be taken or condemned by any competent authority for any public use or purpose during the term of this Lease, Lessee shall receive any portion of any award allocable to its capital improvements, including orchards, to the cost or loss that Lessee may sustain in the removal and relocation of Lessee's trade fixtures and other personal property, to Lessee's anticipated or lost profits or damages because of detriment to Lessee's business and to the value of Lessee's leasehold interest. Lessee reserves the right to claim and prosecute its claim in all appropriate courts and agencies for an award or damages based upon the foregoing without impairing any rights of Lessor for the taking of or injury to its interest in the property. The entire award for the fair market value of the land taken shall be paid to Lessor. No compromise or settlement shall be made of any condemnation award without the consent of, Lessor, Lessee and any Mortgagee.

If a part of the Premises is taken or condemned which, in the sole judgment of Lessee, is sufficient to render the remaining portion unsuitable for continued use or

occupancy, then Lessee may within sixty (60) days after the date when possession of the Premises or portion thereof shall be required by the condemning authority, elect to terminate this Lease. In the event that Lessee shall fail to exercise its option to terminate this Lease, then this Lease shall continue in effect with respect to the portion of the Premises not so taken, except that the rent otherwise payable shall be reduced in proportion to the percentage of planted acreage in the Premises taken by the condemning authority. If no planted acreage is taken then the rent shall not be reduced by reason of such taking.

16. **COVENANT OF TITLE AND QUIET ENJOYMENT:** Lessor covenants that Lessor has good title to the Premises free and clear of all liens, encumbrances and restrictions, except those approved in writing by Lessee prior to execution of this Lease. Lessor shall not mortgage, assign, pledge, hypothecate or otherwise encumber its fee interest in the Premises during the term of this Lease. Lessor warrants and will defend the title thereto, and will indemnify Lessee against any damage and expense which Lessee may suffer by reason of any lien, encumbrance, restriction or defect in the title or description herein of the Premises. If, at any time, Lessor's title or right to receive rent hereunder is disputed, or there is a change of ownership of Lessor's estate by act of the parties or operation of law, Lessee may withhold rent thereafter accruing until Lessee is furnished proof satisfactory to it as to the party entitled thereto. Subject to Lessor's prior written consent in each instance (which consent shall not be unreasonably withheld) Lessee may grant to public entities and public utilities for the purposes of serving the Premises, rights of way and easements on, over or under the Premises for all water, telephone, gas, electricity, sewer and other utility services.

17. **TITLE INSURANCE:** Prior to execution of this Lease, Lessor shall apply for leasehold title insurance from Chicago Title Insurance Company in the amount of not less than two hundred fifty thousand DOLLARS (\$250,000.00) showing title in Lessor and insuring the leasehold estate in Lessee. If the report on title, title binder, or commitment, so required, discloses any conditions, restrictions, liens, encumbrances, easements or covenants which have not been approved by Lessee prior to execution

hereof, Lessor shall have sixty (60) days from the date which such title report, binder, or commitment bears to cure such defects and to furnish a title report, binder, or commitment showing such defects cured or removed. If such defects in title are not so cured within sixty (60) days, Lessee may, at its option, terminate this Lease. In the event this Lease is so terminated all money, deposits and instruments shall be returned to the respective parties.

18. **TRADE FIXTURES, MACHINERY AND EQUIPMENT:** Lessor agrees that all trade fixtures, machinery, equipment or other personal property of whatever kind kept or installed on the Premises by Lessee or its sublessees shall not become the property of Lessor or a part of the realty, no matter how affixed to the Premises, and may be removed at any time during the Lease Term.

19. **RECORDING:** Lessor and Lessee agree to execute and record a short form or memorandum of this Lease and Option.

20. **PURCHASE OPTION:**

20.1 Grant of Option. Lessor hereby grants to Lessee an exclusive option ("Option") to purchase the Premises together with all of the Lessor reserved property (excluding the mobile home occupied by the Herzman Family) collectively the "Property," subject to a legal life estate to be reserved to Phila M. Caldwell in and to the Lessor reserved property, on the following terms and conditions:

20.1.1 Term. The term of the Option (the "Option Term") shall commence on the Commencement Date and shall terminate upon expiration of the Lease Term.

20.1.2 Exercise. So long as it is not then in default, Lessee may exercise the Option at any time during the Option Term by delivering written notice to Lessor of its election to do so. The exercise of the Option shall create a binding agreement between the Parties for the purchase and sale of the Property, on terms and conditions to be mutually agreed upon by Lessor and Lessee.

20.1.3 Purchase Price. The purchase price to be paid by Optionee to Lessor for the Premises shall be \$4,136,600.00, adjusted for increases

in the consumer price index in accordance with Section 4(b) above. The purchase price shall be paid in the form of a bank cashier's check or in other immediately available funds.

20.1.4 Following the exercise of the Option the parties shall execute standard purchase and sale form escrow instructions with Chicago Title Insurance Company providing for the purchase and sale of the Property and providing for the allocation of costs in the manner customary in Santa Barbara County; escrow shall close within sixty (60) days after the exercise of the Option. At the closing, Lessor shall deliver title subject only to the title matters approved by Lessee as provided for in paragraph 17 and such other matters as may be acceptable to Lessee. Rent shall be prorated to close of escrow.

20.2 Option Assignment or Termination. The Option is an integral part of this Lease and is not assignable or otherwise transferable, in whole or in part, separately from this Lease and shall automatically terminate upon termination of this Lease.

20.3 Lessor: Non-Foreign Person. Lessor hereby represents and warrants to Lessee that Lessor is not a "foreign person" and is a "United States person" as those terms are defined in Section 7701(a) (30) of the Internal Revenue Code of 1954, as amended (the "Code"). Lessor hereby agrees to deliver to Lessee on or before the Commencement Date and to Lessee promptly after Lessee's exercise of the Option (or such earlier date as Lessee may require), an affidavit of Lessor, in the form attached as Exhibit D, sworn to under penalty of perjury, setting forth Lessor's United States tax identification number (or social security number, if Lessor does not have a tax identification number), and stating that Lessor is not a foreign person and is a United States person as defined in Code Section 7701. Lessor tax identification numbers are stated in the first paragraph of this Lease.

21. **RECIPROCAL AND REASONABLE ACCESS:** Notwithstanding the provisions of paragraph 4, each of the parties grants to the other rights of reasonable access on all existing and future roads for the mutual convenience and enjoyment of the

parties and the use and exercise of their respective rights under this Lease, without unreasonably interfering with or impairing the rights of the other.

22. MISCELLANEOUS PROVISIONS:

(a) If any provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, shall not be affected.

(b) The terms, conditions and covenants of this Lease shall be binding upon and shall inure to the benefit of each of the parties hereto, their heirs, personal representatives, successors, or assigns, and shall run with the land.

(c) This Lease contains the entire, integrated agreement between Lessor and Lessee with respect to the matters herein contained and supersedes all prior agreements and understandings between Lessor and Lessee with respect to such matters. No waivers, alterations or modifications of this Lease or any agreements in connection therewith shall be valid unless in writing duly executed by both Lessor and Lessee, as the case may be, through duly authorized agents, officers, or partners.

(d) The captions appearing in this Lease are inserted only as a matter of convenience and shall not be used in construing this Lease. The use of singular herein shall be deemed to include the plural and vice versa.

(e) Any notice, demand, or communication hereunder shall be in writing and served by personal service or by deposit in the United States Mail, registered or certified mail, return receipt requested, postage prepaid and (i) If intended for Lessor shall be addressed to: Lessor, c/o Roger C. Pettitt, 626 Wilshire Boulevard, Suite #410, Los Angeles, California 90017 and (ii) If intended for Lessee shall be addressed to: Santa Paula Land Company, Inc., 1141 Cummings Road, Santa Paula, California 93060, Attention: President, or to such other address as either party may have furnished to the other in writing as a place for the service of notice. Any notice so mailed shall be deemed to have been given three days after it is deposited in the United States mail.

(f) If the Lessor or the Lessee institutes any legal action or arbitration proceeding against the other relating to the provisions of this Lease, or any

default hereunder, the unsuccessful Party in such action or proceeding agrees to reimburse the successful party for the reasonable expenses of attorneys' fees and disbursements incurred therein by the successful Party.

(g) Each party represents and warrants to the other that the execution of this Lease has been duly authorized according to any applicable corporate by-laws, trust agreement or partnership agreement, and the individuals executing this Lease are duly authorized pursuant thereto.

(h) At any time and from time to time, within ten (10) days after notice of request by either party, the other party shall execute, acknowledge, and deliver to the requesting party, or to such other recipient as the notice shall direct, a statement certifying that this Lease is unmodified and in full force and effect as modified in the manner specified in the statement. The statement shall also state the dates to which the rent and any other charges have been paid in advance. The statement shall be such that it can be relied on by any auditor, creditor, commercial banker, and investment banker of either party and by any prospective purchaser or encumbrancer of the Premises or improvements or both or of all or any part or parts of Lessee's or Lessor's interests under this Lease.

(i) This Lease shall be governed by the laws of the State of California.

(j) There are no brokers involved in this transaction and each party warrants to the other that no brokers commissions, finders fees or other compensation shall be payable by reason of this Lease or the Option or the exercise of the Option.

(k) This Lease shall immediately and automatically terminate in the event of Lessee's dissolution or insolvency or the filing of any bankruptcy or receivership petition by or against Lessee under the bankruptcy laws.

23. **ARBITRATION:** The parties agree to the arbitration provisions set forth in ADDENDUM NO.2 attached hereto and incorporated herein.

24. **PARENT GUARANTEE:** Attached hereto as Exhibit E and

incorporated herein is the written Guaranty of Lease executed by Limoncira Company as the parent of Lessee.

IN WITNESS WHEREOF, the parties have executed this Lease in two or more counterparts, each as an original and all together as one instrument as of the date first above written.

LESSOR:

THE CALDWELL SURVIVOR'S TRUST
UTA DATED 9/29/86 AND
THE CALDWELL MARITAL TRUST
UTA DATED 9/29/86

By *Phila M. Caldwell*
Phila M. Caldwell
- Trustee

By *Gordon B. Crary, Jr.*
Gordon B. Crary, Jr.
Trustee

The Exhibits to this Lease
and Option Agreement are:

1. Addendum No. 1 - Environmental Matters.
2. Addendum No. 2 - Arbitration
3. Exhibit A - Legal Description
4. Exhibit B - Title Report
5. Exhibit C - Projected Capital Expenditures
6. Exhibit D - Lessor TIN Affidavit, etc.
7. Exhibit E - Guaranty of Lease

LESSEE:

SANTA PAULA LAND CO., INC.

By *John M. Sullivan*
~~President~~ CHAIRMAN

By *[Signature]*
Chief Financial Officer
PRESIDENT

ADDENDUM NO. 1

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15 16 17 18

ADDENDUM NO. 1

ADDENDUM NO. 1

To Caldwell Trusts - Santa Paula Land Company, Inc.

Lease and Option Agreement

Dated January 1, 1992

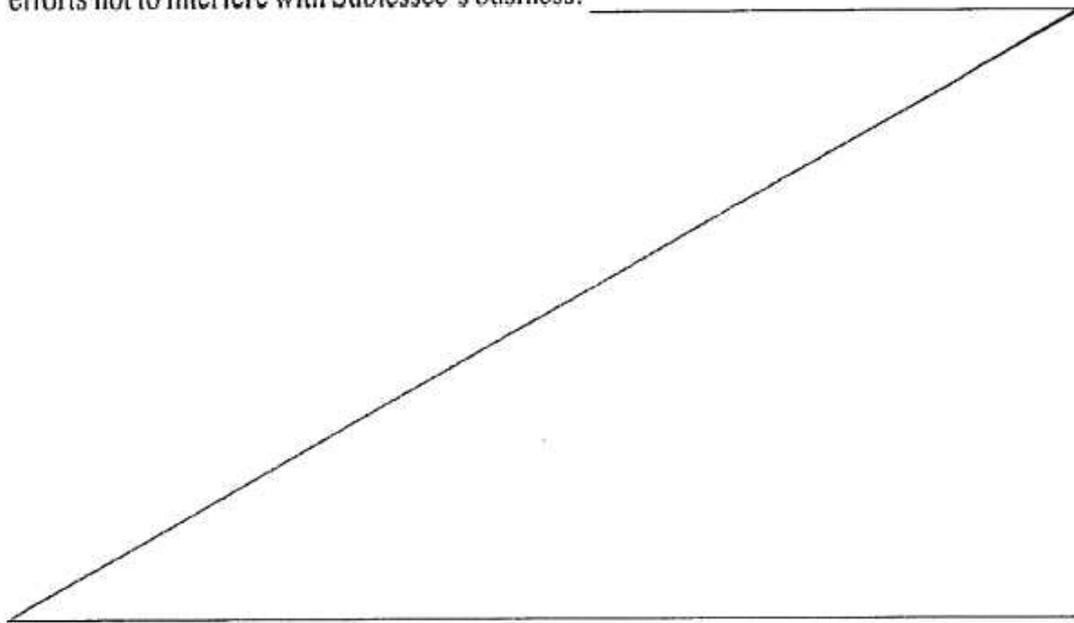
Environmental Matters

As used in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations, including without limitation petroleum-based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons. Without the prior written consent of Lessor, Lessee shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Premises by Lessee, its agents,

employees, contractors, licensees or invitees except for pesticides, rodenticides, herbicides, fuel and fertilizers and other materials approved for agricultural use. Lessor shall be entitled to take into account such factors or facts as Lessor may reasonably determine to be relevant in determining whether to grant or withhold consent to Lessee's proposed activity with respect to Hazardous Material; provided, however, that Lessor hereby consents to Lessee's storage on the Premises, in accordance with applicable laws, of any containerized Hazardous Materials held for use on the Premises which Lessor has itself customarily and lawfully stored for use on the Premises provided that if any product requires special environmental handling, the storage or use thereof on the Premises shall require Lessor's prior written approval in each instance, such approval not to be unreasonably withheld. In no event, however, shall Lessor be required to consent to the installation or use of any underground storage tanks on the Premises. Lessee shall have and hereby expressly assumes all liability for any environmental damage and/or contamination of the Premises resulting from Sublessee's occupancy and/or use of the Premises from and after the Commencement Date.

Lessor retains and hereby expressly assumes all liability for any environmental damage and/or contamination of the Premises resulting from Lessor's occupancy and/or use of the Premises prior to the Commencement Date, for removal of any underground

tanks it may have installed and for any cleanup and/or remediation work required by reason thereof. Lessor retains, and Lessee hereby grants to Lessor, a right of access to the Premises at all times during the Lease Term for purposes of testing, remediation and monitoring of any contamination of the Premises, if required by law or any local, state or federal agency, and for removal of any underground storage tank for which Lessor has retained liability. Should Lessor's entry for such purposes result in a substantial interference with Lessee's business, a just proportionate part of the rental shall be abated during the period of such substantial interference. Lessor will use its best reasonable efforts not to interfere with Sublessee's business.



ADDENDUM NO. 2

ADDENDUM NO. 2

To Caldwell Trusts - Santa Paula Land Company, Inc.

Lease and Option Agreement

Dated January 1, 1992

By their approval signed below, the Lessor and Lessee under the above referenced Lease expressly agree to have any dispute arising out of the matters included in the arbitration of disputes provision set forth below decided by neutral arbitration as provided by the California Law and thereby give up any rights they might possess to have the dispute litigated in a Court or Jury trial. By such approval the Lessor and the Lessee give up their judicial rights to discovery and appeal, unless those rights are specifically included in the arbitration of disputes provision. If the Lessor or the Lessee should refuse to submit to arbitration after agreeing to the arbitration of disputes as stated herein, that party may be compelled to arbitrate under the authority of the California Code of Civil Procedure. Such agreement to this arbitration provision is voluntary.

ARBITRATION OF DISPUTES:

Any dispute or claim in law or equity arising out of this Agreement (Lease) and/or the transaction described therein shall be decided by neutral binding arbitration in a

accordance with the Rules of the American Arbitration Association and not by Court action except as provided by California Law or Judicial Review of Arbitration Proceedings. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The parties shall have the right to discovery in accordance with Code of Civil Procedure Section 1283.05. The following matters are excluded from arbitration hereunder:

(a) A judicial or non-judicial foreclosure or other action or proceeding to enforce a deed of trust, mortgage, or real property sales contract as defined in Civil Code Section 2985,

(b) an unlawful detainer action,

(c) the filing or enforcement of a mechanic's lien,

(d) any matter which is within the jurisdiction of a probate or small claims court, or

(e) an action for bodily injury or wrongful death, or for latent or patent defects in which Code of Civil Procedure Section 337.1 or 337.15 applies. The filing of a judicial action to enable the recording of a Notice of Pending Action, for Order of Attachment, Receivership, injunction, or other provisional remedies, shall not constitute a waiver of the right to arbitrate under this provision.

The foregoing arbitration of disputes provision is hereby approved and made a part of the within Lease.

Approved:

THE CALDWELL TRUSTS

SANTA PAULA LAND COMPANY, INC.

By _____
Phila M. Caldwell and

By _____
President

By _____
Gordon B. Crary, Jr.
Co-Trustees.
- LESSOR

By _____
Chief Financial Officer
- LESSEE

EXHIBIT A

The land

THAT PORTION OF TRACT NO. 1 AND TRACT NO. 2 OF THE DIVISION OF ALL THAT PART OF THE RANCHO NUESTRA SENORA DEL REFUGIO THAT BELONGED TO THE ESTATE OF BRUNE ORELLO, DECEASED, IN THE COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA, ACCORDING TO MAP RECORDED IN BOOK 2, PAGE 16 OF MAPS AND SURVEYS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A PIPE SURVEY MONUMENT ON LEDGE OF ROCK AT THE NORTH-WEST CORNER OF TRACT NO.2; THENCE ALONG THE LINE OF SAID TRACT 2 OF SAID SUBDIVISION THE FOLLOWING COURSES AND DISTANCES: SOUTH 4° 40 1/2' EAST 1063.9 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 12; THENCE SOUTH 2° 16' EAST 699.1 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT WEST OF FENCE POST MARKED "F" 13; THENCE SOUTH 8° 57' EAST 747.0 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 8; THENCE SOUTH 2° 45' EAST 1749.5 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 7; THENCE SOUTH 18° 26 1/2 WEST 1062 FEET TO A PIPE SURVEY MONUMENT IN MOUND OF ROCKS, FROM WHICH FENCE POST MARKED "F" 14 L.P. BEARS SOUTH 66° 50' EAST 1 1/2 FEET; THENCE SOUTH 66° 50' EAST 4799.2 FEET TO A POINT FROM WHICH AN X CUT ON ROCK MARKED F.B.P. BEARS SOUTH 50° 18' WEST 47.3 FEET, ANOTHER X CUT ON ROCK MARKED X F.B.P. BEARS NORTH 54° 06' WEST 54.78 FEET AND A NAIL IN ANGLE POST OF FENCE BEARS SOUTH 88° 57' EAST 20.55 FEET; THENCE ALONG THE CENTER LINE OF REFUGIO ROAD, NORTH 45° 25' EAST 149.5 FEET TO A POINT ; THENCE NORTH 24° 07' EAST 318.7 FEET TO A POINT; THENCE NORTH 15° 41' EAST 791.55 FEET TO A POINT; THENCE NORTH 25° 17' WEST 180.4 FEET TO A POINT; THENCE NORTH 17° 31' EAST 245.6 FEET TO A POINT FROM WHICH A PIPE SURVEY MONUMENT ON THE WEST SIDE OF REFUGIO ROAD BEARS NORTH 78° 56' WEST 20.24 FEET; THENCE LEAVING SAID LINE OF SAID TRACT 2 OF SAID SUBDIVISION, NORTH 78° 56' WEST 522.0 FEET TO A PIPE SURVEY MONUMENT ON TOP OF BANK; THENCE NORTH 24° 37' EAST 241.9 FEET TO A PIPE SURVEY MONUMENT TOP OF BANK; THENCE NORTH 12° 55' EAST 141.6 FEET TO A SPIKE IN ROOT OF WILLOW TREE; THENCE NORTH 19° 22' EAST 140.8 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN LARGE SYCAMORE BEARS SOUTH 48 1/4° WEST 3.9 FEET; THENCE NORTH 64° 55' EAST 191.7 FEET TO A PIPE SURVEY MONUMENT FROM WHICH SPIKE IN ALDER TREE BEARS NORTH 57° WEST 3.31 FEET, ALSO A SPIKE IN ANOTHER ALDER TREE BEARS SOUTH 56° WEST 11.74 FEET; THENCE NORTH 37° 52' EAST 118.5 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH 62° 12' EAST 60.4 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH 18° 20' EAST 94.4 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH 42° 14' WEST 173.3 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN

DESCRIPTION CONTINUED.

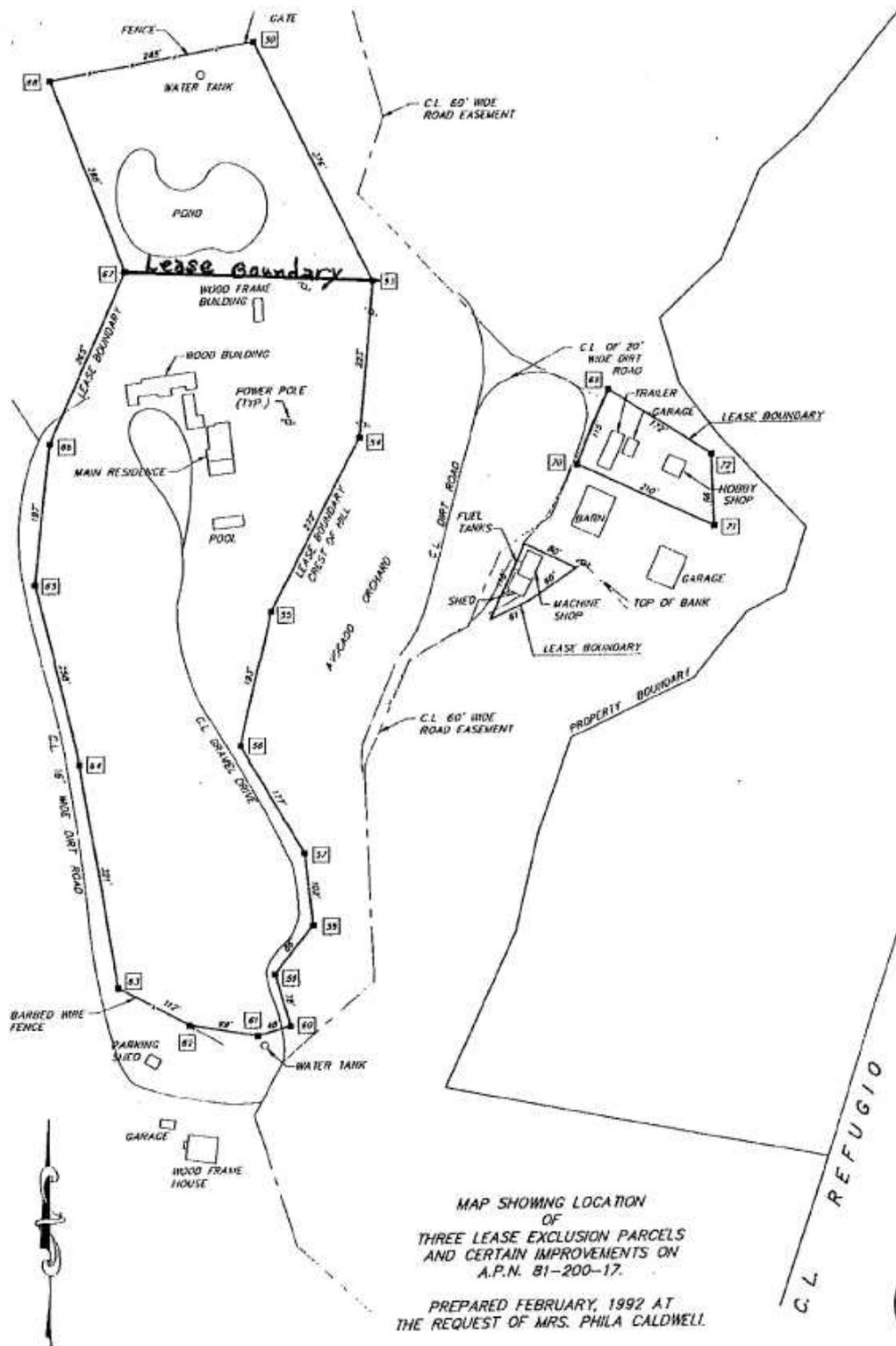
ALDER TREE BEARS SOUTH $80\ 1/2^\circ$ EAST 16.6 FEET AND SPIKE IN A
WILLOW TREE BEARS NORTH $30\ 3/4^\circ$ EAST 17.83 FEET; THENCE NORTH
 $35^\circ\ 52'$ WEST 94.0 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A
SPIKE IN ALDER TREE BEARS SOUTH $28\ 1/2^\circ$ EAST 11.02 FEET AND A
SPIKE IN ANOTHER ALDER TREE BEARS NORTH $21\ 1/4^\circ$ WEST 10.52 FEET; THE
NORTH $15^\circ\ 50'$ WEST 97.7 FEET TO A PIPE SURVEY MONUMENT ON TOP OF
BANK; THENCE NORTH $46^\circ\ 51'$ EAST 117.2 FEET TO A PIPE SURVEY MONU-
MENT ON TOP OF BANK; THENCE NORTH $23^\circ\ 08'$ EAST 139.2 FEET TO A
PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN WILLOW BEARS SOUTH $8\ 1/4^\circ$
WEST 5.20 FEET AND SPIKE IN ANOTHER WILLOW BEARS SOUTH $62\ 3/4^\circ$
EAST 13.88 FEET; THENCE NORTH $48^\circ\ 09'$ EAST 84.3 FEET TO A
PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN ALDER TREE BEARS NORTH
 $51\ 1/2^\circ$ WEST 10.40 FEET AND ANOTHER SPIKE IN ALDER TREE BEARS
NORTH $70''$ EAST 5.95 FEET; THENCE NORTH $39^\circ\ 02'$ EAST 223.0 FEET TO
A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN ALDER TREE BEARS NORTH
 $48\ 1/2^\circ$ EAST 9.70 FEET AND ANOTHER SPIKE IN ALDER TREE BEARS NORTH
 $34\ 1/2^\circ$ WEST 15.75 FEET; THENCE NORTH $65^\circ\ 13'$ WEST 148.0 FEET TO
A PIPE SURVEY MONUMENT; THENCE NORTH $7^\circ\ 51'$ WEST 125.6 FEET TO AN
X ON TOP OF ROCK; THENCE NORTH $25^\circ\ 30'$ EAST 106.4 FEET TO A PIPE
SURVEY MONUMENT; THENCE NORTH $43^\circ\ 34'$ EAST 221.7 FEET TO A PIPE
SURVEY MONUMENT; THENCE NORTH $47^\circ\ 14'$ EAST 108.3 FEET TO A PIPE
SURVEY MONUMENT; THENCE NORTH $9^\circ\ 01'$ WEST 75.5 FEET TO A PIPE SUR-
VEY MONUMENT; THENCE NORTH $40^\circ\ 34'$ WEST 147.6 FEET TO A PIPE SUR-
VEY MONUMENT; THENCE SOUTH $45^\circ\ 41'$ WEST 111.1 FEET TO A PIPE SURVEY
MONUMENT; THENCE SOUTH $72^\circ\ 17'$ WEST 77.2 FEET TO A PIPE SURVEY MONU-
MENT; THENCE NORTH $71^\circ\ 11'$ WEST 87.8 FEET TO A PIPE SURVEY MONUMENT;
THENCE NORTH $1^\circ\ 51'$ EAST 74.4 FEET TO A SPIKE IN ROOT OF WILLOW;
THENCE NORTH $4^\circ\ 02'$ EAST 59.7 FEET TO A PIPE SURVEY MONUMENT; THENCE
NORTH $69^\circ\ 10'$ WEST 1630.5 FEET TO A PIPE SURVEY MONUMENT; THENCE
NORTH $15^\circ\ 51'$ WEST 421.3 FEET TO A PIPE SURVEY MONUMENT; THENCE NOR-
 $1^\circ\ 17'$ WEST 1054.0 FEET TO A SPIKE IN ROOT OF LIVE OAK STUMP; THENCE
NORTH $68^\circ\ 53'$ WEST 123.7 FEET TO A SPIKE IN ROOT OF LIVE OAK; THENCE
NORTH $71^\circ\ 36'$ WEST 309.6 FEET TO A SPIKE IN ROOT OF LIVE OAK; THENCE
SOUTH $81^\circ\ 21'$ WEST 238.6 FEET TO A PIPE SURVEY MONUMENT ON TOP OF
RIDGE; THENCE SOUTH $83^\circ\ 53'$ WEST 84.0 FEET TO A SPIKE IN ROOT OF LI
OAK; THENCE NORTH $63^\circ\ 46'$ WEST 115.6 FEET TO A SPIKE ON NORTH SIDE
LIVE OAK; THENCE NORTH $16^\circ\ 00'$ EAST 261.5 FEET TO A PIPE SURVEY MONU-
MENT; THENCE NORTH $22^\circ\ 44'$ EAST 810.6 FEET TO A PIPE SURVEY MONUMEN
ON THE NORTH LINE OF THE REFUGIO RANCHO FROM WHICH A SPIKE IN LIVE
OAK BEARS NORTH $16^\circ\ 40'$ EAST 23.95 FEET AND A SPIKE IN ANOTHER LIVE
OAK BEARS SOUTH $65\ 1/2^\circ$ WEST 39.31 FEET, ALSO A 2-INCH PIPE SURVEY
MONUMENT AT THE SOUTHEAST CORNER OF THE TAJIGUAS RANCHO, BEARS SOUT
 $89^\circ\ 55\ 1/2'$ EAST 118.9 FEET; THENCE NORTH $89^\circ\ 55\ 1/2'$ WEST 2662.3
FEET TO THE POINT OF BEGINNING.

SAID LAND IS ALSO SHOWN ON MAP RECORDED MAY 14, 1930 IN BOOK 20, PA
180 OF RECORDS OF SURVEY, IN THE OFFICE OF THE COUNTY RECORDER OF S
COUNTY.

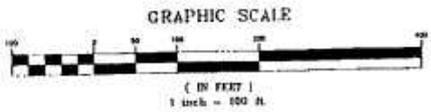
DESCRIPTION CONTINUED:

EXCEPTING THEREFROM ALL THAT PORTION OF SAID LAND LYING NORTHERLY OF THE FOLLOWING DESCRIBED LINE: COMMENCING AT A SURVEY MONUMENT AT THE NORTHWEST CORNER OF SAID LAND; THENCE ALONG THE WESTERLY LINE OF SAID PARCEL THE FOLLOWING COURSES AND DISTANCES: SOUTH $4^{\circ}40'30''$ EAST 1063.9 FEET, THENCE SOUTH $2^{\circ}16'00''$ EAST 355.00 FEET TO THE TRUE POINT OF BEGINNING; THENCE SOUTH $88^{\circ}02'24''$ EAST LEAVING SAID WESTERLY LINE AND INTO SAID LAND 3012 FEET MORE OR LESS TO A POINT IN THE EASTERLY LINE OF SAID LAND.

SAID LAND IS SHOWN TOGETHER WITH OTHER LAND ON MAP RECORDED MAY 14, 1930 IN BOOK 20, PAGE 180 OF RECORDS OF SURVEY, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.



MAP SHOWING LOCATION OF THREE LEASE EXCLUSION PARCELS AND CERTAIN IMPROVEMENTS ON A.P.N. 81-200-17. PREPARED FEBRUARY, 1992 AT THE REQUEST OF MRS. PHILA CALDWELL.

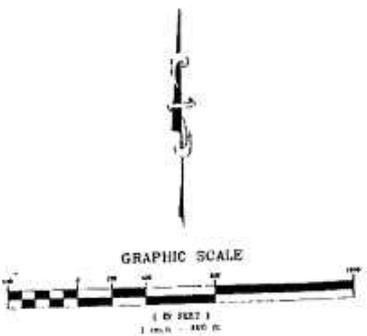


■ = SET WOODEN HUD & LATH FOR LEASE CORNER

MARTIN, NORTHART & SPENCER, INC.
 CIVIL ENGINEERS & LAND SURVEYORS
 314 EAST GUYA STREET, SANTA ANA, CALIFORNIA 92701
 TELEPHONE (714) 955-0531
 A.C.A. NO. 6666 REG. DATE 1-28-1982 T.A.D.

A.P.N. 81-200-17

LEASE #1
LEASE #2
LEASE #3
DUNE 200/250
R. 200/250



LOCATION MAP SHOWING
LEASE EXCLUSION PARCELS

 MARTIN, NORTHAMPTON & SPENCER, INC.
CIVIL ENGINEERS - LAND SURVEYORS
OFFICE: 1000 W. 10TH AVENUE, SUITE 100, DENVER, CO 80202
PHONE: (303) 733-1111

EXHIBIT B

Issuing Office: **SECURITY UNION
TITLE INSURANCE COMPANY**
1101 Anacapa Street
Santa Barbara, Ca. 93101
(805) 963-8661

RECEIVED

BRANT & PETTITT
626 WILSHIRE BLVD
SUITE 410
LOS ANGELES, CA 90017
ROGER PETTITT

JUN 01 1992

Order No: 921971 -KMS
Order Ref: CALDWELL TRUSTS
Your Ref: LIMONEIRA COMPANY, A
Property: SEE ATTACHED STARTER, CA

Dated as of May 21, 1992 at 7:30 A.M.

In response to the above referenced application for a policy of title insurance, SECURITY UNION TITLE INSURANCE COMPANY hereby reports that it is prepared to issue, or cause to be issued, as of the date hereof, a Policy or Policies of Title Insurance describing the land and the estate or interest therein hereinafter set forth, insuring against loss which may be sustained by reason of any defect, lien or encumbrance not shown or referred to as an Exception in Schedule B or not excluded from coverage pursuant to the printed Schedules, Conditions and Stipulations of said Policy forms.

The printed Exceptions and Exclusions from the coverage of said Policy or Policies are set forth in the attached list. Copies of the Policy forms should be read. They are available from the office which issued this report.

THIS REPORT (AND ANY SUPPLEMENTS OR AMENDMENTS HERETO) IS ISSUED SOLELY FOR THE PURPOSE OF FACILITATING THE ISSUANCE OF A POLICY OF TITLE INSURANCE AND NO LIABILITY IS ASSUMED HEREBY. IF IT IS DESIRED THAT LIABILITY BE ASSUMED PRIOR TO THE ISSUANCE OF A POLICY OF TITLE INSURANCE, A BINDER OR COMMITMENT SHOULD BE REQUESTED.

The form of policy of title insurance contemplated by this report is:

	Standard Coverage	Extended Coverage
California Land Title Association Standard Coverage Policy	<input checked="" type="checkbox"/>	<input type="checkbox"/>
American Land Title Association Owner's Policy	<input type="checkbox"/>	<input type="checkbox"/>
A.L.T.A. Residential Title Insurance Policy	<input type="checkbox"/>	<input type="checkbox"/>
American Land Title Association Loan Policy	<input type="checkbox"/>	<input type="checkbox"/>
Other:	<input type="checkbox"/>	<input type="checkbox"/>


Title Officer, KAREN M. SMAGALA

SCHEDULE A

1. The estate or interest in the land hereinafter described or referred to covered by this report is:

A FEE

2. Title to said estate or interest at the date hereof is vested in:

GEORGE V. CALDWELL AND PHILA M. CALDWELL, Trustees under trust agreement dated September 29, 1986 fbo George V. and Phila M. Caldwell as Trustors, subject to Item No. #15 of Schedule B.

3. The land referred to in this report is situated in the State of California, County of Santa Barbara and is described as follows:

AS DESCRIBED IN EXHIBIT ATTACHED HERETO

DESCRIPTION

That portion of Tract No. 1 and Tract No. 2 of the Division of all that part of the Rancho Nuestra Senora Del Refugio that belonged to the Estate of Brune Orello, deceased, in the County of Santa Barbara, State of California, according to map recorded in Book 2, Page 16 of Maps and Surveys, in the Office of the County Recorder of said County, described as follows:

Beginning at a pipe survey monument on ledge of rock at the Northwest corner of Tract No. 2; thence along the line of said Tract 2 of said subdivision the following courses and distances; South $4^{\circ} 40\text{-}1/2'$ East 1063.9 feet to a pipe survey monument about 1 foot East of fence post marked "F" 12; thence South $2^{\circ} 16'$ East 699.1 feet to a pipe survey monument about 1 foot West of fence post marked "F" 13; thence South $8^{\circ} 57'$ East 747.0 feet to a pipe survey monument about 1 foot East of fence post marked "F" 8; thence South $2^{\circ} 45'$ East 1749.5 feet to a pipe survey monument about 1 foot East of fence post marked "F" 7; thence South $18^{\circ} 26\text{-}1/2'$ West 1062 feet to a pipe survey monument in mound of rocks, from which fence post marked "F" 14 L.P. bears South $66^{\circ} 50'$ East $1\text{-}1/2'$ feet; thence South $66^{\circ} 50'$ East 4799.2 feet to a point from which an X cut on rock marked F.B.P. bears South $50^{\circ} 18'$ West 47.3 feet, another X cut on rock marked X F.B.P. bears North $54^{\circ} 06'$ West 54.78 feet and a nail in angle post of fence bears South $88^{\circ} 57'$ East 20.55 feet; thence along the center line of Refugio Road, North $45^{\circ} 25'$ East 149.5 feet to a point; thence North $24^{\circ} 07'$ East 318.7 feet to a point; thence North $15^{\circ} 41'$ East 791.55 feet to a point; thence North $25^{\circ} 17'$ West 180.4 feet to a point; thence North $17^{\circ} 31'$ East 245.6 feet to a point from which a pipe survey monument on the West side of Refugio Road bears North $78^{\circ} 56'$ West 20.24 feet; thence leaving said line of said Tract 2 of said subdivision, North $78^{\circ} 56'$ West 522.0 feet to a pipe survey monument on top of bank; thence North $24^{\circ} 37'$ East 241.9 feet to a pipe survey monument top of bank; thence North $12^{\circ} 55'$ East 141.6 feet to a spike in root of willow tree; thence North $19^{\circ} 22'$ East 140.8 feet to a pipe survey monument from which a spike in large sycamore bears South $48\text{-}1/4^{\circ}$ West 3.9 feet; thence North $64^{\circ} 55'$ East 191.7 feet to a pipe survey monument from which spike in alder tree bears North 57° West 3.31 feet, also a spike in another alder tree bears South 56° West 11.74 feet; thence North $37^{\circ} 52'$ East 118.5 feet to a pipe survey monument; thence North $62^{\circ} 12'$ East 60.4 feet to a pipe survey monument; thence North $18^{\circ} 20'$ East 94.4 feet to a pipe survey monument; thence North $42^{\circ} 14'$ West 173.3 feet to a pipe survey monument from which a spike in alder tree bears South $80\text{-}1/2^{\circ}$ East 16.6 feet and spike in a willow tree bears North $30\text{-}3/4^{\circ}$ East 17.83 feet; thence North $35^{\circ} 52'$ West 94.0 feet to a pipe survey monument from which a spike in alder tree bears South $28\text{-}1/2^{\circ}$ East 11.02 feet and a spike in another alder tree bears North $21\text{-}1/4^{\circ}$ West 10.52 feet; thence North $15^{\circ} 50'$ West 97.7 feet to a pipe survey monument on top of bank; thence North $46^{\circ} 51'$ East 117.2 feet to a pipe survey monument on top of bank; thence North $23^{\circ} 08'$ East 139.2 feet to a pipe survey monument from which a spike in willow bears South $8\text{-}1/4^{\circ}$ West 5.20 feet and spike in another willow bears South $62\text{-}3/4^{\circ}$ East 13.88 feet; thence North $48^{\circ} 09'$ East 84.3 feet to a pipe survey monument from which a spike in alder tree bears North $51\text{-}1/2^{\circ}$ West 10.40 feet and another spike in alder tree bears North 70° East 5.95 feet; thence North $39^{\circ} 02'$ East 223.0 feet to a pipe survey monument from which a spike in alder tree bears North $48\text{-}1/2^{\circ}$ East 9.70 feet and another spike in alder tree bears North $34\text{-}1/2^{\circ}$ West 15.75 feet; thence North $65^{\circ} 13'$ West 148.0 feet to a pipe survey monument; thence North $7^{\circ} 51'$ West 125.6 feet to an X on top of rock; thence North $25^{\circ} 30'$ East 106.4 feet to a pipe survey monument; thence North $43^{\circ} 34'$ East 221.7 feet to a pipe survey monument; thence North $47^{\circ} 14'$ East 108.3 feet to a pipe survey monument; thence North $9^{\circ} 01'$ West 75.5 feet to a pipe survey monument; thence North $40^{\circ} 34'$ West 147.6 feet to a pipe survey monument; thence South $45^{\circ} 41'$ West 111.1 feet to a pipe survey monument; thence South $72^{\circ} 17'$ West 77.2 feet to a pipe survey monument; thence North $71^{\circ} 11'$ West 87.8 feet to a pipe survey monument; thence North $1^{\circ} 51'$ East 74.4 feet to a

DESCRIPTION

spike in root of willow; thence North 4° 02' East 59.7 feet to a pipe survey monument; thence North 69° 10' West 1630.5 feet to a pipe survey monument; thence North 15° 51' West 421.3 feet to a pipe survey monument; thence North 1° 17' West 1054.0 feet to a spike in root of live oak stump; thence North 68° 53' West 123.7 feet to a spike in root of live oak; thence North 71° 36' West 309.6 feet to a spike in root of live oak; thence South 81° 21' West 238.6 feet to a pipe survey monument on top of ridge; thence South 83° 53' West 84.0 feet to a spike in root of live oak; thence North 63° 46' West 115.6 feet to a spike on North side of live oak; thence North 16° 00' East 261.5 feet to a pipe survey monument; thence North 22° 44' East 810.6 feet to a pipe survey monument on the North line of the Refugio Rancho from which a spike in live oak bears North 16° 40' East 23.95 feet and a spike in another live oak bears South 65-1/2° West 39.31 feet, also a 2-inch pipe survey monument at the Southeast corner of the Tajiguas Rancho, bears South 89° 55-1/2' East 118.9 feet; thence North 89° 55-1/2' West 2662.3 feet to the point of beginning.

Said land is also shown on map recorded May 14, 1930 in Book 20, Page 180 of Records of Survey, in the Office of the County Recorder of said County.

EXCEPTING therefrom all that portion of said land lying Northerly of the following described line: Commencing at a survey monument at the Northwest corner of said land; thence along the Westerly line of said parcel the following courses and distances: South 4° 40' 30" East 1063.9 feet, thence South 2° 16' 00" East 355.00 feet to the true point of beginning; thence South 88° 02' 24" East leaving said Westerly line and into said land 3012 feet more or less to a point in the Easterly line of said land.

Said land is also shown on map recorded May 14, 1930 in Book 20, Page 180 of Records of Survey, in the Office of the County Recorder of said County.

SCHEDULE B

At the date hereof exceptions to coverage in addition to the printed Exceptions and Exclusions in the policy form designated on the face page of this Report would be as follows:

- A 1. Property taxes, including any assessments collected with taxes, to be levied for the fiscal year 1992-93 which are a lien not yet payable.
- Assessment No.: 081-200-17
- B 2. The lien of supplemental taxes, if any, assessed pursuant to the provisions of chapter 3.5 (commencing with Section 75) of the Revenue and Taxation Code of the State of California.
- C 3. Water rights, claims or title to water, whether or not the matters are shown by the public records.
- D 4. Any title, interests, rights or easements which exist or are claimed to exist over any parts of said land which presently are or in the past have been covered by water.
- E 5. An easement for the purpose shown below and rights incidental thereto as set forth in a document
- Granted to: County of Santa Barbara
Purpose: Road
Recorded: December 21, 1897 in Book 61, Page 72 of Deeds
Affects: Southeasterly part of said land
- F 6. The right "to lay and maintain pipes for water across Parcel One for the benefit of land lying below said tract and right to enter thereon for the purposes of laying, relaying or repairing such pipes as reserved in the deed from Stephen Rutherford, et ux., Page 246 of Official Records.
- G 7. An easement for the purpose shown below and rights incidental thereto as set forth in a document
- Granted to: Southern California Telephone Company
Purpose: Pole lines and underground conduits
Recorded: April 21, 1942 as Instrument No. 3281 in Book 544, Page 390 of Official Records
Affects: Said land
- H 8. An easement for the purpose shown below and rights incidental thereto as set forth in a document
- Granted to: Southern California Edison, a California

**SCHEDULE B
(continued)**

Purpose: corporation
Recorded: Public utilities
August 13, 1952 as Instrument No. 12321 in Book
1087, Page 442, Official Records
Affects: 10 feet in width over the Westerly portion of said
land

- I 9. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Granted to: General Telephone Company of California, a
corporation
Purpose: Public utilities
Recorded: April 30, 1962 as Instrument No. 17379 in Book
1923, Page 226 of Official Records
Affects: A strip 10 feet in width over the Southeasterly
portion of said land

- J 10. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Granted to: James K. Aurness
Purpose: Public utilities and road
Recorded: January 9, 1974 as Instrument No. 902 in Book 2496,
Page 629, Official Records
Affects: Strips of land 60 feet in width

- K 11. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Granted to: Stewart L. Abercrombie, individually and as trustee
under the Will of Lillian C. Abercrombie
Purpose: Public utilities and road
Recorded: January 9, 1974 as Instrument No. 902 in Book 2496,
Page 629, Official Records
Affects: Strips of land 60 feet in width

- L A document recorded September 29, 1987 as Instrument No. 87-73460
porports to supercede and replace the easement describad above.

- M 12. Covenants and restrictions imposed by a Land Conservation Contract
executed pursuant to Section 51200 et seq. California Government Code

Dated: December 22, 1975
Executed by: Richard C. Bergen, William A. Wilson and Robert A.

SCHEDULE B
(continued)

Recorded: Emme and George V. Caldwell
January 28, 1976 as Instrument No. 3460 in Book
2601, Page 1106, Official Records
Affects: Said land

N 13. Matters contained in an instrument entitled "Easement Deed"

Dated: September 11, 1987
Executed by: George V. Caldwell and Phila M. Caldwell
Recorded: September 29, 1987 as Instrument No. 87-73460,
Official Records

Reference is made to said document for full particulars.

O Among other things, said document provides:

Granting of easements, and replacement of existing easements.

P 14. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Granted to: Southern California Edison, a California
corporation
Purpose: Public utilities
Recorded: January 27, 1989 as Instrument No. 89-006461,
Official Records
Affects: 10 foot strip and two 4 foot strips over said land

Q 15. Any invalidity or defect in the title of the vestees in the event that the trust referred to in the vesting portion of Schedule A is invalid or fails to grant sufficient powers to the trustee(s) or in the event there is a lack of compliance with the terms and provisions of the trust instrument.

R END OF SCHEDULE B

S NOTE NO. 1: The charge for a policy of title insurance, when issued through this title order, will be based on the basic (not short-term) title insurance rate.

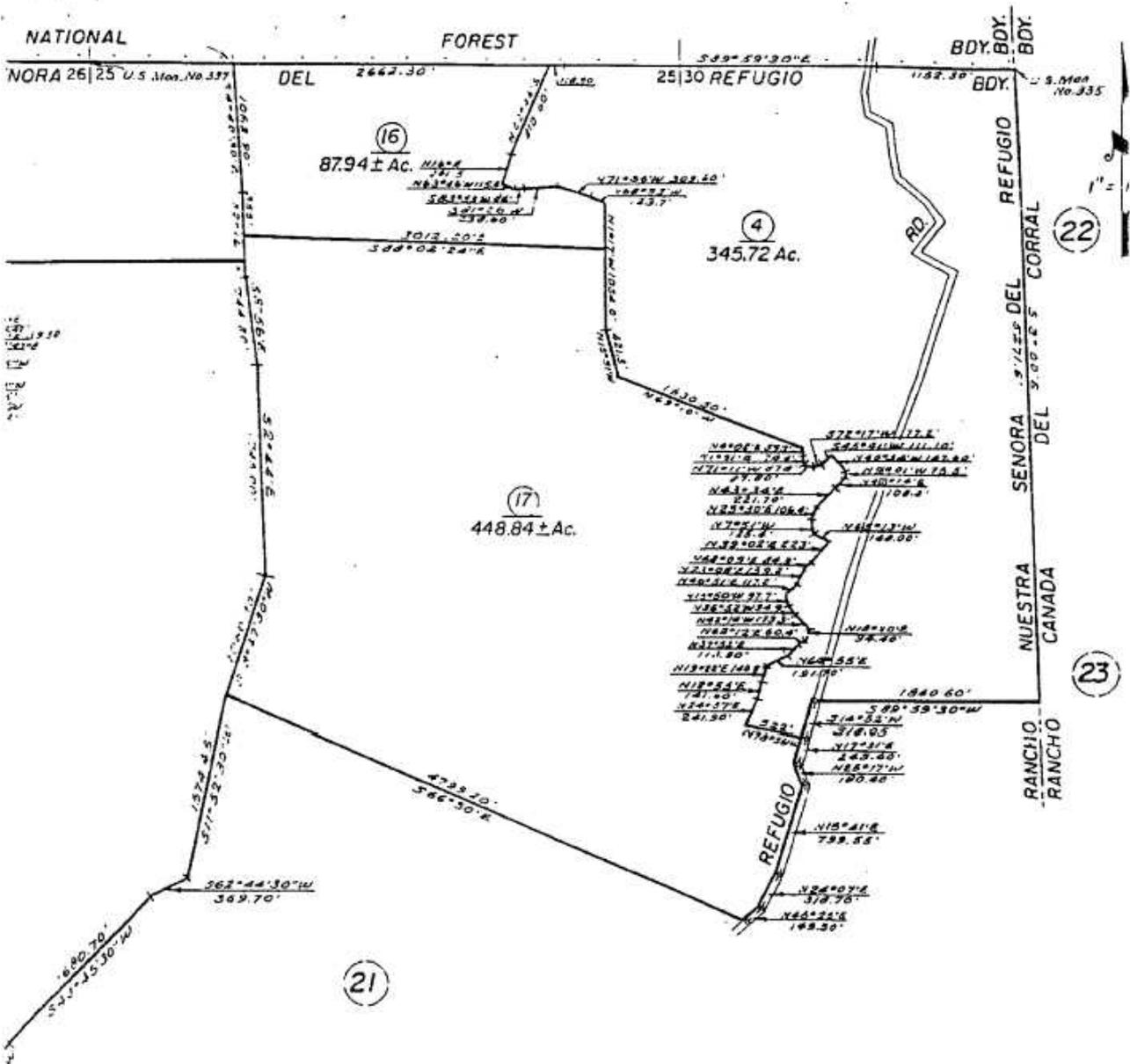
T NOTE NO. 2:

If title is to be insured in the trustee(s) of a trust, (or if their act is to be insured), this Company will require a copy of the trust instrument creating such trust, and all amendments thereto, together with a written verification by all present trustees that the copy is a true

SCHEDULE B
(continued)

and correct copy of the trust, as it may have been amended, that it is in full force and effect and that it has not been revoked or terminated.

v ks/ks



"This plat is for your aid in locating your land with reference to streets and other parcels. While this plat is believed to be correct, the Company assumes no liability for any loss occurring by reason of reliance thereon."

LIST OF PRINTED EXCEPTIONS AND EXCLUSIONS

CALIFORNIA LAND TITLE ASSOCIATION STANDARD COVERAGE POLICY - 1990

EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building and zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating to (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
- (b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.
3. Defects, liens, encumbrances, adverse claims or other matters:
 - (a) whether or not recorded in the public records at Date of Policy, but created, suffered, assumed or agreed to by the insured claimant;
 - (b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;
 - (c) resulting in no loss or damage to the insured claimant;
 - (d) attaching or created subsequent to Date of Policy; or
 - (e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the insured mortgage or the estate or interest insured by this policy.
4. Unenforceability of the lien of the insured mortgage because of the inability or failure of the insured at Date of Policy, or the inability or failure of any subsequent owner of the indebtedness, to comply with applicable doing business laws of the state in which the land is situated.
5. Invalidity or unenforceability of the lien of the insured mortgage, or claim thereof, which arises out of the transaction evidenced by the insured mortgage and is based upon usury or any consumer credit protection or truth-in-lending law.
6. Any claim, which arises out of the transaction vesting in the insured the estate or interest insured by this policy or the transaction creating the interest of the insured lender, by reason of the operation of federal bankruptcy, state insolvency or similar creditors' rights laws.

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.
2. Any facts, rights, interests or claims which are not shown by the public records but which could be ascertained by an inspection of the land or which may be asserted by persons in possession thereof.
3. Easements, liens or encumbrances, or claims thereof, which are not shown by the public records.
4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.

AMERICAN LAND TITLE ASSOCIATION RESIDENTIAL TITLE INSURANCE POLICY (6-1-87)

EXCLUSIONS

In addition to the exceptions in Schedule B, you are not insured against loss, costs, attorney's fees and expenses resulting from:

1. Governmental policy power, and the existence or violation of any law or government regulation. This includes building and zoning ordinances and also laws and regulations concerning:
 - land use
 - improvements on the land
 - land division
 - environmental protection

This exclusion does not apply to the violations or the enforcement of these matters which appear in the public records at Policy Date. This exclusion does not limit the zoning coverage described in Items 12 and 13 of Covered Title Risks.

2. The right to take the land by condemning it, unless:
 - a notice of exercising the right appears in the public records on the Policy Date
 - the taking happened prior to the Policy Date and is binding on you if you bought the land without knowing of the taking
3. Title Risks:
 - that are created, allowed, or agreed to by you
 - that are known to you, but not to us, on the Policy Date - unless they appeared in the public records
 - that result in no loss to you
 - that first affect your title after the Policy Date - this does not limit the labor and material lien coverage in Item 8 of Covered Title Risks
4. Failure to pay value for your title.
5. Lack of a right:
 - to any land outside the area specifically described and referred to in Item 3 of Schedule A, or
 - in streets, alleys, or waterways that touch your land

This exclusion does not limit the access coverage in Item 5 of Covered Title Risks.

EXCEPTIONS FROM COVERAGE

In addition to the Exclusions, you are not insured against loss, costs, attorneys fees and expenses resulting from:

Someone claiming an interest in your land by reason of:

- A. Easements not shown in the public records
- B. Boundary disputes not shown in the public records
- C. Improvements owned by your neighbor placed on your land

**AMERICAN LAND TITLE ASSOCIATION LOAN POLICY (4-6-90)
WITH ALTA ENDORSEMENT - FORM 1 COVERAGE
and
AMERICAN LAND TITLE ASSOCIATION LEASEHOLD LOAN POLICY (4-6-90)
WITH ALTA ENDORSEMENT - FORM 1 COVERAGE**

EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building and zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating to (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
- (b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.
3. Defects, liens, encumbrances, adverse claims or other matters:
 - (a) created, suffered, assumed or agreed to by the Insured claimant;
 - (b) not known to the Company, not recorded in the public records at Date of Policy, but known to the Insured claimant and not disclosed in writing to the Company by the Insured claimant prior to the date the Insured claimant became an Insured under this policy;
 - (c) resulting in no loss or damage to the Insured claimant;
 - (d) attaching or created subsequent to Date of Policy (except to the extent that this policy insures the priority of the lien of the Insured mortgage over any statutory lien for services, labor or material or to the extent insurance is afforded herein as to assessments for street improvements under construction or completed at Date of Policy); or
 - (e) resulting in loss or damage which would not have been sustained if the Insured claimant had paid value for the Insured mortgage
4. Unenforceability of the lien of the Insured mortgage because of the inability or failure of the Insured at Date of Policy, or the inability or failure of any subsequent owner of the indebtedness, to comply with applicable doing business laws of the state in which the land is situated.
5. Invalidity or unenforceability of the lien of the Insured mortgage, or claim thereof, which arises out of the transaction evidenced by the Insured mortgage and is based upon usury or any consumer credit protection or truth in lending law.
6. Any statutory lien for services, labor or materials (or the claim or priority of any statutory lien for services, labor or materials over the lien of the Insured mortgage) arising from an improvement or work related to the land which is contracted for and commenced subsequent to Date of Policy and is not financed in whole or in part by proceeds of the indebtedness secured by the Insured mortgage which at Date of Policy the Insured has advanced or is obligated to advance.
7. Any claim, which arises out of the transaction creating the interest of the mortgagee Insured by this policy, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws.

The above policy forms may be issued to afford either Standard Coverage or Extended Coverage. In addition to the above Exclusions from Coverage, the Exceptions from Coverage in a Standard Coverage policy will also include the following General Exceptions:

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.
2. Any facts, rights, interests or claims which are not shown by the public records but which could be ascertained by an inspection of the land or by making inquiry of persons in possession thereof.
3. Easements, liens or encumbrances, or claims thereof, which are not shown by the public records.
4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.

AMERICAN LAND TITLE ASSOCIATION OWNER'S POLICY (4-6-90)
and
AMERICAN LAND TITLE ASSOCIATION LEASEHOLD OWNER'S POLICY (4-6-90)

EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building and zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating to (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
- (b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or a notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.
3. Defects, liens, encumbrances, adverse claims or other matters:
 - (a) created, suffered, assumed or agreed to by the insured claimant;
 - (b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;
 - (c) resulting in no loss or damage to the insured claimant;
 - (d) attaching or created subsequent to Date of Policy; or
 - (e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the estate or interest insured by this policy.
4. Any claim, which arises out of the transaction vesting in the insured the estate or interest insured by this policy, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws.

The above policy forms may be issued to afford either Standard Coverage or Extended Coverage. In addition to the above Exclusions from Coverage, the Exceptions from Coverage in a Standard Coverage policy will also include the following General Exceptions:

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.
2. Any facts, rights, interests or claims which are not shown by the public records but which could be ascertained by an inspection of the land or by making inquiry of persons in possession thereof.
3. Easements, liens or encumbrances, or claims thereof, which are not shown by the public records.
4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.

EXHIBIT C

DETAIL OF CAPITAL OUTLAY EXPENDITURES

ORCHARD REDEVELOPMENT	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>TOTAL</u>
991 PLANTINGS: 9.5 ACRES							
SECTION 3-3.0 ACRES							
SECTION 7-6.5 ACRES							
CAPITALIZED CULTURAL COSTS	<u>\$10,165</u>	<u>\$10,165</u>	<u>\$13,015</u>				<u>\$33,345</u>
TOTAL 1991 PLANTINGS	<u>\$10,165</u>	<u>\$10,165</u>	<u>\$13,015</u>				<u>\$33,345</u>
993 PLANTINGS: 36.9 ACRES							
SECTION 1 -9.4 ACRES							
SECTION 5 -7.5 ACRES							
BARE LAND-20 ACRES							
DEVELOPMENT COSTS		\$110,700					\$110,700
CAPITALIZED CULTURAL COSTS		<u>\$35,793</u>	<u>\$39,483</u>	<u>\$39,483</u>	<u>\$50,553</u>		<u>\$165,312</u>
TOTAL 1993 PLANTINGS		<u>\$146,493</u>	<u>\$39,483</u>	<u>\$39,483</u>	<u>\$50,553</u>		<u>\$276,012</u>
994 PLANTINGS: 7.5 ACRES							
SECTION 5 -7.5 ACRES							
DEVELOPMENT COSTS			\$22,500				\$22,500
CAPITALIZED CULTURAL COSTS			<u>\$7,275</u>	<u>\$8,025</u>	<u>\$8,025</u>	<u>\$10,275</u>	<u>\$33,600</u>
TOTAL 1994 PLANTINGS			<u>\$29,775</u>	<u>\$8,025</u>	<u>\$8,025</u>	<u>\$10,275</u>	<u>\$56,100</u>
TOTAL ORCHARD REDL. COSTS	<u>\$10,165</u>	<u>\$156,658</u>	<u>\$82,273</u>	<u>\$47,508</u>	<u>\$58,578</u>	<u>\$10,275</u>	<u>\$365,457</u>
OTHER CAPITAL OUTLAY EXPENDITURES							
FOR WINDMACHINES	<u>\$150,000</u>						<u>\$150,000</u>
TOTAL EXPENDITURES	<u>\$160,165</u>	<u>\$156,658</u>	<u>\$82,273</u>	<u>\$47,508</u>	<u>\$58,578</u>	<u>\$10,275</u>	<u>\$515,457</u>

EXHIBIT D

AFFIDAVIT OF NON-FOREIGN STATUS
BY U.S. PERSON (ENTITY TRANSFEROR)

1. Section 1445 of the Internal Revenue Code provides that a transferee (buyer) of a U.S. real property interest must withhold tax if the transferor (seller) is not a "U.S. Person." [IRC §1445 (f) (3)].
2. To inform each transferee that withholding of tax is not required upon disposition of a U.S. real property interest by The Caldwell Trusts (hereinafter referred to as "the Transferor"), the undersigned hereby certifies, and declares the following on behalf of the Transferor:
 - A. The one item marked below is true and correct:
 - (i) The Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as these terms are defined in the Internal Revenue Code and Income Tax Regulations).
 - (ii) The Transferor is a corporation incorporated under the laws of a foreign jurisdiction but has elected to be treated as a U.S. corporation under Section 897(i) of the Internal Revenue Code, AND HAS ATTACHED TO THIS CERTIFICATE A TRUE AND GENUINE COPY OF THE ACKNOWLEDGEMENT OF SUCH ELECTION ISSUED BY THE IRS.
 - B. The Transferor's employer identification number is Survivor's Trust [REDACTED]; Marital Trust [REDACTED]
 - C. The Transferor's office address is c/o Roger C. Pettitt, 626 Wilshire Boulevard, Suite 410, Los Angeles, California 90017.
3. The Transferor understands that this certificate may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained in this certification may be punished by fine or imprisonment (or both).
4. The Transferor understands that the transferee is relying on this certificate in determining whether withholding is required and that the transferee may face liabilities if any statement in this certificate is false.

5. The Transferor hereby indemnifies each transferee, and agrees to hold each transferee harmless from any liability or cost which such transferee may incur as a result of: (i) the Transferor's failure to pay any U.S. Federal income tax which the Transferor is required to pay under applicable U.S. law, or (ii) any false or misleading statement contained herein.

Under penalties of perjury under the laws of the State of California I declare that I have examined this certificate and to the best of my knowledge and belief it is true, correct, and complete; I further declare that I have authority to sign this document on behalf of the Transferor.

EXECUTED in Santa Barbara County, State of California on July 30, 1992.

Transferor: Caldwell Survivor's Trust and Caldwell Marital Trust

By: Phila M. Caldwell

Title: Phila M. Caldwell, Co-Trustee.

Subscribed and sworn to before me this 30 day of July, 1992.

Cheryl Ann Meyer
Notary Public



EXHIBIT E

GUARANTY OF LEASE

WHEREAS, PHILA M. CALDWELL and GORDON B. CRARY, JR. as Trustees, hereinafter referred to as "Lessor", and SANTA PAULA LAND COMPANY, INC., a California Corporation, hereinafter referred to as "Lessee", are about to execute a document entitled "Lease and Option Agreement" dated January 11, 1992, concerning the premises commonly known as THE CALDWELL REFUGIO RANCH wherein Lessor will lease the premises to Lessee, and

WHEREAS, LIMONEIRA COMPANY, Parent of the Lessee, hereinafter referred to as "Guarantor" has a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantor did not execute and deliver to Lessor this Guarantee of Lease.

NOW THEREFORE, for and in consideration of the execution of the foregoing Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantor hereby unconditionally and irrevocably guarantees the prompt payment by Lessee of all rentals and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and covenants of said Lease to be kept and performed by Lessee.

This Guaranty shall not be released, modified or affected by failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease, whether pursuant to the terms thereof or at law or in equity.

No notice of default need be given to Guarantor, it being specifically agreed and understood that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed forthwith and immediately against Lessee or against Guarantor following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee pursuant to or under the terms of the within Lease or at law or in equity.

Lessor shall have the right to proceed against Guarantor hereunder following any breach or default by Lessee without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantor.

Guarantor hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statute of limitations as to or relating to this Guaranty and the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantor, (g) any right of subrogation.

Guarantor does hereby subrogate all existing or future indebtedness of Lessee to Guarantor to the obligations owed to Lessor under the Lease and this Guaranty.

The obligation of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantor hereunder to do and provide the same relative to Guarantor.

The term "Lessee" whenever hereinabove used refers to and means the Lessee in the foregoing Lease specifically named and also any assignee or sublessee of said Lease and also any successor to the interests of said Lessee, assignee or sublessee of such Lease or any part thereof, whether by assignment, sublease or otherwise.

In the event any action be brought by said Lessor against Guarantor hereunder to enforce the obligation of Guarantor hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee which shall be fixed by the court.

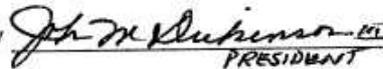
Executed at: Goleta, California

on July 30, 1992

Address: 1146 Cummings Road

Santa Paula, Calif. 93060

LIMONEIRA COMPANY

By  PRESIDENT

By  "GUARANTOR"

RECORDING REQUESTED BY

AND WHEN RECORDED MAIL TO)

NAME)
STREET)
ADDRESS)
CITY &)
STATE)

) (SPACE ABOVE THIS LINE FOR RECORDER'S USE)

MEMORANDUM OF LEASE

This Memorandum of Lease is made as of January 1, 1992, between PHILA M. CALDWELL and GORDON B. CRARY, JR. AS TRUSTEES OF THE CALDWELL SURVIVOR'S TRUST UTA DATED 9/29/86 (T.I.N. [REDACTED]), and THE CALDWELL MARITAL TRUST UTA DATED 9/29/86 (T.I.N. [REDACTED]) ("Lessor") and SANTA PAULA LAND COMPANY, INC., a wholly owned subsidiary of LIMONEIRA COMPANY, a Delaware corporation ("Lessee").

1. **Term and Premises.** Lessor leases to Lessee and Lessee leases from Lessor the real property located in Santa Barbara County, California, described in Exhibit A attached to this Memorandum of Lease, for a term of ten (10) years, commencing January 1, 1992, on the provisions of the Lease and Option Agreement ("Lease") between the parties, which Lease is dated on the same date as this Memorandum of Lease. The provisions of the Lease are incorporated by reference into this Memorandum of Lease.

2. **Lessee's Option to Purchase Premises.** Reference is made to Section 20 of the Lease, wherein Lessor grants to Lessee an option to purchase the premises on the terms, provisions and conditions therein set forth.

3. **Provisions Binding on Lessor and Lessee.** The provisions of the Lease to be performed by Lessor and Lessee, respectively, and whether affirmative or negative in nature, are intended to and shall bind each of Lessor and Lessee and each of its successors and assigns, and shall inure to the benefit of each of Lessor and Lessee, respectively, and each of its successors and assigns.

4. Purpose of Memorandum of Lease. This Memorandum of Lease is executed and delivered for the purpose of recordation, and it in no way modifies the provisions of the Lease.

IN WITNESS WHEREOF, the parties have executed this Memorandum of Lease in two or more counterparts, each as an original and all together as one instrument as of the date first above written.

LESSOR:

THE CALDWELL SURVIVOR'S TRUST UTA
DATED 9/29/86 AND
THE CALDWELL MARITAL TRUST UTA
DATED 9/29/86

By Phila M. Caldwell
Phila M. Caldwell - Trustee

By Gordon B. Crary, Jr.
Gordon B. Crary, Jr. - Trustee

LESSEE:

SANTA PAULA LAND CO., INC.

By John M. Dickenson
Chairman

By Robert J. [Signature]
President

STATE OF CALIFORNIA)
) ss.
COUNTY OF SANTA BARBARA)

On July 30, 1992, before me, a Notary Public in and for said county and state, personally appeared **JOHN DICKENSON**, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in the capacity indicated at the signature point.

WITNESS my hand and official seal.



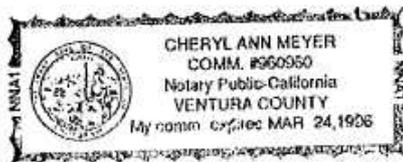
Cheryl Ann Meyer

Notary Public in and for said
County and State.

STATE OF CALIFORNIA)
) ss.
COUNTY OF SANTA BARBARA)

On July 30, 1992, before me, a Notary Public in and for said county and state, personally appeared **PIERRE TADA**, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in the capacity indicated at the signature point.

WITNESS my hand and official seal.



Cheryl Ann Meyer

Notary Public in and for said
County and State.

THAT PORTION OF TRACT NO. 1 AND TRACT NO. 2 OF THE DIVISION OF ALL THAT PART OF THE RANCHO NUESTRA SENORA DEL REFUGIO THAT BELONGED TO THE ESTATE OF BRUNE ORELLO, DECEASED, IN THE COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA, ACCORDING TO MAP RECORDED IN BOOK 2, PAGE 16 OF MAPS AND SURVEYS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT A PIPE SURVEY MONUMENT ON LEDGE OF ROCK AT THE NORTH-WEST CORNER OF TRACT NO. 2; THENCE ALONG THE LINE OF SAID TRACT 2 OF SAID SUBDIVISION THE FOLLOWING COURSES AND DISTANCES: SOUTH $4^{\circ} 40 \frac{1}{2}'$ EAST 1063.9 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 12; THENCE SOUTH $2^{\circ} 16'$ EAST 699.1 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT WEST OF FENCE POST MARKED "F" 13; THENCE SOUTH $8^{\circ} 57'$ EAST 747.0 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 8; THENCE SOUTH $2^{\circ} 45'$ EAST 1749.5 FEET TO A PIPE SURVEY MONUMENT ABOUT 1 FOOT EAST OF FENCE POST MARKED "F" 7; THENCE SOUTH $18^{\circ} 26 \frac{1}{2}'$ WEST 1062 FEET TO A PIPE SURVEY MONUMENT IN MOUND OF ROCKS, FROM WHICH FENCE POST MARKED "F" 14 L.P. BEARS SOUTH $66^{\circ} 50'$ EAST $1 \frac{1}{2}$ FEET; THENCE SOUTH $66^{\circ} 50'$ EAST 4799.2 FEET TO A POINT FROM WHICH AN X CUT ON ROCK MARKED F.B.P. BEARS SOUTH $50^{\circ} 18'$ WEST 47.3 FEET, ANOTHER X CUT ON ROCK MARKED X F.B.P. BEARS NORTH $54^{\circ} 06'$ WEST 54.78 FEET AND A NAIL IN ANGLE POST OF FENCE BEARS SOUTH $88^{\circ} 57'$ EAST 20.55 FEET; THENCE ALONG THE CENTER LINE OF REFUGIO ROAD, NORTH $45^{\circ} 25'$ EAST 149.5 FEET TO A POINT; THENCE NORTH $24^{\circ} 07'$ EAST 318.7 FEET TO A POINT; THENCE NORTH $15^{\circ} 41'$ EAST 791.55 FEET TO A POINT; THENCE NORTH $25^{\circ} 17'$ WEST 180.4 FEET TO A POINT; THENCE NORTH $17^{\circ} 31'$ EAST 245.6 FEET TO A POINT FROM WHICH A PIPE SURVEY MONUMENT ON THE WEST SIDE OF REFUGIO ROAD BEARS NORTH $78^{\circ} 56'$ WEST 20.24 FEET; THENCE LEAVING SAID LINE OF SAID TRACT 2 OF SAID SUBDIVISION, NORTH $78^{\circ} 56'$ WEST 522.0 FEET TO A PIPE SURVEY MONUMENT ON TOP OF BANK; THENCE NORTH $24^{\circ} 37'$ EAST 241.9 FEET TO A PIPE SURVEY MONUMENT TOP OF BANK; THENCE NORTH $12^{\circ} 55'$ EAST 141.6 FEET TO A SPIKE IN ROOT OF WILLOW TREE; THENCE NORTH $19^{\circ} 22'$ EAST 140.8 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN LARGE SYCAMORE BEARS SOUTH $48 \frac{1}{4}^{\circ}$ WEST 3.9 FEET; THENCE NORTH $64^{\circ} 55'$ EAST 191.7 FEET TO A PIPE SURVEY MONUMENT FROM WHICH SPIKE IN ALDER TREE BEARS NORTH 57° WEST 3.31 FEET, ALSO A SPIKE IN ANOTHER ALDER TREE BEARS SOUTH 56° WEST 11.74 FEET; THENCE NORTH $37^{\circ} 52'$ EAST 118.5 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $62^{\circ} 12'$ EAST 60.4 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $18^{\circ} 20'$ EAST 94.4 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $42^{\circ} 14'$ WEST 173.3 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN

EXHIBIT A

DESCRIPTION CONTINUED.

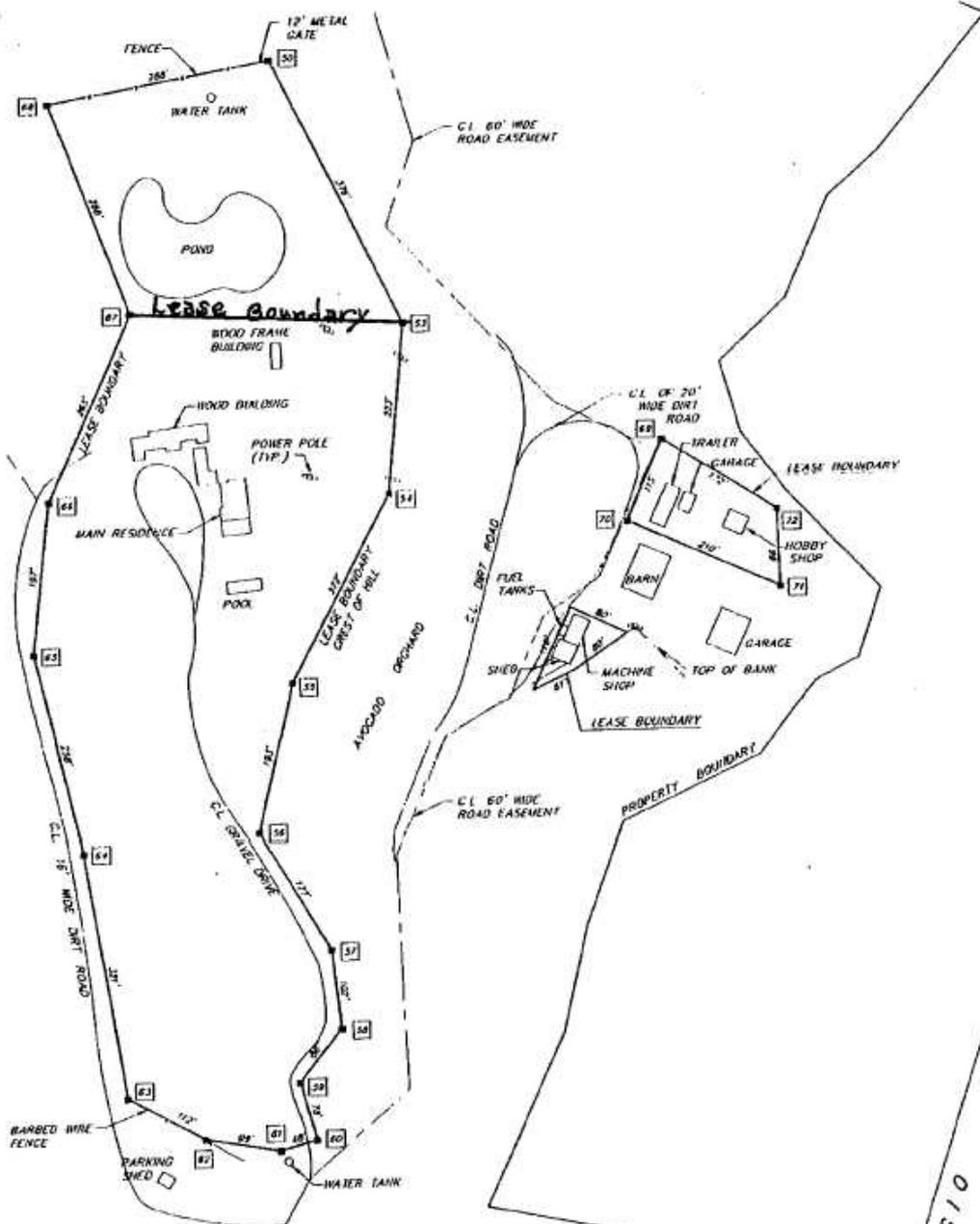
ALDER TREE BEARS SOUTH $80\frac{1}{2}^{\circ}$ EAST 16.6 FEET AND SPIKE IN A WILLOW TREE BEARS NORTH $30\frac{3}{4}^{\circ}$ EAST 17.83 FEET; THENCE NORTH $35^{\circ} 52'$ WEST 94.0 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN ALDER TREE BEARS SOUTH $28\frac{1}{2}^{\circ}$ EAST 11.02 FEET AND A SPIKE IN ANOTHER ALDER TREE BEARS NORTH $21\frac{1}{4}^{\circ}$ WEST 10.52 FEET; THENCE NORTH $15^{\circ} 50'$ WEST 97.7 FEET TO A PIPE SURVEY MONUMENT ON TOP OF BANK; THENCE NORTH $46^{\circ} 51'$ EAST 117.2 FEET TO A PIPE SURVEY MONUMENT ON TOP OF BANK; THENCE NORTH $23^{\circ} 08'$ EAST 139.2 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN WILLOW BEARS SOUTH $8\frac{1}{4}^{\circ}$ WEST 5.20 FEET AND SPIKE IN ANOTHER WILLOW BEARS SOUTH $62\frac{3}{4}^{\circ}$ EAST 13.88 FEET; THENCE NORTH $48^{\circ} 09'$ EAST 84.3 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN ALDER TREE BEARS NORTH $51\frac{1}{2}^{\circ}$ WEST 10.40 FEET AND ANOTHER SPIKE IN ALDER TREE BEARS NORTH $70''$ EAST 5.95 FEET; THENCE NORTH $39^{\circ} 02'$ EAST 223.0 FEET TO A PIPE SURVEY MONUMENT FROM WHICH A SPIKE IN ALDER TREE BEARS NORTH $48\frac{1}{2}^{\circ}$ EAST 9.70 FEET AND ANOTHER SPIKE IN ALDER TREE BEARS NORTH $34\frac{1}{2}^{\circ}$ WEST 15.75 FEET; THENCE NORTH $65^{\circ} 13'$ WEST 148.0 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $7^{\circ} 51'$ WEST 125.6 FEET TO AN X ON TOP OF ROCK; THENCE NORTH $25^{\circ} 30'$ EAST 106.4 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $43^{\circ} 34'$ EAST 221.7 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $47^{\circ} 14'$ EAST 108.3 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $9^{\circ} 01'$ WEST 75.5 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $40^{\circ} 34'$ WEST 147.6 FEET TO A PIPE SURVEY MONUMENT; THENCE SOUTH $45^{\circ} 41'$ WEST 111.1 FEET TO A PIPE SURVEY MONUMENT; THENCE SOUTH $72^{\circ} 17'$ WEST 77.2 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $71^{\circ} 11'$ WEST 87.8 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $1^{\circ} 51'$ EAST 74.4 FEET TO A SPIKE IN ROOT OF WILLOW; THENCE NORTH $4^{\circ} 02'$ EAST 59.7 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $69^{\circ} 10'$ WEST 1630.5 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $15^{\circ} 51'$ WEST 421.3 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $1^{\circ} 17'$ WEST 1054.0 FEET TO A SPIKE IN ROOT OF LIVE OAK STUMP; THENCE NORTH $68^{\circ} 53'$ WEST 123.7 FEET TO A SPIKE IN ROOT OF LIVE OAK; THENCE NORTH $71^{\circ} 36'$ WEST 309.6 FEET TO A SPIKE IN ROOT OF LIVE OAK; THENCE SOUTH $81^{\circ} 21'$ WEST 238.6 FEET TO A PIPE SURVEY MONUMENT ON TOP OF RIDGE; THENCE SOUTH $83^{\circ} 53'$ WEST 84.0 FEET TO A SPIKE IN ROOT OF LIVE OAK; THENCE NORTH $63^{\circ} 46'$ WEST 115.6 FEET TO A SPIKE ON NORTH SIDE OF LIVE OAK; THENCE NORTH $16^{\circ} 00'$ EAST 261.5 FEET TO A PIPE SURVEY MONUMENT; THENCE NORTH $22^{\circ} 44'$ EAST 810.6 FEET TO A PIPE SURVEY MONUMENT ON THE NORTH LINE OF THE REFUGIO RANCHO FROM WHICH A SPIKE IN LIVE OAK BEARS NORTH $16^{\circ} 40'$ EAST 23.95 FEET AND A SPIKE IN ANOTHER LIVE OAK BEARS SOUTH $65\frac{1}{2}^{\circ}$ WEST 39.31 FEET, ALSO A 2-INCH PIPE SURVEY MONUMENT AT THE SOUTHEAST CORNER OF THE TAJIGUAS RANCHO, BEARS SOUTH $89^{\circ} 55\frac{1}{2}'$ EAST 118.9 FEET; THENCE NORTH $89^{\circ} 55\frac{1}{2}'$ WEST 2662.3 FEET TO THE POINT OF BEGINNING.

SAID LAND IS ALSO SHOWN ON MAP RECORDED MAY 14, 1930 IN BOOK 20, PAGE 180 OF RECORDS OF SURVEY, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

DESCRIPTION CONTINUED:

EXCEPTING THEREFROM ALL THAT PORTION OF SAID LAND LYING NORTHERLY OF THE FOLLOWING DESCRIBED LINE: COMMENCING AT A SURVEY MONUMENT AT THE NORTHWEST CORNER OF SAID LAND; THENCE ALONG THE WESTERLY LINE OF SAID PARCEL THE FOLLOWING COURSES AND DISTANCES: SOUTH $4^{\circ}40'30''$ EAST 1063.9 FEET, THENCE SOUTH $2^{\circ}16'00''$ EAST 355.00 FEET TO THE TRUE POINT OF BEGINNING; THENCE SOUTH $88^{\circ}02'24''$ EAST LEAVING SAID WESTERLY LINE AND INTO SAID LAND 3012 FEET MORE OR LESS TO A POINT IN THE EASTERLY LINE OF SAID LAND.

SAID LAND IS SHOWN TOGETHER WITH OTHER LAND ON MAP RECORDED MAY 14, 1930 IN BOOK 20, PAGE 180 OF RECORDS OF SURVEY, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.



MAP SHOWING LOCATION
 OF
 THREE LEASE EXCLUSION PARCELS
 AND CERTAIN IMPROVEMENTS ON
 A.P.N. 81-200-17.
 PREPARED FEBRUARY, 1992 AT
 THE REQUEST OF MRS. PHILA CALDWELL



GRAPHIC SCALE



■ = SET WOODEN NUB & LATH FOR LEASE CORNER.

C.L. REFUGIO ROAD



MARTIN, NORTHAFT & SPENCER, INC.
 CIVIL ENGINEERS - LAND SURVEYORS
 874 EAST 20TH STREET, SUITE 200, BERKELEY, CA 94710
 TELEPHONE: (415) 851-5285

AUG 1988 8:24 AM FEB 1992 7:40

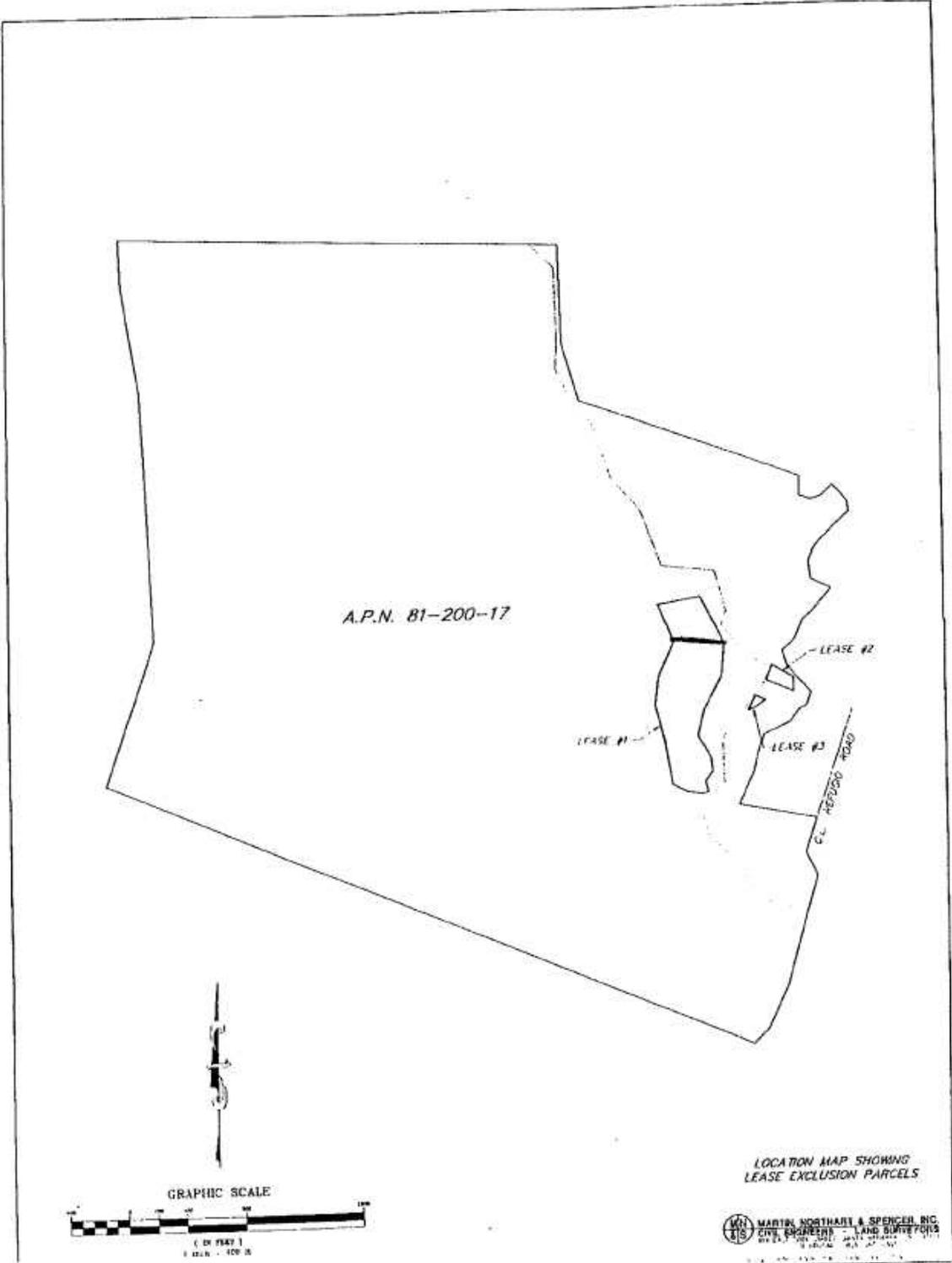


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**PRE-ANNEXATION
AND DEVELOPMENT AGREEMENT**

This PRE-ANNEXATION AND DEVELOPMENT AGREEMENT (the "Agreement"), by and between the CITY OF SANTA PAULA, a municipal corporation ("City"), and LIMONEIRA COMPANY, a Delaware corporation, ("Developer"), is made and entered into as of March 3, 2008. (City and Developer are from time to time hereinafter referred to in this document, as appropriate, each individually as a "party" and collectively as the "parties.")

RECITALS

A. The real property which is the subject of this Agreement consists of approximately 498 acres of the approximately 501-acre area commonly referred to as "East Area 1," in unincorporated Ventura County immediately east of the City's boundaries, generally located north of Main Street and Southern Pacific Railroad, between Haun Creek to the east and Santa Paula Creek to the west, exclusive of approximately 3 acres within East Area 1 commonly known as "the Packinghouse" (the "Project Site"). East Area 1 and the Project Site are depicted on attached Exhibit A-1, and the Project Site is more specifically described in attached Exhibit A-2. As of the "Vesting Date" (as defined below), Developer holds the legal fee interest in approximately 435 acres of the Project Site and an equitable interest in the remaining approximately 63 acres of the Project Site.

B. Although the Project Site is outside City's sphere of influence and jurisdictional boundaries, City's 1998 General Plan ("General Plan") shows that the Project Site is located within the East Area 1 Expansion Area and identified for urban development. The General Plan requires that City approve a Specific Plan for each Expansion Area before such areas can be annexed.

C. On February 26, 2008, City adopted Resolution No. 6461 placing a General Plan Amendment on the ballot for the June 3, 2008 election (the "GPA") in accordance with California Government Code §§ 65350 *et seq.*, Section III(F) of the Land Use Element to the General Plan (the "Save Open-space and Agricultural Resources Santa Paula City Urban

Restriction Boundary Initiative” or “SOAR”), and Section III(G) of the Land Use Element to the General Plan (aka the “81-Acre Initiative” or the “Citizens Advocating Responsible Expansion Initiative”). SOAR and Measure L6 require voter approval for the GPA because (1) the GPA proposes to amend General Plan Figure LU-4a by changing the City Urban Restriction Boundary (“CURB”) to incorporate East Area 1; and (2) the GPA proposes to increase the density and land use intensity set forth in General Plan Figure LU-5 and Table LU-7 as they affect East Area 1 and, more specifically, the Project Site.

D. By Ordinance No. 1190, adopted on March 3, 2008, City also approved the East Area 1 Specific Plan SP-3 in accordance with California Government Code §§ 65450 *et seq.* (the “Specific Plan”). The Specific Plan will constitute rezoning for the Project Site upon annexation pursuant to Government Code § 65859 if the GPA is approved by a majority of voters.

E. Before approving the GPA and Specific Plan, the City Council reviewed and considered the environmental impacts of developing the Project Site as proposed in the Specific Plan, and certain alternatives, as described in the East Area 1 Final Environmental Impact Report (SCH#2006071134) (the “EAO FEIR”). Thereafter, the City Council certified the EAO FEIR by Resolution No. 6458, adopted February 26, 2008 in accordance with the California Environmental Quality Act (“CEQA”), California Public Resources Code §§ 21000 *et seq.*

F. The GPA and Specific Plan will allow, subject to voter approval and annexation of the Project Site, the Developer to develop a mixed-use community of up to 1,600 total residential units and an estimated 810,800 square feet of office, retail, light industrial and civic facilities.

G. To further the legislative purposes set forth in California Government Code §§ 65864, *et seq.*, and to ensure the successful annexation of the Project Site and implementation of the Project Approvals (defined below), City and Developer desire to enter into this Agreement. On February 26, 2008, the Planning Commission of City commenced a duly noticed public hearing on this Agreement and at the conclusion of the hearing recommended approval of this Agreement. On February 26, 2008, the City Council commenced a duly noticed public hearing on this Agreement and on March 3, 2008, adopted Ordinance No. 1191 finding this Agreement to be consistent with the City’s General Plan, if the GPA is approved by a majority of voters, and approving this Agreement (the “Enabling Ordinance”).

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, City and Developer hereby agree as follows:

AGREEMENT

ARTICLE 1

VESTING DATE AND TERM

1.1 In General. The term of this Agreement begins upon the later to occur of (i) the execution of this Agreement by City and Developer; or (ii) the thirtieth (30th) day after the City Council adopts a resolution which (a) certifies the June 3, 2008 election and (b) finds that a majority of voters approved the GPA (the "Vesting Date"). City, by and through its Mayor, must execute this Agreement not later than seven (7) business days after the City Council adopts a resolution certifying the June 3, 2008 election as contemplated by this Section (the "Execution Date"). Not later than ten (10) business days after the Execution Date, the City Clerk must cause this Agreement to be recorded in the Official Records of Ventura County.

1.2 Satisfaction of Conditions Precedent. Notwithstanding anything to the contrary contained in Section 1.1 above, this Agreement does not become binding upon any portion of the Project Site, or be deemed to be operative or effective with respect thereto, until such time as (i) the voters approve the GPA; (ii) Developer purchases the approximately 63.72 acres of land owned by the Alice C. Newsom Family ("Landowners"), on which Santa Paula Creek Sports Park, a portion of Central Park, the College Site, the High School Site, the Joint Civic Facility and the Public Safety Facility are to be located, as and when required pursuant to that certain Purchase and Sale Agreement between Land Owners and Developer, dated February 8, 2008; and (iii) such portion of the Project Site is annexed to the City. Upon the satisfaction of all conditions with respect to any portion of the Project Site, this Agreement will automatically become "operative" (as defined in California Government Code § 65865) and "effective" (as contemplated by the court in *National Parks & Conservation Association v. County of Riverside*, 42 Cal.App.4th 1505 (1996)) with respect to, and will bind the use of, such portion of the Project Site. The date upon which this Agreement becomes so operative and effective with respect to

any portion of the Project Site is referred to as the "Effective Date" of this Agreement with respect to such portion. As of the Effective Date as to any portion of the Project Site, the terms and provisions of this Agreement will relate back to the Vesting Date with respect to such portion.

1.3 Covenants Running with the Land. As of the Effective Date for any portion of the Project Site, the terms and provisions of this Agreement are enforceable by the parties as equitable servitudes affecting such portion of the Project Site, constituting covenants running with such portion pursuant to California law including, without limitation, Civil Code § 1468. Each covenant herein to act or refrain from acting is for the benefit of or a burden upon such portion of the Project Site, run with such portion, and be binding upon Developer and the successors and assigns of Developer during their respective ownerships of such portion of the Project Site.

1.4 Relationship to Other Parties. Nothing in this Agreement is intended nor will it be deemed or determined to affect in any way the holder of any equitable or legal interest in any portion of the Project Site until such time as this Agreement becomes effective and operative with respect to such portion.

1.5 Term. The term of this Agreement commences on the Effective Date and continues for a period of twenty five (25) years, said term to be extended for an additional five (5) years at Developer's sole option (the "Term"). In the event of litigation challenging this Agreement, the Project Approvals, or the Election, the Term is automatically suspended for the duration of such litigation and resumes upon final disposition of such challenge and any appeal thereof upholding the validity of this Agreement. In the event that a referendum petition concerning this Agreement or any of the Project Approvals is duly filed in such a manner that the ordinance approving this Agreement is suspended, then the Term is deemed to commence upon City Council certification of the results of the referendum election approving this Agreement. If this Agreement has not become "operative" and "effective" (as defined above) with respect to any portion of the Project Site within fifteen (15) years of the Vesting Date, then this Agreement automatically becomes null and void with respect to such portion. If a certificate of occupancy for the first residential unit has not been issued within ten (10) years after this Agreement has become "operative" and "effective" (as defined above), then either party has the right to

request the other party renegotiate the terms of this Agreement or, if the parties cannot agree upon renegotiated terms, to terminate this Agreement.

ARTICLE 2 DESCRIPTION OF THE PROJECT

2.1 In General. As used herein, the term "Project" means the development of the Project Site as described in the "Project Approvals" (defined in Section 2.2 below). Not in limitation of the foregoing, the Project includes up to 1,500 total residential units and an estimated 810,800 square feet of office, retail, light industrial and civic facilities (including the square footage for the assisted living units) (the "Project"), together with schools, park sites and open space, and certain associated on-site or off-site public or quasi-public facilities or infrastructure as generally described in the Specific Plan (as defined more fully in Article 3 below, "Public Benefits").

2.2 Project Approvals. "Project Approvals" means (i) those provisions of the General Plan relative to or affecting the Project Site, as the General Plan existed on the Vesting Date, and as it may be amended from time to time, in a manner consistent with the terms and provisions of this Agreement, (ii) those provisions of the Specific Plan that relate to or affect the Project Site, as the Specific Plan existed on the Vesting Date, and as it may be amended from time to time, in a manner consistent with the terms and provisions of this Agreement; and (iii) the EAO FEIR.

2.3 Subsequent Approvals. "Subsequent Approvals" means those permits, approvals and other actions (other than the Project Approvals and amendments thereto) that may be necessary or desirable for the development of the Project including, without limitation: (i) subdivision maps and related or similar approvals issued under the California Subdivision Map Act; (ii) development permits; (iii) architectural review and design review approvals (as described in the Specific Plan); (iv) cancellations of contracts entered into pursuant to the California Land Conservation Act, California Government Code § 51200 *et seq.* (the "Williamson Act"); (v) subdivision improvement agreements; (vi) any other City discretionary approvals or ministerial permits that may be necessary or appropriate for buildout of the Project

and Project Site, including permits that may be necessary or appropriate for the construction of Project Facilities and Infrastructure, defined below; and (vii) any amendments to any of the foregoing that may be necessary or appropriate for the development of the Project. The parties agree that Developer is permitted to apply for one or more tentative subdivision maps, as Developer deems desirable, for the development of the Project, provided that Developer complies with the California Subdivision Map Act and Santa Paula Municipal Code ("SPMC").

2.4 Approvals. Project Approvals, amendments to Project Approvals and Subsequent Approvals are sometimes referred to in this Agreement collectively as "Approvals" and each individually as an "Approval." In the event of any conflict between the terms and conditions of this Agreement and any Approval, the terms and conditions of this Agreement control, to the maximum extent permitted by law.

ARTICLE 3 PUBLIC BENEFITS

The parties acknowledge and agree that Developer's agreement to perform and abide by the covenants and obligations of Developer set forth herein, and summarized in the Public Benefits Benchmarks on attached Exhibit C, is material consideration for City's agreement to perform and abide by the covenants and obligations of City set forth herein, including without limitation the following specific public benefits for this Development Agreement:

3.1 Parks and Open Space. Developer must reserve at least 223 acres within the Project for open space including, without limitation, approximately 134 acres of preserve and approximately 89 acres of active and passive parks and greenways. The Project's park increase City's overall park acreage by approximately 237%, reducing City's overall shortfall to 24.6 acres.

3.1.1 Community Parks

(a) **Santa Paula Creek Sports Park.** Before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must offer to dedicate to City, and after Developer completes park improvements described below, City must accept dedication of approximately 35 acres in the Santa Paula Creek Civic District of the Specific Plan which is approximately north of Santa Paula Street and east of Santa Paula

Creek (the "Santa Paula Creek Sports Park"). Developer must improve approximately 23 acres of the Santa Paula Creek Sports Park with active sports facilities identified by City, such as a baseball field, three softball fields/four soccer fields, six tennis courts, six basketball courts, a track and football field, and parking. The Santa Paula Creek Sports Park may be shared with the "High School" (defined below) and the "College" (defined below). Developer must improve the remainder of Santa Paula Creek Sports Park with passive facilities such as picnic tables and benches. The improvement plans for the Santa Paula Creek Sports Park will be developed in cooperation with the Developer, City, the "High School District" (defined below), and the "College District" (defined below) (collectively, "Public Entities"), specifically accommodating a future stadium. Developer's costs for improving the Santa Paula Creek Sports Park cannot exceed \$5,000,000, though Public Entities may request, and Developer must construct, additional amenities at the Public Entities' cost.

The Santa Paula Creek Sports Park must be publicly maintained either by the City or other public entity designated by the City, subject to a joint use agreement with the High School District and/or the College, which requires the High School District and College to pay City the fair share of maintenance costs associated with the shared facilities after opening of the High School or College, respectively. Until the High School and College are opened, the fair share maintenance costs attributable to the High School and College, respectively, must be privately financed through the Owner's Association and/or a Landscape Maintenance District.

(b) Central Park. Before City issues a final certificate of occupancy for the last residential unit within the Haun Creek Neighborhood of the Specific Plan Developer must offer to dedicate to City or, if not accepted by the City, convey to the Owner's Association, approximately 3.5 acres within the Haun Creek Neighborhood of the Specific Plan for a public park approximately located adjacent to Hallock Drive ("Central Park"). Developer must improve Central Park with an entertainment facility and similar cultural amenities. Central Park improvement plans must be approved by City and not cost Developer more than \$1,000,000.00.

3.1.2 Neighborhood Parks.

(a) Santa Paula Creek Neighborhood Park. Within two (2) years after issuance of a final-certificate of occupancy for the first residential unit within the Santa Paula Creek Neighborhood of the Specific Plan, Developer must improve and convey to the Owner's Association approximately 2 acres ("Santa Paula Creek Neighborhood Parks"). This acreage

must be improved by Developer to serve the daily recreation needs of residents within the Santa Paula Creek Neighborhood.

(b) Foothill Neighborhood Park. Within two (2) years after issuance of after issuance of a final certificate of occupancy for the first residential unit within the Foothill Neighborhood of the Specific Plan, Developer must improve and convey to the Owner's Association approximately 4 acres ("Foothill Neighborhood Park and Trailheads"). This acreage must be improved by Developer to serve the daily recreation needs of residents within the Foothill Neighborhood and as trailheads.

(c) Haun Creek Neighborhood Park. -Within two (2) years after issuance of a final certificate of occupancy for the first residential unit within the Haun Creek Neighborhood of the Specific Plan, Developer must improve and convey to the Owner's Association approximately 1.5 acres ("Haun Creek Neighborhood Park"). This acreage must be improved by Developer to serve the daily recreation needs of residents within the Haun Creek Neighborhood.

3.1.3 Open Space and Agriculture

(a) Santa Paula Creek Linear Park. Developer must improve as a greenway and convey to the Owner's Association when the applicable final map(s) are recorded that real property between the easterly boundary of the Santa Paula Creek and Santa Paula Creek Drive, from Santa Paula Street to Hallock Drive B, as depicted in the Specific Plan (the "Santa Paula Creek Linear Greenway"). The Santa Paula Creek Linear Park must total approximately 5.5 acres and must include a public trail connection between the Santa Paula Branch Line Trail and the "Agricultural Preserve" (defined below).

(b) Haun Creek Linear Park. Developer must improve as a greenway and convey to the Owner's Association when the applicable final map(s) are recorded a minimum of 70 feet of real property located west of the easterly boundary of the Project Site from the southerly boundary to the northerly boundary of the Project Site (the "Haun Creek Linear Parkway"). The Haun Creek Linear Parkway must total approximately 11.6 acres and must include a public trail connection to the "Agricultural Preserve" (defined below) and the ultimate future extension of the Santa Paula Branch Line Trail.

(c) Detention Basin Soccer Fields. Before City issues a building permit for the Project, Developer must improve the "Southerly Detention Basin" (defined

below), as grass soccer field(s), together with acceptable health facilities (such as portable toilets upon opening and permanent restrooms by the time conveyed to Owner's Association or Landscape Maintenance District) and picnic tables and benches, to the extent compatible with use for detention purposes, and convey it to the Owner's Association before City issues the final certificate of occupancy for any residence within the Project Site, ("Detention Basin Passive Park"). The Detention Basin Passive Park will total approximately 14 acres located generally at the southeast corner of the Project Site. The Detention Basin Passive Park must be maintained by Developer until conveyed to Owner's Association or Landscape Maintenance District, which must maintain the Detention Basin Passive Park thereafter.

(d) Open Space Preserve. Before City issues grading permits, Developer must offer approximately 79 acres for dedication to a public entity or, if not accepted by a public resources entity, convey to the Owner's Association to be preserved as an Open Space Preserve. The Open Space Preserve must be protected from development with an appropriate recorded instrument which prohibits use of the Open Space Preserve for uses other than passive recreational uses or open space. The Open Space Preserve may be subject to an irrevocable offer of dedication to City for a right-of-way for the future "State Route 150 Bypass" (defined below).

(e) On-Site Agricultural Preserve. Before City issues grading permits, Developer must offer approximately 55 acres for dedication to a public resource entity or, if not accepted by a public resources entity, convey to the Owner's Association to be preserved as an Agricultural Preserve. The Agricultural Preserve must be protected from development with an appropriate recorded instrument which prohibits use of the Agriculture Preserve for uses other than preservation and enhancement of agriculture-or open space. Developer may retain the right to commercially cultivate the Agricultural Preserve in perpetuity. The Agricultural Preserve will be subject to a recorded covenant restricting the agricultural techniques so as to be compatible with the future residences. The Agricultural Preserve also will be subject to an irrevocable offer of dedication to-City for a right-of-way for the future "State Route 150 Bypass" (defined below).

(f) Off-Site Agricultural Preserve. Before City issues grading permits, Developer must record an agricultural conservation easement, in a form acceptable to City Attorney, on the approximately 34 acres of land owned by Developer generally located south of

Hwy. 126, between Santa Clara Road to the south, Todd Road to the east, and Ellsworth Barranca to the west, as depicted on Exhibit B hereto, which is incorporated by reference.

3.2 WATER SUPPLY

3.2.1 Water Tanks. To protect public health and safety, Developer agrees (at City's request) to elevate the location of a three-million gallon potable water tank and also construct a second two-million gallon potable water tank. These improvements will provide increased storage and water pressure to existing City users. Such improvements must be constructed and dedicated to City, which will thereafter own and maintain them. The three-million gallon tank must be constructed and dedicated before City issues a certificate of occupancy for the first residential dwelling unit in the Project, and the two-million gallon tank must be constructed and dedicated before City issues a certificate of occupancy for the 1,000th residential dwelling unit in the Project.

3.2.2 Dedication Of Water Rights. The City's 2005 Urban Water Management Plan (UWMP) Update uses a demand rates for estimating future water demand of 132 gallons per day (gpd) per capita, whereas the City's 2005 Potable Water Master Plan uses a demand rate of 163 gpd per capita. The Water Supply Assessment (WSA) for the East Area 1 Specific Plan utilizes both the 132 and 163 rates provided in the UWMP and the Potable Water Master Plan and concludes that the annual average water demand for the proposed East Area 1 Specific Plan is between approximately 1,174.4 acre-feet per year (AFY) and 1,359.2 AFY. The SPMC defines a project's "Projected Demand For Water" as "including an allowance of 25% for potential future increases in the quantity of water required." Upon recordation of the first final map, Developer must transfer groundwater production equivalent to the Demand Rates set forth in Table 8 of the Water Supply Assessment for the uses encompassed in the tract map, plus 25%. Developer must perform a water use study and monitoring program called for in the WSA one year after the last certificate of occupancy for said tract map to determine the actual per capita use for residential users within the Project. To the extent that the actual per capita residential use exceeds the 132 gpd rate, then Developer must transfer additional water rights to City, if any, in excess of the 25% buffer. To the extent that the actual per capita residential use is less than the transferred water rights, such excess transferred water rights can be applied to satisfy the water demand of the second tract map. The actual per capita residential use rate for the first tract map, or 163 gpd, whichever is less, will be used to calculate the projected water demand for the uses

in the second final tract map which, together with the 25% buffer, must be transferred to City before recordation of the second final tract map. This procedure must be repeated for every final map through buildout of the Project. The total groundwater rights that Developer may be required to transfer to the City cannot exceed 1,699 AFY (163 gpd per capita residential use, with the 25% buffer). The groundwater rights transferred to City pursuant to this section are subject to Developer's right to use such water for construction and irrigation purposes as set forth in Section 8.6.1 below.

3.3 Traffic Improvements.

3.3.1 Santa Paula Street

(a) Bridge. Before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must construct and dedicate to City and City must accept dedication of, a new bridge extending Santa Paula Street from its current terminus west of the Project boundaries, across Santa Paula Creek, to the new extension of Santa Paula Street through the Project to the new extension of Hallock Drive.

(b) Off-site Improvements. Before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must improve with curbs, sidewalk, gutters and landscaping the City's existing right-of-way on the southerly side of Santa Paula Street from 12th Street to the new Santa Paula Street Bridge.

(c) Drainage. Before City issues a final certificate of occupancy for the 250th residential dwelling unit in the Project, Developer must pay City \$500,000 toward City's public works project for improving drainage at Santa Paula Street and 12th Street. City agrees that it will endeavor to complete its drainage improvement project before completion of the Bridge.

3.3.2 Traffic Circulation Infrastructure.

(a) 1st Certificate of Occupancy. Before occupancy of any residences within the Project, Developer must construct sufficient traffic improvements to provide access, as follows:

(i) Telegraph/Hallock. Notwithstanding Mitigation Measure T-2 set forth in the EAO FEIR, which requires Developer to pay its pro rata share of the costs, Developer must install the traffic signal and reconfigure the intersection of Telegraph Road and

Hallock Drive as described in said Mitigation Measure, before City issues a final certificate of occupancy for the 1st residential dwelling unit in the Project.

(b) 500th Certificate of Occupancy. Before dedication of the Santa Paula Creek Sports Park, Developer must provide sufficient access as follows:

(i) SR-126/Hallock. Notwithstanding Mitigation Measure T-1 set forth in the EAO FEIR, which requires Developer to pay its pro rata share of the costs, Developer must widen and reconfigure the intersection of SR-126 and Hallock Drive as described in said Mitigation Measure, before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project.

(ii) 12th/Santa Paula. Notwithstanding Mitigation Measure T-3 set forth in the EAO FEIR, which requires Developer to pay its pro rata share of the costs, Developer must install a traffic signal and reconfigure the intersection of 12th Street and Santa Paula Street as described in said Mitigation Measure, before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project.

(iii) SR-150/10th/Santa Paula. Notwithstanding Mitigation Measure T-7 set forth in the EAO FEIR, which requires Developer to pay its pro rata share of the costs, Developer must reconfigure and widen the intersection of Ojai Road (SR-150)/10th Street and Santa Paula Street as described in said Mitigation Measure, before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project.

(c) Last Certificate of Occupancy. Before completion of the Project, Developer must provide sufficient access as follows:

(i) 8th/Santa Paula. Notwithstanding Mitigation Measure T-9 set forth in the EAO FEIR, which requires Developer to pay all costs, Developer must widen and reconfigure the intersection of 8th Street and Santa Paula Street as described in said Mitigation Measure, before City issues a final certificate of occupancy for the 1,000th residential dwelling unit in the Project.

(ii) Palm/Santa Paula. Notwithstanding Mitigation Measure T-10 set forth in the EAO FEIR, which requires Developer to pay all costs, Developer must reconfigure the intersection of Palm Avenue and Santa Paula Street as described in said

Mitigation Measure, before City issues a final certificate of occupancy for the 1,000th residential dwelling unit in the Project.

(iii) Steckel/Santa Paula. Notwithstanding Mitigation Measure T-11, which requires Developer to pay all costs, Developer must reconfigure the intersection of Steckel Drive and Santa Paula Street as described in said Mitigation Measure, before City issues a certificate of occupancy for the 1,000th residential dwelling unit in the Project.

(d) Reimbursement. Developer is entitled to reimbursement for the portion of the costs of the traffic improvements set forth in this section above to the extent that they exceed the Project's pro rata share, as set forth below.

(e) City Assistance. City must cooperate with Developer and exercise its powers to implement the traffic and circulation mitigation measures set forth above and in the EAO FEIR.

3.3.3 Future SR 150 Bypass

(a) Right-of-Way. The Project is designed to accommodate a decision by City to construct a future State Route 150 Bypass with the extension of Hallock Drive northward. The right of way for Hallock Drive within the Project is oversized by the addition of a landscaped-median and an offer of dedication of a minimum 95-foot wide right-of-way in the Agricultural Preserve, totaling approximately 1 acre, at a location not currently susceptible to a metes and bounds description but generally will be from the terminus of Hallock Drive north and west to Santa Paula Creek.

(b) Study Funding. Developer must pay City one hundred thousand dollars (\$100,000) to partially fund the cost of preparing a project study report evaluating the feasibility of a State Route 150 east-side bypass to be located in the City. Developer must pay the \$100,000 Study Funding within thirty days after City's written request after City executes a contract for preparation of a SR 150 Bypass Project Study.

3.4 Haun Creek Detention. Developer must construct at least two detention basins totaling approximately 28 acres, plus an in-take and out-take weir system to divert flows from Haun Creek. This will reduce water flows at the Haun Creek Bridge during a 100-year storm event to within its current design capacity of 3,000 cubic feet per second. The first, approximately 14-acre, southernmost detention basin ("Southerly Detention Basin") in the

Detention Basin Passive Park must be completed before City issues the first certificate of occupancy for any residence within the Project Site. The second, approximately 13-acre detention basin, located generally in the middle, east side of the Project, must be completed before the City issues the certificate of occupancy for the 500th residence within the Project Site. The detention basins must be maintained by the Owner's Association and/or a Landscape Maintenance District.

3.5 Educational and Civic Facilities.

3.5.1 College Site. -Upon execution of this Agreement-, Developer must offer ("Temporary Offer") to dedicate approximately 11.6 acres within the Santa Paula Creek Civic District -to the Ventura County Community College District (the "College Site"). The Temporary Offer must remain available for at least six (6) months. If Ventura County Community College District rejects the Temporary Offer, or if at any time the Ventura County Community College District is unable to show to the reasonable satisfaction of Developer and City reasonable progress in the funding and approval of acquisition and construction of a community college facility at the College Site, then Developer and City must use their reasonable efforts to secure an agreement with another public post-secondary educational institution(s) for the dedication and acceptance of the College Site. In the event that Developer is unable to reach a mutually acceptable agreement with another public post-secondary educational institution within six(6) months, or if at any time the alternative public post-secondary educational institution is unable to show to the reasonable satisfaction of Developer and City, reasonable progress in the funding and approval of acquisition and construction of a college facility at the College Site, then Developer and City may market the College Site under commercial terms to private post-secondary educational institutions. If Developer is unable to reach a mutually acceptable agreement with a private post-secondary educational institution under reasonably commercial terms, then with City's consent, which cannot be unreasonably withheld, Developer may utilize the College Site in accordance with uses permitted within the Santa Paula Civic District under the Specific Plan. The offer of dedication of the College Site may be subject to the College District (or alternative public post-secondary educational institution, alternative private post-secondary educational institution or other commercial user, as the case may be) entering into a joint use agreement with City, providing for the responsibility

for maintenance of the 23-acre joint-use portion of the Sports Park and the "Joint Civic Facility" (defined below) to be shared equitably.

3.5.2 High School Site. Developer must reserve 8.3 acres within the Santa Paula Civic District for the Santa Paula Union High School District (the "High School Site"). Conveyance of the High School Site may be subject to the High School District entering into a joint use agreement with the City, providing for the responsibility for maintenance of the 23-acre joint-use portion of the Sports Park and the "Joint Civic Facility" (defined below) to be shared equitably.

3.5.3 Joint Civic Facility. Before City issues the certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must construct and offer to dedicate to City (or, at City's election, another public entity), and City must accept the offer of dedication of, 5.6 acres within the Santa Paula Civic District to City for use as a civic facility jointly with the College District, the High School District, the Elementary School District, the Library District, or other appropriate civic user ("Joint Civic Facility Site"). The Joint Civic Facility will be a two-story structure with approximately 35,000 square feet, including a multi-purpose auditorium with stage, kitchen, and upstairs meeting/class/library rooms. City, or a public entity identified by City, will design the Joint Civic Facility in cooperation with Developer, College District, High School District, and Elementary District. Developer's cost for constructing the Joint Civic Facility cannot exceed \$5,000,000.

3.5.4 Elementary School Site. Developer must reserve 10.8 acres within the Haun Creek Neighborhood of the Specific Plan for the Santa Paula Elementary School District, in accordance with the Memorandum of Intent between the Elementary School District and Developer, dated February 12, 2008.

3.5.5 Right of Reversion. The deeds conveying the College Site, High School Site, Joint Civic Facility Site, Elementary School Site, Santa Paula Creek Sports Park, and "Public Safety Facility" (defined below) may include a Right of Reverter providing that in the event the respective sites are not used for the intended purposes for any five-year period or are conveyed for third-party use, then Developer may exercise the right of reversion and may then apply for an amendment to the Specific Plan to allow use of those sites for a purpose consistent with the surrounding zoning.

3.5.6 Interim Use. Until the offers of dedication of the College Site, High School Site, Joint Civic Facility Site, Elementary School Site, Santa Paula Creek Sports Park, and “Public Safety Facility” (defined below) are accepted, Developer (or Owner’s Association) must maintain said sites in a vacant state, with fencing and signage.

3.6 Public Safety Facility. Before City issues the certificate of occupancy for the 500th residential unit in the Project, Developer must construct and offer to dedicate to City an approximately 1.5-acre site, and City must accept the offer of dedication of, a public safety facility (“Public Safety Facility”) to house a fire station, including shower and exercise facilities, with office space for police department personnel. City, or an entity identified by City, will design the Public Safety Facility. The construction and equipping of the Public Safety Facility cannot cost Developer more than \$4,000,000.

3.7 Non-Potable Water. Developer must construct non-potable water pipes within the Project to deliver water from the existing wells located on the Project Site (until recycled water is available from the City’s Water Recycling System to the Project Site) and recycled water to the parks and preserves described in Section 3.1 above. Due to the economic infeasibility, Developer is not required to construct recycled water pipes throughout the residential and commercial and industrial development within the Project Site to private users, as depicted in the Specific Plan; in lieu thereof, Developer must make the Wastewater Treatment Contribution provided in the following section.

3.8 Wastewater Treatment Contribution. Developer must pay \$ 3,666.67 to the City before City issues each certificate of occupancy for residential dwelling units in the Project, totaling \$5,500,000.00, which must be used by City toward the cost of the City’s Water Recycling Facility, which will consequently reduce future user’s rates.

3.9 Development Impact Fees. In accordance with SPMC Chapter 160, Developer must pay City approximately \$30,568,866 (less any credits for dedications) in development impact fees. This cumulative total is based upon the following categories and amounts:

<i>Fee Type</i>	<i>Total</i>	<i>Credit/Reimbursement</i>	<i>Net to City</i>
<i>Law Enforcement</i>	<i>\$846,676</i>	<i>Public Safety Facility</i>	<i>\$0</i>
<i>Fire Protection</i>	<i>\$2,143,286</i>	<i>Public Safety Facility</i>	<i>\$0</i>
<i>Traffic</i>	<i>\$3,550,782</i>	<i>Santa Paula Bridge, etc.</i>	<i>\$0</i>

<i>Water Distribution</i>	<i>\$7,303,530</i>	<i>Second 2MG Water Tank (~\$[5,000,000]) [confirm]</i>	<i>\$0</i>
<i>Sewer</i>	<i>\$1,234,819</i>		<i>\$1,234,819</i>
<i>Storm Drainage</i>	<i>\$1,303,472</i>	<i>Haun Creek Detention Basins</i>	<i>\$0</i>
<i>General Governmental Facilities</i>	<i>\$1,683,795</i>	<i>Joint Civic Facility</i>	<i>\$0</i>
<i>Public Meeting Facilities</i>	<i>\$1,828,566</i>	<i>Joint Civic Facility</i>	<i>\$0</i>
<i>Library Expansion Facilities</i>	<i>\$1,857,889</i>	<i>Joint Civic Facility</i>	<i>\$0</i>
<i>Park Land</i>	<i>\$8,816,071</i>	<i>Santa Paula Creek Sports Park, 3 neighborhood parks, etc.</i>	<i>\$0</i>

3.10 Development Agreement Contribution. Within five (5) working days after annexation of the Project Site to the City is approved by LAFCO, Developer must pay \$500,000.00 to the City, which may be used by City for any purpose.

3.11 City Gateway. Before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must construct entry monumentation at the intersection of Santa Paula Street and Hallock Drive, including urban design and landscape elements, and possibly signature buildings, to create a clear sense of arrival to the City. The design of those elements will be reviewed and approved by the City and cannot cost Developer more than \$50,000.00. Also before City issues a final certificate of occupancy for the 500th residential dwelling unit in the Project, Developer must pay City \$50,000.00 towards City's public works project for curb, gutter, sidewalk and landscaping on Telegraph Road between Hallock Drive and Santa Paula Creek.

3.12 Annual Adjustment. The maximum construction costs of the Santa Paula Creek Sports Park, Central Park, Joint Civic Facility, the Public Safety Facility, and the Gateway Monumentation set forth above in this Article 3 (collectively, "Public Facility Costs," or individually, "Public Facility Cost") will be adjusted in connection with the "Annual Review" (as defined in Section 11.1 below). The respective amounts of the Public Facility Cost to be constructed within the year following said Annual Review will be adjusted by any increase in the Consumer Price Index by using the information provided by the U.S. Department of Labor, Bureau of Labor Statistics, for all urban consumers within the Los Angeles/Anaheim/Riverside metropolitan area ("CPI"). The original amount of each Public Facility Cost set forth in this Agreement will be multiplied by a fraction, the numerator of which is the CPI as of March 1 immediately preceding said Annual Review, and the denominator of which is the CPI as of March 1, 2008.

ARTICLE 4

DEVELOPMENT OF PROJECT IN GENERAL

4.1 Consideration to Developer. The parties acknowledge and agree that City's agreement to perform and abide by the covenants and obligations of City set forth herein is material consideration for Developer's agreement to perform and abide by the covenants and obligations of Developer set forth herein.

4.2 Consideration to City. The parties acknowledge and agree that Developer's agreement to perform and abide by the covenants and obligations of Developer set forth herein is material consideration for City's agreement to perform and abide by the covenants and obligations of City set forth herein, including without limitation the following specific consideration for this Development Agreement:

4.3 Rights of Developer Generally. Developer has a vested right to develop the Project and use the Project Site in a manner consistent with the provisions of this Agreement and "Applicable Law" (defined below).

4.4 Rights of City Generally. City has a right to regulate the development and use of the Project Site in a manner consistent with the provisions of this Agreement and "Applicable Law" (defined below).

4.5 Parameters of Project. Not in limitation of any other right of Developer set forth herein, the permitted uses of the Project Site, the density and intensity of use and permitted grading of the Project Site, the maximum height and size of buildings included in the Project and provisions for the reservation and dedication of land, must be consistent with the Project Approvals and, as when they are issued (provided they are consistent with the Project Approvals), the Subsequent Approvals.

ARTICLE 5 APPLICABLE LAW

5.1 In General.

5.1.1 Applicable Law Defined. Except as otherwise agreed to by the parties, the rules, regulations and official policies applicable to the Project and the Project Site are those set forth in this Agreement and, except as otherwise specifically set forth herein, the rules, regulations and official policies of City (including the plans, municipal codes, ordinances, resolutions and other local laws, regulations and policies of City) in force and effect on the Vesting Date (collectively, "Applicable Law").

5.1.2 Approvals as Applicable Law. Applicable Law includes the Project Approvals (including the Specific Plan) and, as they may be issued from time to time in a manner consistent with both the terms and provisions of this Agreement and the rules, regulations and official policies of City (including the plans, municipal codes, ordinances, resolutions and other local laws, regulations and policies of City) in force and effect on the Vesting Date, the Subsequent Approvals.

5.2 Application of Other City Laws.

5.2.1 No Conflicting City Laws. Except as otherwise set forth herein, City may apply to the Project and the Project Site any rule, regulation or official policy of City (including any plan, municipal code, ordinance, resolution or other local law, regulation or policy of City) (each a "City Law") that does not conflict with Applicable Law or this Agreement. Unless otherwise agreed to by Developer in writing, City must not apply to the Project or the Project Site (whether by initiative, referendum or otherwise) any City Law that is in conflict with Applicable Law or this Agreement.

5.2.2 Examples of Conflicting City Laws.

(a) Not in limitation of Section 5.2.1 or any other provision in this Agreement, any City Law is deemed to conflict with Applicable Law or this Agreement if it would have any of the following effects:

(i) prevent all or a portion of the Project or the Project Site from being developed, used, operated or maintained in accordance with the terms and provisions of this Agreement or Applicable Law;

(ii) limit or reduce the overall density, intensity or unit count of the Project, or any part thereof, to a density, intensity or unit count that is lower than that specified in this Agreement or Applicable Law;

(iii) modify any land use designation or permitted or conditional use of the Project Site in a manner inconsistent with this Agreement or Applicable Law;

(iv) limit or control the rate, timing, phasing or sequencing of the approval, development, construction or occupancy of all or any portion of the Project or Project Site except as specifically permitted by this Agreement;

(v) impose any condition, dedication or exaction that would conflict with this Agreement or Applicable Law;

(vi) require the issuance of discretionary permits (or nondiscretionary permits, to the extent such nondiscretionary permits impose new or different substantive requirements on Developer or the Project that are not otherwise required by Applicable Law or this Agreement) or approvals by City other than those identified in this Agreement or Applicable Law;

(vii) apply to the Project any provision, condition or restriction that would be inconsistent with this Agreement or Applicable Law;

(viii) apply to the Project any rent control or price control provisions or uniform or prevailing wage requirements except to the extent required under state law, unless otherwise permitted by this Agreement;

(ix) limit or control the location of buildings, structures, grading, or other improvements of the Project or the Project Site in a manner that is inconsistent with or more restrictive than the limitations included in this Agreement or Applicable Law;

(x) limit or control the availability of public utilities, services or facilities or any privileges or rights to public utilities, services or facilities in a manner other than as specifically set forth in this Agreement or Applicable Law (for example, water rights, water connections or wastewater treatment capacity rights, sewer connections, etc.) for the Project or the Project Site;

(xi) apply to the Project or the Project Site any City Law otherwise allowed by this Agreement that is not uniformly applied on a City-wide basis to other development projects and project sites;

(xii) establish, enact, increase, or impose against the Project any fees, taxes (including without limitation general, special and excise taxes), assessments, liens or other monetary obligations other than (i) those specifically permitted by this Agreement, and (ii) City-wide taxes and assessments (provided such City-wide taxes or assessments are not disproportionately applied to the Project Site); or

(xiii) limit the processing or issuance of Project Approvals or Subsequent Approvals other than as specifically set forth in this Agreement or Applicable Law.

(b) This Project is exempt from any moratorium or other limitation (whether relating to the rate, timing, phasing or sequencing of development) affecting subdivision maps, building permits, certificates of occupancy or other land use entitlements that are approved or to be approved, issued or granted within the City, or portions of the City. To the maximum extent permitted by law, City must prevent any City Law from invalidating or prevailing over all or any part of this Agreement, and City must cooperate with Developer and undertake such actions as needed to ensure this Agreement remains in full force and effect. If City applies to the Project a City Law that Developer believes to conflict with Applicable Law or this Agreement, Developer may take such action as may be permitted under Section 15.5 and Article 12 below.

(c) City must not support, adopt or enact any City Law, or take any other action, which would violate the express provisions of this Agreement or the Approvals.

(d) Developer can challenge in court any City Law that would conflict with Applicable Law or this Agreement or reduce the development rights provided by this Agreement, in accordance with the dispute resolution provisions of Section 15.5 below.

5.3 Model Codes and Standard Specifications.

(a) Nothing in this Agreement prevents City from applying to the Project standards contained in uniform building, construction, fire or other model code, as the same may be adopted or amended from time to time by City, provided that the provisions of any such model code:

(i) apply to the Project only to the extent that such code is in effect on a City-wide basis;

(ii) with respect to those portions of any such model code that have been adopted by City without amendment, be interpreted and applied in a manner consistent with the interpretation and application of such code pursuant to California Law.

(b) Nothing in this Agreement prevents City from applying to the Project "standard specifications" for public improvements (e.g., streets, storm drainage, parking lot standards, driveway widths) as the same may be adopted or amended from time to time by City, provided that the provisions of any such standards and specifications apply only to the extent they are in effect on a citywide basis and do not conflict with standards contained in the Specific Plan. As they concern the Project or the Project Site, to the extent any City Law or other City ordinance, regulation, standard, or specification conflicts with the Specific Plan, the Specific Plan controls unless otherwise provided herein.

5.4 State and Federal Law. As provided in Government Code § 65869.5, in the event that state or federal laws or regulations, enacted after the Vesting Date ("Changes in the Law") prevent or preclude compliance with one or more provisions of this Agreement, such provisions of the Agreement will be, by operation of law, modified or suspended, or performance thereof delayed, as and to the extent may be necessary to comply with such Changes in the Law. In the event any state or federal resources agency (i.e., California Department of Fish and Game, U.S. Fish and Wildlife Service, U.S. Army Corps of Engineers, Regional Water Quality Control Board/State Water Resources Control Board), in connection with its final issuance of a permit or certification for all or a portion of the Project, imposes requirements ("Permitting Requirements") that require modifications to the Project, then the parties will work together in good faith to incorporate such changes into the Project; provided, however, that if Developer appeals or challenges any such Permit Requirements, then the parties may defer such changes until the completion of such appeal or challenge.

5.5 Further Assurances.

(a) To the extent permitted by law, City must take all actions needed to ensure that the vested rights provided by this Agreement can be enjoyed by Developer including, without limitation, any actions needed to ensure the availability of public services and facilities to serve the Project or the Project Site as development occurs.

(b) Should any initiative, referendum, or other measure be enacted, and any failure to apply such measure by City to the Project be legally challenged, Developer agrees to fully defend the City against such a challenge in a manner consistent with Section 15.2 below; provided, however, that if Developer waives its rights under this Agreement and consents to the application of such measure by City to the Project, Developer has no obligation to defend the City against a legal challenge of City's independent refusal to apply such measure to the Project.

(c) City must not take any actions relative to any properties within East Area 1, whether or not covered by this Agreement, that would impede, hinder or frustrate Developer's ability to develop or use the Project or the Project Site in a manner consistent with this Agreement. Developer must notify City, in writing, of any such actual or potential conflict. Upon such notification, at City's request, the parties will meet and confer in good faith to reasonably attempt to determine whether those City actions that are of concern to Developer will, in fact, impede, hinder or frustrate Developer's ability to develop or use the Project or the Project Site in a manner consistent with this Agreement and, if so, how to avoid such result, in accordance with the dispute resolution provisions of Section 15.5 of this Agreement.

ARTICLE 6

FINANCIAL COMMITMENTS OF CITY AND DEVELOPER

6.1 Taxes and Assessments.

(a) City may apply to the Project or the Project Site any tax not in full force and effect as of the Vesting Date if, and only if, such tax is:

(i) A tax levied in connection with the establishment or implementation of a "Financing Mechanism" in accordance with the provisions of Section 6.3 below; or

- (ii) a tax agreed to by Developer.
- (iii) citywide taxes passed by a vote of the electorate.

(b) City may from time to time increase the amount of any tax applicable to the Project or the Project Site (whether in force and effect as of the Vesting Date or not in force and effect as of the Vesting Date but imposed against the Project in accordance with subsection (a) above); provided, however, that (1) it is a citywide tax increase passed by a vote of the electorate, (2) it is a tax increase agreed to by Developer, or (3) it is a tax increase levied in connection with the establishment or implementation of a Financing Mechanism in accordance with the provisions of Section 6.3 below, provided that (A) any tax or tax increase levied or imposed by or through any Financing Mechanism will be imposed only in such a manner, for such purposes and in such amounts as may be agreed to by Developer in connection with the establishment of such Financing Mechanism (provided such Financing Mechanism includes appropriate adjusters for inflation); and (B) tax or tax increases levied in connection with the establishment or implementation of a Financing Mechanism may be increased only to the extent necessary to:

(i) ensure the adequate operation, maintenance, depreciation and replacement of facilities and infrastructure whose operation and maintenance is funded by a Financing Mechanism previously established to fund such operation, maintenance, depreciations and replacement; or

(ii) service any bond debt previously issued in reliance upon such taxes.

(iii) No assessment will be imposed on the Project or the Project Site other than through a Financing Mechanism as set forth in Section 6.3 below.

6.2 Fees and Other Charges.

(a) City may levy against or apply to the Project or the Project Site only those monetary impositions other than taxes applicable City-wide described in this Section 6.2. Except as otherwise specifically stated below, any monetary impositions levied against or applied to the Project under this Section 6.2 must be consistent with the provisions of applicable California law, including the provisions of Government Code §§ 66000, *et seq.* ("AB 1600").

(b) Not in limitation of the foregoing, except as otherwise specifically permitted by this Agreement and not in limitation of any other provisions hereof, (i) there must

be a reasonable relationship between any municipal cost or exaction required to be borne by the Project and the type of development within the Project to which such cost is attributable; (ii) there must be a reasonable relationship between the need to incur any such municipal cost or exaction and the type of development within the Project to which such cost is attributable; (iii) no municipal cost or exaction required to be borne by the Project will exceed the estimated reasonable cost of providing the service or facility to which such municipal cost or exaction relates; and (iv) with respect to any fee required to finance Project Facilities and Infrastructure, there must be a reasonable relationship between the amount of the fee and the cost of the Project Facilities and Infrastructure funded by such fee. Wherever this Agreement requires a "reasonable relationship" between the Project and any requirement imposed thereon, whether pursuant to AB 1600 or otherwise, there must be required an essential nexus and a rough proportionality between the Project and such requirement.

(c) Except as otherwise provided in this Agreement, only those fees and charges of City in effect as of the Vesting Date ("Existing Project Fees") may be applied to the Project or the Project Site. The Existing Project Fees may be increased by City from time to time during the term of, and in a manner consistent with, this Agreement. All Existing Project Fees will be paid at the time City issues certificates of occupancy. Existing Project Fees cannot be challenged by Developer regardless of whether the amount of such fees satisfies the requirements of AB 1600. Any increase in an Existing Project Fee is subject to the provisions of AB 1600 and can be challenged by Developer. However, regardless of the results of such a challenge to such increase, Developer must pay the Existing Project Fees as they existed on the Vesting Date. Developer must also pay all or any part of such Existing Project Fees increase that satisfies AB 1600.

(d) The City's rates for utilities service (e.g., water and sewer) may be applied to the Project and increased from time to time during the term of this Agreement; provided, however, that any such increase can be imposed only to the extent permitted by law.

(e) City may apply any mitigation fees to the Project necessary to reduce to less than significant levels those demonstrated significant environmental impacts of the Project, as identified in the EAO FEIR, that are not mitigated by other means ("Mitigation Charge"). To the extent demonstrated significant environmental impacts of the Project may be mitigated either by Developer's payment of a Mitigation Charge or by Developer's

implementation of recommended physical improvements or other mitigation measures, the choice of such mitigation is reserved to the Developer in its sole discretion. Except as otherwise specified below, the amount of any Mitigation Charge must be reasonably related to the Project's actual contribution to the identified environmental impact (except to the extent City requires the oversizing of public facilities or infrastructure and commits to the reimbursement of incremental cost increases in a manner consistent with the provisions of Article 7 of this Agreement). Moreover, City will endeavor to impose only those Mitigation Charges which represent the most efficient but effective means of mitigating the identified environmental impact. Mitigation Charges must be paid before City issues certificates of occupancy.

(f) City may charge Developer any applicable "Processing Fee" (defined below) that is operative and in force and effect on a citywide basis at the time such Processing Fee ordinarily is collected; provided, however, that any such Processing Fee complies with all of the terms and provisions of this Agreement. In addition to the foregoing, Developer must reimburse City for its reasonable staff time and other costs (including reasonable consultant costs and the reasonable costs of a mutually acceptable project coordinator to be hired by City) associated with (i) the "Annual Review" (defined below), (ii) the establishment of any Financing Mechanism (to the extent such costs are not included in the Financing Mechanism itself), including any necessary election costs, and (iii) all other administrative tasks associated with City's adoption and implementation of this Agreement (and not otherwise covered by any Processing Fee).

(g) The Trail System, Open Space and all Neighborhood, Community, Linear and Passive Parks (as contemplated by the Specific Plan and as defined in Section 3.1 of this Agreement) areas to be located on the Project Site, whether dedicated to the City, a neighborhood association, or an assessment or some other district, will be provided by Developer in lieu of, and, at Developer's request, credited against, any and all applicable parkland dedication fees, open space fees or other similar fees. All such credits will be based on the appraised fair market value of the dedicated park land and the actual costs of any and all related site improvements, including, without limitation, playground equipment, park fixtures, restroom facilities, landscaping, and ball fields.

(h) In addition to the foregoing, the parties intend that any and all other dedications made by, or improvements constructed by, Developer under Article 3 above

will be provided in lieu of and, at Developer's request, credited against any charge (whether a tax, assessment, fee or other charge) imposed by the City to the extent such charge is imposed for the purpose of financing the facility or service for which the dedication is being made by Developer. Such credits (or reductions) must be in an amount equal to the fair market value of any dedicated real property, the actual costs of any dedicated site improvements or personal property, plus the actual cost to Developer of designing and constructing any such improvements. Developer is eligible for such reductions/credits at the time of the earliest imposition of the charge that otherwise would be paid. To the extent the credits due Developer at such time exceed the fee obligation otherwise imposed on Developer and Developer holds an interest in offsite property, City agrees that Developer will receive fee credits against the respective fees otherwise chargeable to such other offsite property. Developer is not permitted to use such excess credits to satisfy or partially satisfy any of its other City fee obligations, nor to receive reimbursement from City in an amount equal to such difference. Unless otherwise subject to reimbursement in accordance with this Agreement, those improvements (or portions thereof) to be constructed by Developer for which Developer will be eligible for fee credits include, without limitation, the following:

- (i) public safety facility site and related improvements (to be credited against City fees related to the provision of fire and law enforcement protection facilities);
- (ii) [not used];
- (iii) traffic improvements (to be credited against City fees related to the provision of traffic improvements);
- (iv) park, trail and open space improvements (to be credited against City fees related to the provision of parks, trails, and open space);
- (v) sewer improvements (to be credited against City fees related to the provision of related infrastructure improvements); and
- (vi) water transmission lines, oversized pump station and water storage facilities, and oversized water treatment facilities (to be credited against City fees related to the provision of related infrastructure improvements).

(i) Fees and charges other than those specifically described in this Section 6.2 may be imposed against or apply to the Project or the Project Site only in a manner agreed to by City and Developer in writing during the term of this Agreement.

6.3 Establishment of Financing Mechanisms.

6.3.1 In General. Upon Developer's request or upon its own initiative in cooperation with Developer, City will give good faith consideration to establishing any mechanism that is legal and available to the City to aid in financing the construction, maintenance or operation of Project Facilities and Infrastructure, defined below. These mechanisms may include, without limitation, direct funding of condemnation costs and construction costs, acquisition of improvements, establishing reserve accounts to fund capital improvement program projects, Landscaping and Lighting Districts, Mello-Roos Districts, Geological Hazard Abatement Districts or other similar mechanisms.

6.3.2 Procedures for Establishment. Establishing any mechanism to finance the construction, operation or maintenance of Project Facilities and Infrastructure, defined below (each a "Financing Mechanism"), and issuing any debt in connection therewith ("Project Debt") will be initiated upon the request of Developer in connection with the development of any phase of the Project, or by City in cooperation with Developer. Developer's request must be made to the City Manager in written form and will outline the purposes for which the Financing Mechanism and Project Debt will be established or issued, the general terms and conditions upon which it will be established or issued and a proposed timeline for its establishment or issuance. City's consideration of Developer's request must be consistent with the criteria set forth in Section 6.2 above.

6.3.3 Nature of City's Participation. City's participation in forming any Financing Mechanisms approved by City (and its operation thereafter) and in issuing any Project Debt approved by the City will include all of the usual and customary municipal functions associated with such tasks including, without limitation, the formation and administration of special districts, the issuance of Project Debt, the monitoring and collection of fees, taxes, assessments and charges such as utility charges, the creation and administration of enterprise funds, the enforcement of debt obligations and other functions or duties authorized or mandated by the laws, regulations or customs relating to such tasks.

6.4 Timing of Exactions. Unless otherwise provided herein or agreed to by Developer, City and Developer will cooperate to ensure that the phasing of pertinent assessments, fees, special taxes, dedications, or other similar levies coincides with and does not precede the actual construction of each increment of the Project, so that only currently developing properties within the Project Site are subject to such assessments, fees, special taxes, dedications, or other similar levies (except to the extent Developer agrees to vacant land taxes or similar mechanisms in connection with the development of the Project Site). This may be accomplished through a number of mechanisms including, among others, the phasing of assessment districts and the use of benefit districts in conjunction with assessment districts, thereby spreading the timing of the imposition of relevant levies. Unless otherwise agreed to in writing by Developer, in no event will Developer be obligated to pay fees or other monetary exactions for the design, engineering, construction or dedication of Project Facilities and Infrastructure, defined below, or other improvements that Developer is otherwise required to construct or dedicate to City pursuant to the Approvals.

ARTICLE 7
COMMITMENTS OF CITY AND DEVELOPER
RELATED TO PUBLIC IMPROVEMENTS

7.1 Project Facilities and Infrastructure.

7.1.1 Construction and Funding of Project Facilities and Infrastructure.

City may, subject to the other the terms and provisions of this Agreement, require Developer to construct or fund the construction of any Project Facilities and Infrastructure at the time such Project Facilities and Infrastructure are needed to satisfy the requirements of the Approvals. As used herein, the term "Project Facilities and Infrastructure" includes public and semi-public facilities and infrastructure (including associated grading, engineering, design, construction and supervision) only to the extent such facilities and infrastructure serve the Project, and, except to the extent permitted under Section 7.1.4, do not include public facilities or infrastructure to the extent such facilities or infrastructure serve projects or areas other than the Project or the Project Site. Except as otherwise specifically set forth herein, Developer has no responsibility for the operation, maintenance, repair or replacement of Project Facilities and Infrastructure.

7.1.2 Improvement Security. To the extent any Project Facilities and Infrastructure are not financed by a Financing Mechanism, and are being constructed following approval of the relevant final subdivision map, Developer must provide appropriate improvement security pursuant to Government Code §§ 66499, *et seq.* Any such improvement security must be released in the manner provided by Government Code § 66499.7. City agrees to use its best efforts to ensure the partial release of any improvement security provided by Developer upon the partial performance of the secured act or the City's good faith acceptance of the secured Project Facilities and Infrastructure as completion of such improvements progresses.

7.1.3 Duty to Avoid Oversizing of Project Facilities and Infrastructure.

(a) City must ensure that, to the maximum extent feasible, Developer is not required to finance or construct any Project Facilities and Infrastructure in excess of its fair share costs as established by Applicable Law, including, without limitation, the legal requirements of "essential nexus" and "rough proportionality" ("Fair Share"). City will limit its authority under Subdivision Map Act to require any Project Facilities and Infrastructure constructed or funded by Developer under Section 7.1.1 above to be oversized to serve projects or areas other than the Project Site, as set forth in this Section 7.1.3 and in Section 7.1.4 below. Where any Project Facilities and Infrastructure reasonably and efficiently can be built incrementally or in phases, City will only require Developer to construct only such increment or phase of such facility or infrastructure that is needed for the Project at the time such requirement is imposed upon Developer.

(b) By way of example, the provisions of subsection 7.1.3(a) above must be applied as follows: (i) where any roadway, bridge or similar "linear" structure reasonably can be built in phases (e.g., two lanes of a four-lane road or bridge), Developer is required to build or fund only that number of lanes that is needed at such time for the Project to meet the roadway levels of service requirements described in the Specific Plan; and (ii) where any other facility can with reasonable efficiency be provided incrementally through phased construction, Developer is required to fund only such construction as is necessary to provide the increment of capacity needed for the Project.

7.1.4 Procedures for Oversizing of Project Facilities and Infrastructure. In those instances where the phasing or incremental construction of Project Facilities and Infrastructure would involve significant operational inefficiencies, unreasonable disruption to

existing facilities, or unreasonably increased construction costs, Developer may be required to construct or provide advance funding for the construction of oversized improvements notwithstanding the provisions of subsections 7.1.3 above. For example, if the Project generates a need for an 18-inch sanitary sewer line, but other projects reasonably may be expected to use such sewer line within the near future and thereby increase the required capacity of such line to 24 inches, City may require Developer to construct or fund the construction of such sewer line with a 24-inch diameter. Before any City action requiring Developer to oversize any Project Facilities and Infrastructure, Developer and City will, upon City's request, cooperate to develop a reasonably detailed cost estimate for the design and construction of such oversized Project Facilities and Infrastructure project, which cost estimate will include all design, engineering, material, grading, trenching, inspection and construction costs. Notwithstanding the foregoing, City must exercise its best good faith efforts to reasonably limit Developer's obligation to construct or provide advance funding for oversized improvements.

7.1.5 Participation of Other Property Owners and/or Reimbursement. To the extent City, pursuant to Sections 7.1.3 and 7.1.4 above, requires Developer to oversize Project Facilities and Infrastructure and Developer incurs costs related to the construction of Project Facilities and Infrastructure that exceed the Project's Fair Share of such improvements, City must comply with the following:

(a) City will first use its best good faith efforts to secure funding from other landowners and/or developers for that portion of the cost of such oversized improvements that is attributable to projects or areas owned, developed or proposed for development by such other landowners and/or developers by requiring other landowners and/or developers to enter into reimbursement agreements directly with Developer.

(b) At Developer's written request, City must adopt and/or implement any of the reimbursement mechanisms ("Reimbursement Mechanisms") set forth in subsections 7.1.5(b)(i)- (iii) below. In no event will City adopt and/or implement any of the Reimbursement Mechanisms without the written consent of Developer. Developer is not entitled to any payment or reimbursement from City unless Developer has, in writing, requested City to adopt and/or implement one of the Reimbursement Mechanisms before the start of construction of the Public Facilities and Infrastructure for which Developer is seeking reimbursement or payment from the City.

(i) City will reimburse Developer, through a fee imposed by City on other benefiting property owners, the pro-rata costs associated with Developer's funding and/or construction of that portion of any such oversized improvements (including, but not limited to, actual design, trenching, engineering, material, grading, inspection, and construction costs) that are attributable to projects or areas other than the Project or the Project Site. All such reimbursement fees collected by City will be placed in a separate account for the benefit of Developer and distributed to Developer in accordance with a reasonable schedule to be determined by Developer.

(ii) City must, at Developer's request, establish one or more Financing Mechanisms under Article 6 above to provide funding to Developer.

(iii) City must establish any other reasonable reimbursement mechanism requested by Developer.

(c) To the extent Developer is entitled to reimbursement pursuant to subsections (ii) or (iii) above, City must establish a process to ensure quarterly (i.e., once every three months over any single twelve month period) progress payment reimbursement to Developer of such costs, subject to City's prior verification through inspections of that portion of the improvements that is subject to such reimbursement. City agrees that applicable reimbursements will be invoiced by Developer to City on a quarterly basis in proportion to the percentage of work then completed on the relevant Project Facilities and Infrastructure project, provided each invoice reasonably documents the Construction Costs, defined below, associated with that portion of the improvement then subject to reimbursement. City agrees that each invoice will be delivered quarterly by Developer to City for payment due upon receipt. Upon Developer's submittal of each invoice, City has thirty (30) days to contest those reimbursable expenses set forth therein. In the event City fails to contest any invoice within thirty (30) days of Developer's submittal thereof, such invoice is deemed approved by City. City's approval or payment of any invoice does not constitute approval of the work performed.

(d) In the event Developer constructs oversized improvements that serve properties other than the Project Site in accordance with Sections 7.1.3 and 7.1.4 and, subsequent to reimbursement pursuant to Section 7.1.5(b) above, Developer has or acquires an interest in other offsite property so served, City agrees that Developer will receive fee credits against fees otherwise chargeable to that offsite property to pay for that property's Fair Share of

the cost of oversized improvements serving that property or be reimbursed for such costs. By way of example, where City requires Developer to oversize the Project's water delivery improvements to serve property adjacent to the Project Site, which property, subsequent to the construction of such oversized improvements, is later acquired by Developer, City agrees to provide Developer with fee credits against any City fees imposed against such property for the purpose of offsetting Developer's cost of the oversized improvements. In no event will the fee credit exceed the Construction Costs, as defined below.

7.1.6 Dedications. To the extent that rights-of-way or other interests in real property owned by Developer within the Project Site are needed for the construction, operation or maintenance of Project Facilities and Infrastructure and subject to Section 6.2 of this Agreement, Developer must dedicate such right-of-way or other interest in real property to City (or other appropriate entity) at the time such land is actually needed for Project Facilities and Infrastructure, but in no event at any time earlier than the filing of a final subdivision map that includes such property. Developer is not required to dedicate any portion of the Project Site for improvements needed for other projects or areas other than the Project or the Project Site except to the extent (i) such land is needed for the oversizing of Project Facilities and Infrastructure as described above and City establishes a mechanism to provide appropriate credits or reimbursements to Developer as described in Sections 6.2 and 7.1.5 above, or (ii) such dedication is specifically required by the Specific Plan. Any public improvements constructed by Developer and dedicated to City, and any right-of-way or other real property dedicated to City, will be dedicated free and clear of any liens unacceptable to the City.

7.1.7 Reimbursement from City funds. Unless otherwise provided by this Agreement, should City be obligated to reimburse Developer from City funds for any costs in excess of Developer's Fair Share of the cost of constructing Project Facilities and Infrastructure, City will be obligated only for a pro rata share of "Construction Costs" (i.e., the difference between the total Construction Costs and Developer's Fair Share thereof). The term "Construction Costs," as used in this Agreement, includes design, trenching, engineering, material, grading, inspection, and construction costs.

7.2 Cooperation with respect to Project Facilities and Infrastructure.

7.2.1 In General. City must cooperate with Developer and take all actions necessary or appropriate to facilitate the timely development of Project Facilities and

Infrastructure. Such cooperation includes, without limitation, (i) the diligent and timely exercise by City of its power of eminent domain in a manner consistent with the laws of the State of California (and subject to the City making all necessary findings and determinations required to exercise such power), to acquire any rights of way or other real property interests identified by Developer to be necessary or appropriate for Project Facilities and Infrastructure; and (ii) City's diligent efforts to work with other landowners and governmental and quasi-governmental agencies to ensure the timely approval and construction of such Project Facilities and Infrastructure. Developer must notify City as to when a right of way will be required to meet Developer's construction schedule. Upon Developer's notice and to the extent permitted by law, City agrees to use its best efforts to timely acquire any and all necessary right of ways.

7.2.2 Eminent Domain. The parties agree that the power of eminent domain will be exercised in the manner contemplated by Section 7.2.1 above only if there is substantial evidence to support the following three findings:

- (a) the public interest and necessity require the private property sought to be acquired;
- (b) the property sought to be acquired is planned or located in the manner that will be most compatible with the greatest public good and the least private injury; and
- (c) the property sought to be acquired is necessary for the Project.

7.2.3 Securing Service Options. City will use its best efforts, and cooperate with Developer, to pursue various options for providing services to the Project, including short-term and long-term water supplies and wastewater collection and treatment facilities, as set forth in the Specific Plan and the EAO FEIR. Developer may also independently pursue such options as it deems appropriate for providing such services to the Project. City further agrees not to take any action with respect to the availability of Project Facilities and Infrastructure funded or constructed by Developer including, among other things, roadway capacity, potable water treatment and delivery facilities, and wastewater treatment and conveyance facilities, that would impede the ability of the Project to be built out as described in the Specific Plan and at the time required to accommodate Developer's phasing schedule. If an actual shortage of capacity arises during the term of this Agreement, City will use best efforts to actively pursue all reasonable courses of action to eliminate the shortage of capacity in an expeditious manner.

7.2.4 City's Acceptance of Dedications. City must accept each offer of dedication of the Project Facilities and Infrastructure required by this Agreement or the Approvals within sixty (60) days of such offer by Developer, provided that the applicable improvements are completed consistent with Applicable Law. All other Developer offers of dedication required by this Agreement or the Project Approvals must be accepted by City within a reasonable time, provided that the applicable improvements are completed consistent with applicable law.

7.2.5 Prevailing Wages. In the event any Project Facilities and Infrastructure are paid for in whole or in part out of public funds, as contemplated by Labor Code § 1720, Developer agrees to pay prevailing wages for the construction of such Project Facilities and Infrastructure to the extent required by Applicable Law.

ARTICLE 8

OTHER COMMITMENTS OF CITY AND DEVELOPER

8.1 Reorganization Proceedings. To the maximum extent permitted by law, within thirty (30) days after the Vesting Date, City will submit to LAFCO the Resolution of Application, a plan for the provision of services and any other materials required by LAFCO for a complete application, said documents and materials to be consistent with the Project Approvals and this Agreement. City must use its best and diligent efforts to cause the completion of such annexation subject to all applicable requirements of law. City agrees that its obligations under this Section 8.1 are in the nature of a pre-annexation agreement, are severable from the remaining provisions of this Agreement, and become binding upon the Vesting Date, regardless of whether this Agreement has become "operative" or "effective" with respect to any portion of the Project Site.

8.2 Timing of Development.

8.2.1 Phasing.

(a) **Project Phasing.** The Project and related infrastructure is expected to be built in phases in response to existing market conditions over the term of this Agreement. City and Developer agree that there is no requirement that Developer initiate or complete development of the Project or any particular phase of the Project within any particular period of

time, and City will not impose such a requirement on any Project Approval. The parties acknowledge that Developer cannot at this time predict when or the rate at which or the order in which phases will be developed. Such decisions depend upon numerous factors which are not within the control of Developer, such as market demand, interest rates, competition and other factors.

(b) Improvement Timing. Not in limitation of Section 8.2.1(a) above, Developer agrees that certain park, open space, Public Benefit Units (defined below), and Project Facilities and Infrastructure improvements will be constructed to coincide with certain Project development benchmarks, as more fully described in Section 8.7.2(d), below, and on the attached Exhibit C.

8.2.2 Other Timing Requirements.

(a) Except as set forth specifically in this Section 8.2.2 or the Specific Plan, Developer is not required to initiate or complete development of any portion of the Project within any particular period of time nor is Developer required to delay development of any portion of the Project. Developer may respond to market conditions and other relevant factors in advancing or delaying the phasing and development of the Project as it determines, in its sole business judgment, to be necessary. Not in limitation of the foregoing, the parties desire to avoid the result of the California Supreme Court's holding in *Pardee Construction Co. v. City of Camarillo* (1984) 37 Cal. 3d 465, where the failure of the parties therein to consider and expressly provide for the timing of development resulted in a later-adopted initiative restricting the timing of development to prevail over such parties' agreement, and therefore acknowledge that Developer has the right to develop the Project at such time as Developer deems appropriate within the exercise of its subjective business judgment.

(b) Nothing in this Agreement can be deemed to require Developer to acquire any portion of the Project Site, proceed with the development of any portion of the Project or make any financial commitment associated with any such development if, in Developer's sole and absolute discretion, Developer determines that it is not in Developer's best financial or other interest to do so. The provisions of the foregoing sentence do not, however, limit any obligation of Developer under this Agreement with respect to any development activities that are chosen by Developer to be undertaken hereunder.

(c) Nothing in this Agreement exempts Developer from completing work required by a subdivision agreement, road improvement agreement or similar agreement in accordance with the terms thereof.

8.3 Maintenance District. Developer agrees to the inclusion of the Project Site in a lighting and landscaping district, geologic hazard abatement district, Mello-Roos district or other similar entity or entities, as determined by Developer, which entity or entities will be established by the City for the purpose of paying for the City's ongoing maintenance costs (including adjustments for inflation) associated with the Park, Trail System and Open Space.

8.4 Satisfaction of Parkland Obligations. City agrees that Developer's substantial compliance with the terms and conditions of Section 3.1 of this Agreement satisfies any and all Project and Developer obligations related to the provision of parkland, open space, recreational facilities or related amenities.

8.5 CC&Rs. Before the first final subdivision map for the Project Site or any portion thereof is recorded, Developer must cause one or more sets of covenants, conditions and restrictions ("CC&Rs") to be incrementally recorded against the areas to be developed within the Project Site at such time as areas of the Project Site are developed. The CC&Rs will contain enforceable provisions relating to, among other things, architectural design of the Project, front-yard and exterior maintenance, use restrictions, and (to the extent not provided by other financing mechanisms) the provisions for and on-going funding of costs of operation, maintenance, repair and replacement of any private parks, roads, open space, landscaping or other commons. To the extent permitted by law, the CC&R's will further provide that should any local tax, assessment, fee, or charge imposed by any Financing Mechanism that (i) has been established for the ongoing maintenance and operation of the Project Facilities and Infrastructure, the Project's streets and landscaping, Open Space, the Trail System, trailheads, or other Project Facilities and Infrastructure required to be maintained at the City's expense, and (ii) is subject to Proposition 218, be repealed by eligible voters in accordance with Proposition 218, the CC&Rs will contain provisions, enforceable by the City, requiring each property owner to assume the expenses otherwise financed by the local tax, assessment, fee, or charge so repealed. The CC&Rs are subject to the prior review and approval of the city attorney, at Developer's expense, which approval cannot be unreasonably withheld and will be denied only if such CC&Rs contain terms and provisions materially inconsistent with those CC&Rs used for

comparable housing developments in Southern California. City agrees that the CC&R's must be approved or denied by the city attorney within ten (10) business days following Developer's submittal of the CC&Rs to the city attorney, otherwise the CC&Rs will be deemed approved. If the city attorney denies approval of the CC&Rs, the city attorney must indicate in writing its reason for denying the CC&R's and indicate in writing those steps Developer must take to prepare CC&Rs that would be acceptable to the city attorney.

8.6 Other Understandings.

8.6.1 Construction and Irrigation Water. City acknowledges that Developer will require a reliable water source during all phases of the Project. City further acknowledges that there are existing operational wells located on the Project Site that City does not own or control and which Developer and/or Developer's predecessor in interest currently operate at their expense. City agrees that, notwithstanding SPMC Chapter 52, Developer may continue to access, use and draw water from such existing wells for any and all Project-related construction and irrigation purposes (and as needed to prevent or suppress fires on the Project Site), at no additional charge from City, for all phases of development through Project buildout and operation, until non-potable water becomes available in accordance with this Agreement. Developer agrees to pay all existing expenses associated with the use and operation of such wells through Project buildout and operation, to the extent utilized for irrigation until recycled water is available, at no cost to City.

8.6.2 Single-Trenching Dry Utilities. Developer agrees to coordinate with all utility providers and, to the maximum extent possible, install all necessary dry utilities, including without limitation any fiber-optics or other telecommunications required by the telephone, internet and cable service providers, at one time in one trench.

8.6.3 Availability of Public Services. City must reserve and ensure the delivery to the Project of such infrastructure capacity for water treatment and delivery, sewer, and wastewater collection, treatment, and disposal services as and when necessary to serve the Project as it is developed. Except as otherwise provided by this Agreement, City must provide all other services and infrastructure required to serve the Project as and when necessary to serve the Project as it is developed. The parties must cooperate in the performance and implementation of all actions necessary or appropriate for the provision of infrastructure and services to the Project as described in this Agreement.

8.6.4 Model Homes. City agrees that each model home within the Project may be served with all weather roads, and will not require utility connections, until such time as City issues a certificate of occupancy for such model home unit, at which time such model home unit will be required to be served with paved roads and utility connections. City further agrees that Developer may construct model homes and related infrastructure on the Project Site before City issues the Project's first final map.

8.6.5 Local Hiring Program. Developer agrees to prepare and implement a local hiring program to encourage and promote the employment of qualified residents of the City of Santa Paula in its development of the Project (the "Local Hiring Program"). Developer agrees that the Local Hiring Program will be prepared within ninety (90) days after City's approval of the first tentative tract map for the Project and will include the following measures, and such other measures as Developer from time to time deems appropriate: (i) circulation within Santa Paula of regular public job notices; (ii) annual job fairs targeting Santa Paula residents, (iii) mandatory inclusion on all Project bidding lists of any qualified Santa Paula contractors or subcontractors that have registered with Developer, and (iv) compliance with Developer's corporate bidding policies. As part of the information to be submitted to City in connection with the Annual Review (defined below), as described in Section 11.2 of this Agreement, Developer must submit to the City Manager a written report documenting Developer's implementation of the Local Hiring Program, which report must describe in reasonable detail Developer's efforts during the relevant reporting period to hire qualified Santa Paula residents pursuant to the Local Hiring Program.

8.6.6 Election Costs. Developer agrees to pay all City's costs for conducting the June 3, 2008 election. In the event any initiative or referendum seeking to overturn one or more Project Approval qualifies for the ballot, Developer agrees to pay City's direct cost of conducting such election, as such costs are determined by the Ventura County Registrar of Voters. Developer's obligation under this Section 8.6.6 extends only to the City's election costs fairly attributable to the relevant Project-related initiative or referendum and will not extend to any City election costs related to other ballot measures or any candidate for City office presented to the voters in the same election.

8.6.7 Growth Management Allocations. City agrees to approve a Growth Management Allocation of 1,500 residential dwelling units for the Specific Plan in accordance

with SPMC Chapter 16.106, which allocations must be issued by the City no later than fourteen (14) days following the Effective Date.

8.6.8 Third Access. Developer agrees to cooperate with City to seek approval by the Ventura County Transportation Commission and any other necessary third party (collectively, "VCTC"), for a second at-grade crossing within the Project Site to accommodate a third access to the Project. If approved by VCTC, Developer must use its reasonable efforts to acquire the off-site right-of-way and install such third access within one (1) year following such VCTC approval.

8.6.9 Railroad Stop. Developer agrees to cooperate with City to seek approval by the VCTC for a second railroad stop in the City. If approved by VCTC, Developer must use its reasonable efforts to accommodate a railroad stop within the project; provided, however, that reasonable efforts does not include relocation of the proposed third access.

8.6.10 "Limoneira Lane". Developer agrees to cooperate with City to seek approval by the California Department of Transportation ("CalTrans"), or any other public entity which has jurisdiction in the matter, to reopen "Limoneira Lane" for westbound-only vehicle traffic from SR 126.

8.7 Public Benefit and Inclusionary Housing.

8.7.1 Public Benefit Housing. City and Developer agree that one of the public benefits from the Project is providing new home ownership opportunities for Santa Paula residents and workers. Accordingly, to the extent permitted by law, City and Developer agree to the following:

(a) Developer agrees to provide one hundred (100) residential units within the Project at a cost affordable to "Qualified Public Benefit Participants" (defined below) whose gross annual income does not exceed two hundred percent (200%) of the Ventura County median household income as defined in Health and Safety Code § 50093 ("Public Benefit Units") The parties agree that the Public Benefit Units will be constructed in those areas designated by the Specific Plan for multi-family, high-density residential use planned for the Haun Creek Neighborhood and the Santa Paula Creek Neighborhood; it is not anticipated that any Public Benefit Units will be provided in the Foothill Neighborhood. City will not require Developer to distribute such units throughout each neighborhood and the Developer may locate the Public Benefit Units as determined by Developer. City will not require Developer to provide

such units in advance and may construct the Public Benefit Units proportionately as the Project is developed.

(b) Developer agrees to work in good faith with City to establish, at City's sole expense and administration, a public benefit housing program which, to the extent permitted by law, will set forth the criteria pursuant to which certain City residents or other governmental employees may be permitted to purchase or lease, at Developer's option, some or all of the Project's Public Benefit Units (the "Public Benefit Housing Program").

(c) City will, to the extent permitted by law and as part of the Public Benefit Housing Program, prepare a list of qualified individuals who may participate in the Public Benefit Housing Program (the "Qualified Participants") to be used by Developer in obtaining qualified lessees or purchasers for the Public Benefit Units (the "Public Benefit Housing Priority List"). The parties anticipate that the Public Benefit Housing Priority List will prioritize the following Qualified Participants in the order determined by City: (i) public safety employees employed by the City, (ii) other employees of the City whose tenancy furthers the inclusionary housing goals of the City, (iii) public school teachers, (iv) other governmental employees whose employment necessitates residence in the City, (v) employees of hospitals located within the City, and (vi) any other individuals otherwise qualified to lease or purchase Public Benefit Units. All Qualified Participants must satisfy the definition of "Qualified Public Benefit Participants" (i.e., having gross annual income does not exceed two hundred percent (200%) of the Ventura County median household income).

(d) City assumes sole responsibility for preparing and providing to Developer the Public Benefit Housing Priority List, which list must be updated by City at least once every six (6) months. Developer, in identifying Qualified Participants for the lease or purchase of Public Benefit Units in accordance with the Public Benefit Housing Program, will be entitled to rely on the most current version of the Public Benefit Housing Priority List provided to Developer by City, whether or not such version has been timely updated by City in accordance with this Section.

(e) As contemplated by the SPMC, the Public Benefit Units should generally be reserved for occupancy by Qualified Public Benefit Participants between forty-five (45) and fifty-five (55) years, but not less than thirty (30) years, after City issues applicable certificates of occupancy, which reservation will be set forth in recorded deed restrictions.

Developer agrees to prepare deed or lease restrictions related to the Public Benefit Units in a form reasonably acceptable to the City Attorney, whose approval must not unreasonably be withheld. If the City Attorney does not approve the proposed deed restrictions within seven (7) business days of their submittal by Developer, the deed restrictions will be deemed approved. If, after review, the City Attorney denies its approval of any proposed Public Benefit Unit deed restrictions, the City Attorney must notify Developer in writing of the basis of its denial and indicate those steps Developer can take to prepare acceptable deed restrictions.

8.7.2 Inclusionary Housing. In lieu of providing very-low, low- and moderate-income housing in the Project, Developer will contribute \$4,642.86 upon issuance of certificate of occupancy for each market-rate residential unit (i.e., exclusive of Public Benefit Units and assisting living units), totaling \$6,500,000.00, to the City's Affordable Housing Trust Fund, which must be used by City for constructing affordable housing.

8.7.3 Alternative Compliance. City agrees that, upon adoption of the Enacting Ordinance, Sections 8.7.1 and 8.7.2 of this Agreement satisfies the requirements of SPMC § 16.13.404 for purposes of establishing an Affordable Housing Plan. Specifically, the calculation of in-lieu fees meets the City's affordable housing objectives in that the Affordable Housing Trust Fund will be funded with monies for construction of affordable housing; it is impracticable to strictly comply with the SPMC requirements for inclusionary housing because of the location of the Project Site removed from downtown and from agricultural employment; and because of geologic, hydrologic and other environmental constraints on the Project Site. In addition, City agrees that Section 8.7.2 satisfies the requirements of SPMC §§ 16.13.402(E) and 16.13.407(A) for purposes of calculating the amount of the in-lieu fees.

8.7.4 Density Bonus Units. Developer hereby waives its right to any density bonus units to which it may be entitled pursuant to Government Code § 6915 *et seq.* and Santa Paula Municipal Code §§ 16.13.310 *et seq.*

8.7.5 Tax In-Lieu Fee. To the extent permitted by law, Developer agrees to covenant property within the Haun Creek Neighborhood, in a form approved by the City Attorney, to ensure any conveyance of the property for purposes of non-market rate dwelling units protects City from property tax revenue loss.

8.8 Fiscal Impact Deposit. A Fiscal Impact Analysis was prepared for the Project comparing revenues generated by East Area 1 to City service costs to determine if the Project's

tax revenues will be sufficient to fund the Project's need for public services. Under the baseline scenario used in the study, at buildout East Area 1 will annually generate approximately \$2.5 to \$3 million in gross revenues with annual service costs of approximately \$1.6 million. Thus an estimated surplus of \$800,000 to \$1.2 million is anticipated annually. Based on the assumed phasing and buildout schedule, there may be annual shortfalls in years 5, 6 and 7 of the Project of approximately \$630,000. Developer must deposit \$1,000,000.00 with City upon completion of all annexation proceedings and exhaustion of all statutes of limitation and challenge periods ("Fiscal Shortfall Deposit"). City must deposit the Fiscal Shortfall Deposit in an interest-bearing account. In connection with the "Annual Review" (as defined in Section 11.1 below), Developer must submit for City's review and approval an update of the Fiscal Impact Analysis ("Annual Fiscal Update"). The Annual Fiscal Update will use the same model as the Fiscal Impact Analysis, but reflect the cumulative actual data, including (i) the actual development in the Project to date, (ii) the actual residential sales prices in the Project to date, (iii) the transfer of any property within the Project to a tax-exempt entity, and (iv) the City's actual cost for public services to the Project to date. To the extent that the Annual Fiscal Update identifies any deficit in the cumulative City revenues from the Project to date less than the cumulative cost of public services to the Project to date, an equivalent amount may be transferred from the Fiscal Shortfall Deposit to the City's General Fund. At the conclusion of the Annual Review following the tenth (10th) anniversary of this Agreement, any remaining Fiscal Shortfall Deposit must be refunded to Developer.

ARTICLE 9

CONSIDERATION OF PERMITS AND APPROVALS

9.1 In General.

9.1.1 Review and Action Generally. Upon Developer's submission of any complete application for an Approval together with any fees permitted under Article 5 and required by City in accordance with Applicable Law, City will commence and complete (and use its best efforts to commence and complete in a prompt and diligent manner) all steps necessary to act on the application. To this end, Developer must promptly provide to City all information that is reasonably requested by City for its consideration of any such application.

9.1.2 Expedited Review Procedures. City must develop and implement fast-track municipal development procedures, including those for design review, building inspection and permitting processes, for the Project, to the end that design and construction of the Project may proceed expeditiously and not be subject to undue delays or costs. Among other things, City and Developer must discuss terms and conditions under which City employs contract personnel, at Developer's expense and in a manner consistent with the provisions of Article 6 above, to perform plan checking, inspection of public improvements, engineering services, building inspection services and other similar service.

9.1.3 Consideration of Applications in Light of Applicable Law.

(a) Except as otherwise specifically provided in this Article 9, all applications for Approvals submitted by Developer will be considered by City in light of, and in accordance with, Applicable Law (provided, however, that inconsistency with any Applicable Law does not constitute grounds for denial of an application for an Approval which is requested by Developer as an amendment to such Applicable Law). Any tentative subdivision map approved for all or any portion of the Project Site (or needed for any Project Facilities and Infrastructure) must comply with the requirements of California Government Code § 66473.7.

(b) In approving the Project Approvals, City established standards and procedures to guide the future development of the Project. The Subsequent Approvals will be deemed tools to implement those standards and procedures and must be consistent therewith. Without limiting the generality of the foregoing, except as otherwise agreed to by Developer, City must not through any Project Approval or the imposition of any condition of approval thereto, violate the provisions of Section 5.2 above. After Developer submits all required applications and processing fees for any Subsequent Approval, City must commence and complete (and use its best efforts to promptly and diligently commence and complete) all steps necessary to act on the Subsequent Approval application including, without limitation, (i) the notice and holding of public hearings and (ii) the decision whether to approve the Subsequent Approval application, as set forth in subsection (c) below.

(c) An application by Developer for a Subsequent Approval may be denied by City only if such application does not comply with this Agreement or Applicable Law (provided, however, that inconsistency with a Project Approval does not constitute grounds for denial of a Subsequent Approval requested by Developer that is an amendment to that Project

Approval) or City is unable to make all findings required by state law in connection with such Subsequent Approval. City may approve an application for such a Subsequent Approval subject to any conditions necessary to bring the Subsequent Approval into compliance with this Agreement or Applicable Law.

9.2 Amendments to General Plan and Specific Plan. The parties anticipate that, from time to time, Developer may request amendments to the General Plan or the Specific Plan to respond to changing circumstances and conditions. City is under no obligation to approve any such application and may, in the exercise of its legislative discretion, approve, deny or propose conditions to or modifications in any such application by Developer for an amendment to the General Plan or the Specific Plan, including conditions or modifications that might otherwise be prohibited by the vested rights provided by this Agreement. Developer will have a reasonable opportunity to review any such proposed conditions and modifications and withdraw its application for a general plan amendment or specific plan amendment (in which case neither Developer's proposed amendments nor the City's proposed modifications will become effective).

9.3 CEQA Compliance. City must streamline the environmental review of Approvals under CEQA including, without limitation, relying on the EAO FEIR to the maximum extent permitted by law including, without limitation, Government Code § 65457. In connection with its consideration of any application for an Approval, City and Developer must meet and confer as to the most appropriate form for the environmental review of such approval; provided, however, that City retains the authority to decide on the most appropriate form of such environmental review, subject to the provisions of applicable state law and regulations.

9.4 Life of Approvals. To the maximum extent permitted by law, any Approval issued by City will continue in effect without expiration until the later to occur of (i) the expiration or earlier termination of this Agreement; or (ii) the date upon which such Approval would otherwise expire under Applicable Law.

ARTICLE 10
AMENDMENTS

10.1 Operating Memoranda and Amendments of Development Agreement.

10.1.1 Operating Memoranda. The Parties acknowledge that the provisions of the Agreement require a close degree of cooperation and that new information and future events may demonstrate that changes are appropriate with respect to the details of performance of the Parties under this Agreement. The Parties desire, therefore, to retain a certain degree of flexibility with respect to the details of performance for those items covered in general terms under this Agreement. If and when, from time to time, the Parties find that refinements or adjustments are desirable, such refinements or adjustments will be accomplished through operating memoranda or implementation agreements approved by the Parties which, after execution, will be attached to this Agreement as addenda and become a part hereof.

Operating memoranda or implementation agreements may be executed on behalf of the City by the City Manager and the City Attorney. In the event a particular subject requires notice or hearing, such notice or hearing will be appropriately given. Any significant modification to the terms of performance under this Agreement will be processed as an amendment of this Agreement in accordance with Article 10 and must be approved by the City Council.

10.1.2 Amendments. This Agreement may be amended from time to time only upon the mutual written consent of City and Developer; provided, however, that in connection with the transfer of any portion of Developer's rights or obligations under this Agreement to another developer pursuant to the provisions of Article 13 below, Developer (or any assignee of Developer's rights under this Section 10.1.2), such other developer and City may agree that the signature of such other developer may be required to amend this Agreement insofar as such amendment would materially alter the rights or obligations of such developer hereunder. In no event will the signature or consent of any "Non-Assuming Transferee" (defined below) be required to amend this Agreement.

10.1.3 Minor Changes. Any change to this Agreement which does not substantially affect (i) the Term of this Agreement, (ii) permitted uses of the Project Site, (iii)

provisions for the reservation or dedication of land, (iv) conditions, terms, restrictions or requirements for subsequent discretionary actions, (v) the density or intensity of use of the Project Site or the maximum height or size of proposed buildings or (vi) monetary contributions by Developer, will, with Developer's consent, be subject to the review and approval of the City's city manager (the "City Manager") and not require notice or public hearing, except to the extent otherwise required by law.

10.1.4 Future Development Agreements. Except as otherwise consented to by Developer, any future development agreement that may be entered into between City and a successor or assign of Developer with respect to any portion of the Project Site must be consistent with the terms and provisions of this Agreement.

10.2 Future Approvals Do Not Require Amendments to Development Agreement. Except as may be otherwise agreed to by the parties, no amendment of this Agreement is required in connection with the issuance of any Approval. Any Approval issued after the Effective Date will automatically be incorporated into this Agreement and vested hereby. City will not issue any Approval for any portion of the Project Site unless Developer requests such Approval from City.

ARTICLE 11 ANNUAL REVIEW

11.1 In General. The City Manager or the designee thereof will, on an annual basis, conduct an annual review of Developer's compliance with the terms and conditions of this Agreement (the "Annual Review"), in accordance with the procedures set forth in this Article 11.

11.2 Preliminary Procedures. The Annual Review will be initiated on or before June 16th of each year during the term of this Agreement by (i) the submission to City by Developer of a request to initiate the Annual Review or (ii) the submission to Developer by City of a notice that City is initiating the Annual Review. Within fourteen (14) days following the delivery of the request or notice specified in the foregoing sentence, City Manager will provide to Developer in writing a description of the types of information reasonably determined necessary by City Manager to conduct the Annual Review. Developer and City Manager will thereafter meet and confer as to (i) the matters described in City Manager's request for information; (ii) appropriate

timeframes for the preparation and submittal of the materials requested by City Manager, additional meetings between City and Developer to discuss those materials and preparation of a draft report by City Manager concerning the matters to be addressed by the Annual Review; and (iii) a tentative date for a public hearing at which the Annual Report will be considered by City Manager (which will be no later than June 16th of such year unless additional time is required for the preparation and submittal of information needed for the Annual Review).

11.3 Preparation for and Conduct of Public Hearing.

11.3.1 Meetings and Conferrals. After the Developer submits any information requested by City Manager as set forth in Section 11.2 above, Developer and City Manager will meet and confer as to all subjects appropriately included in the Annual Review with the objective of arriving at mutually acceptable conclusions with respect to any and all such subjects. If there are any disagreements between City Manager and Developer that are not resolved during such meetings and conferrals, their respective positions will be set forth in the draft "Annual Report" described below.

11.3.2 Preparation of Draft Annual Report. Following the meetings and conferrals described in Section 11.3.1 above, City Manager will (i) prepare a draft report (the "Draft Annual Report") summarizing the results of such meetings and conferrals and containing City Manager's conclusions with respect to each of the matters required to be included in the Annual Review and (ii) schedule a public hearing on the Draft Annual Report. At least ten (10) business days before the public hearing, City Manager will deliver to Developer a copy of the Draft Annual Report and any documents or analysis used or relied upon preparing such report. Developer is permitted an opportunity to respond to City Manager's evaluation of its performance by written and oral testimony before the City Manager, including any public hearing.

11.3.3 Conduct of Public Hearing and Final Decision. City will conduct one public hearing on the Draft Annual Report, which will be noticed in a newspaper of general circulation. During such public hearing, City Manager will accept and consider any testimony of Developer and interested citizens and make a final determination as to whether to adopt the Draft Annual Report as written or, instead, adopt it with modifications. The annual report so adopted by City Manager (the "Annual Report") will thereafter be presented to the City Council for its

review, information and, if any City Council action is required pursuant to Section 11.4 below, assistance in taking any such action.

11.4 Further Actions.

11.4.1 Finding of Compliance. If the City Manager finds good faith compliance by Developer with the terms of this Agreement, the City Manager will issue a "Finding of Compliance" in recordable form and that can be recorded by Developer or any "Mortgagee" (defined below). The issuance of a Finding of Compliance by the City Manager and the expiration of the appeal period hereinafter specified without appeal, or the confirmation by the City Council of the issuance of the Finding of Compliance upon such appeal, concludes the Annual Review for the applicable period and such determination is final.

11.4.2 Finding of Noncompliance. If the City Manager finds Developer has not complied in good faith with the terms or conditions of this Agreement, the City Manager will issue a "Finding of Noncompliance" and deliver to Developer the notice specified under Section 12.1.1 below. A Finding of Noncompliance is deemed a notice of default with respect to Developer and commences the sixty (60) day cure period set forth in Section 12.1.1 below.

11.4.3 Public Notice of Finding. Any appeal of the issuance of a Finding of Compliance or Finding of Noncompliance (including any appeal by Developer) must be filed within twenty (20) days following such issuance and, in the case of a Finding of Noncompliance, the filing of such an appeal tolls the 60-day cure period specified below. After completion of a duly-noticed public hearing, the City Council must issue a final Finding of Compliance or Finding of Noncompliance. Such a final Finding of Noncompliance is deemed a notice of default and commences a new 60-day cure period under Section 12.1.1 below. Not in limitation of the forgoing, Developer retains the right to challenge City's issuance of any final Finding of Noncompliance, pursuant to Code of Civil Procedure § 1094.5.

11.4.4 Deemed In Compliance. For any year during the Term, if City fails to conduct the Annual Review and Developer notifies City in writing of such failure and City fails to commence the Annual Review within fifteen (15) days of such notice and complete the Annual Review within forty five (45) days of such notice, Developer is conclusively deemed in compliance with the terms of this Agreement for that Annual Review period.

ARTICLE 12
DEFAULT, REMEDIES, TERMINATION OF DEVELOPMENT
AGREEMENT

12.1 Defaults.

12.1.1 Notice and Cure. Any failure by City or Developer to perform any term or provision of this Agreement, which failure continues uncured for a period of sixty (60) days following written notice of such failure from the other party (unless such period is extended by written mutual consent), constitutes a default under this Agreement. Any notice given pursuant to the preceding sentence must specify the nature of the alleged failure and, where appropriate, the manner in which such alleged failure satisfactorily may be cured. If the nature of the alleged failure is such that it cannot reasonably be cured within such 60-day period, then the commencement of the cure within such time period, and the diligent prosecution to completion of the cure thereafter, is deemed to be a cure within such 60-day period. If the alleged failure is cured, then no default exists and the noticing party will take no further action. If the alleged failure is not cured, then a default exists under this Agreement and the non-defaulting party may exercise any of the remedies available under Sections 12.2 and 12.3 below. No failure or delay in giving notice of default constitutes a waiver of default; provided, however, that the provision of notice and opportunity to cure is nevertheless a prerequisite to the enforcement or correction of any default.

12.1.2 Actions During Cure Period. During any cure period specified under Section 12.1.1 above, and during any period before any delivery notice of failure or default, the party charged will not be considered in default for purposes of this Agreement. If there is a dispute regarding the existence of a default, the parties will otherwise continue to perform their obligations hereunder, to the maximum extent practicable in light of the disputed matter and pending its resolution or formal termination of the Agreement. City will continue to process in good faith development applications during any cure period, but need not approve any such application if it relates to a development project on the Project Site with respect to which there is an alleged default hereunder.

12.2 Remedies of Non-Defaulting Party.

12.2.1 In General. In the event any party is in default under the terms of this Agreement, the non-defaulting party may elect, in its sole and absolute discretion, to pursue any of the following courses of action: (i) waive such default; (ii) in City's case, pursue administrative remedies as provided in Section 12.2.2 below; (iii) pursue remedies as provided for in, and in accordance with, Section 15.5 below; and/or (iii) terminate this Agreement as and to the extent permitted by Section 12.3 below. In no event will City modify this Agreement as a result of a default by Developer except in accordance with the provisions of Article 10 above.

12.2.2 Severability of Default. City acknowledges that the development of the Project may be carried out by more than one person or entity under this Agreement (e.g., portions of Developer's interest in the Project Site and this Agreement may be transferred to another developer or developers under Article 13 below). Accordingly, (i) if City determines to terminate or exercise any other remedy under this Agreement due to a default by any developer, such termination or other remedy applies only with respect to the rights or responsibilities hereunder of the defaulting developer, (ii) City must refrain from seeking any termination of this Agreement or other remedy if such action materially would affect the ability of a non-defaulting developer to realize the benefits intended to be provided to them hereunder and (iii) any termination of this Agreement by a developer other than Developer is deemed to terminate only those rights and obligations arising hereunder between City and such developer. The parties acknowledge and agree that, in accordance with the provisions of Article 13 below, more than one developer may be responsible for certain actions required by this Agreement to be undertaken or not to be undertaken, and that more than one developer therefore may be in default with respect thereto. The parties further acknowledge and agree that, notwithstanding the provisions of (ii) above, in certain instances it may not be possible for City to exercise remedies against the developer of one portion of the Project without affecting in some way the developer of some other portion of the Project.

12.3 Termination of Development Agreement Due to Default.

12.3.1 In General. Either City or Developer may terminate this Agreement following the procedures set forth in Section 12.3.2 below in the event of a material default by the other party, provided (i) such default severely and adversely affects the interests of the non-

defaulting party, (ii) such default is not cured in accordance with the provisions of Section 12.1 above, and (iii) the non-defaulting party first has exercised any and all administrative or other remedies available to secure defaulting party's compliance with the terms and provisions of this Agreement and such compliance did not occur. Notwithstanding the foregoing, City must refrain from seeking any termination of this Agreement or other remedy if such action materially would affect the ability of a non-defaulting developer to realize the benefits intended to be provided them hereunder, as contemplated by Section 12.2.2(ii) of this Agreement. Notwithstanding the provisions of 12.3.1(ii) above, City is not required, as a prerequisite to initiating the termination of this Agreement, to exercise its administrative and other remedies for a period exceeding one hundred eighty (180) days or, if the parties are making reasonable progress towards resolution of the matter claimed to be a default hereunder, such longer period as mutually may be agreed to by the parties. A termination of this Agreement by any developer does not affect the rights or obligations of any other developer.

12.3.2 Procedures for Termination.

(a) Before any proposed termination of this Agreement pursuant to this Section 12.3, and following the one hundred eighty (180) day period specified in Section 12.3.1 above to the extent applicable, a non-defaulting party intending to seek termination of this Agreement must deliver to the defaulting party (or parties) a written "Preliminary Notice of Intent to Terminate" this Agreement, and all parties will meet and confer with the objective of attempting to arrive at a mutually acceptable alternative to termination. If the parties determine that no such alternative exists, then the non-defaulting party desiring to terminate this Agreement must deliver to the defaulting party a written "Final Notice of Intent to Terminate" this Agreement.

(b) Within sixty (60) days after a Final Notice of Intent to Terminate is delivered by City to a defaulting party, the matter will be reviewed and considered by the City Council in the manner set forth in Government Code §§ 65865, 65867, and 65868. Termination is effective upon the passage of thirty (30) days following such consideration and review by the City Council, unless the default is resolved to the mutual satisfaction of the parties before such date.

(c) Within sixty (60) days after a Final Notice of Intent to Terminate is delivered by Developer to City, the matter will be reviewed and considered by the City Council

for the purpose of determining whether City should take any further curative action in light of the delivery by Developer of a Final Notice of Intent to Terminate. Termination is effective thirty (30) days after such consideration and review by the City Council (or ninety (90) days following delivery by Developer of a Final Notice of Intent to Terminate if the City Council fails to complete its review and consideration of such matter in accordance with the provisions of the preceding sentence), unless the default is resolved to the mutual satisfaction of the parties before such date.

ARTICLE 13

ASSIGNMENT, TRANSFER AND NOTICE

13.1 Assignment of Interests, Rights and Obligations. Developer may transfer all or any portion of its interest in, and rights and obligations under, this Agreement to any person acquiring an interest or estate in all or any portion of the Project Site (any such portion, a "Transfer Property"), including, without limitation, purchasers or ground lessees of such Transfer Property (a "Transferee"). Any such transfer must, as and to the extent set forth below, relieve the transferring party (a "Transferor") of any and all rights and obligations under this Agreement insofar as they pertain to the Transfer Property.

13.2 Transfers to Third Persons In General.

13.2.1 In General. In connection with any transfer by a Transferor of all or any portion of the Project Site (other than a transfer or assignment to a "Non-Assuming Transferee" as described in Section 13.3 below or a "Mortgagee" as defined in Section 14.1 below), the Transferor and the Transferee may enter into a written agreement regarding the respective rights and obligations of the Transferor and the Transferee in and under this Agreement (a "Transfer Agreement"). Any such Transfer Agreement may contain provisions (i) releasing the Transferor from any rights and obligations under this Agreement that relate to the Transfer Property, provided the Transferee expressly assumes all such rights and obligations, (ii) transferring to the Transferee a vested right to improve and use that portion of the Project Site being transferred and any other rights or obligations of the Transferor arising under this Agreement, and (iii) addressing any other matter deemed necessary or appropriate in connection with the Transfer of the Transfer Property.

13.2.2 City Review of Release Provisions.

(a) A Transferor has the right, but not the obligation, to seek City's consent to those provisions of any Transfer Agreement purporting to release such Transferor from any obligations arising under this Agreement (the "Release Provisions"). If a Transferor fails to seek City's consent or City fails to consent to any of such Release Provisions, then such Transferor may nevertheless transfer to the Transferee any and all rights and obligations of such Transferor arising under this Agreement (as described in Sections 13.2.1(i) and (ii) above) but, with respect to City, is not released from those obligations described in the Release Provision to which City did not consent. If City consents to any Release Provisions, then (i) the Transferor is free from any and all obligations accruing on or after the date of any transfer with respect to those obligations described in such Release Provisions and (ii) no default hereunder by Transferee with respect to any obligations from which the Transferor was released can be attributed to the Transferor nor may such Transferor's rights hereunder be canceled or diminished in any way by any such default.

(b) City will review and consider promptly and in good faith any request by a Transferor for City's consent to any Release Provisions. City's consent to any such Release Provisions may be withheld only if, in light of the proposed Transferee's reputation and financial resources, such Transferee would not in City's reasonable opinion be able to perform the obligations proposed to be assumed by such Transferee. In no event will City's consent to any Release Provisions unreasonably be withheld.

13.3 Non-Assuming Transferees. Except as otherwise required by Developer in Developer's sole discretion, the burdens, obligations and duties of Developer under this Agreement terminate with respect to, and neither a Transfer Agreement nor City's consent is required in connection with, (i) any individual single-family residence (and its associated lot) that has received a certificate of occupancy and been conveyed to a third party or (ii) any property that has been established as a separate legal parcel for office, commercial, industrial, school or other nonresidential uses (other than property to be dedicated to the City or some financing or management entity such as a geological hazard abatement district, community facilities district or similar mechanism). The transferee in such a transaction and its successors ("Non-Assuming Transferees") are deemed to have no obligations under this Agreement, but

continue to benefit from the vested rights provided by this Agreement for the duration of the Term. Nothing in this section exempts any property transferred to a Non-Assuming Transferee from payment of applicable fees and assessments or compliance with applicable conditions of approval.

ARTICLE 14

MORTGAGEE PROTECTION

14.1 In General. The provisions of this Agreement will not prevent or limit Developer's right to encumber the Project Site or any portion thereof or any improvement thereon by any mortgage, deed of trust or other security device securing financing (a "Mortgage") with respect to such portion. City acknowledges that lenders providing such financing and other "Mortgagees" (defined below) may require certain interpretations and modifications to this Agreement and agrees upon request, from time to time, to meet with Developer and representatives of such lenders to negotiate in good faith any such request for interpretation or modification. City will not unreasonably withhold its consent, which may be given by the City Manager or its designee, to any such requested interpretation or modification provided such interpretation or modification is consistent with the intent and purposes of this Agreement. Any person holding a mortgage, deed of trust or other security instrument on all or any portion of the Project Site made in good faith and for value (each, a "Mortgagee"), will be entitled to the rights and privileges set forth in this Article 14.

14.2 Mortgagee Protection. Notwithstanding any other provision of this Agreement, neither this Agreement nor any provision, amendment or breach of this Agreement will operate to defeat or render invalid the rights of any present or future Mortgagee under a Mortgage encumbering the Project Site or any part thereof, or any interest therein, made for value; provided, that after the "Foreclosure" (defined below) of any such Mortgage, the portion of the Project Site, or the interest therein, that had been encumbered by such Mortgage will remain subject to and entitled to the benefits of this Agreement. As used in this Agreement, the term "Foreclosure" means foreclosure, sale under a power of sale, or deed in lieu of either of the foregoing. This clause is self-operative, but within ten (10) business days after request from Developer, the City Manager, or its designee, will execute a commercially reasonable

subordination agreement in favor of any Mortgagee; provided, however, with respect to any Mortgage encumbering the Project Site after the date of this Agreement, the subordination of this Agreement is conditioned upon such Mortgagee executing a commercially reasonable non-disturbance agreement in favor of City. In lieu of having the Mortgage be superior to this Agreement, a Mortgagee will have the right at any time to subordinate its Mortgage to this Agreement. If requested by a successor-in-interest to all or a part of Developer's interest in the Project Site, City will, without charge, subordinate and attorn to the successor-in-interest.

14.3 Notice of Default to Mortgagee. If a Mortgagee has submitted a request in writing to City in the manner specified herein for giving notices, the City Manager, or its designee, will provide to such Mortgagee written notification from City of any failure or default by Developer in the performance of Developer's obligations under this Agreement, which notification must be provided to such Mortgagee at such time as such notification is delivered to Developer.

14.4 Right of Mortgagee to Cure. Any Mortgagee has the right, but not the obligation, to cure any failure or default by Developer during the cure period allowed to Developer under this Agreement, plus an additional cure period that extends to the date that is sixty (60) days after Mortgagee obtains possession of the property (such as by seeking the appointment of a receiver or other legal process) if, in order to cure such failure or default, it is necessary for the Mortgagee to obtain possession of the property (such as by seeking the appointment of a receiver or other legal process); provided, however, that if the nature of the alleged failure or default is such that it cannot reasonably be cured within such 60-day period, then the commencement of the cure within such time period, and the diligent prosecution to completion of the cure thereafter, is deemed to be a cure within such 60-day period. Any Mortgagee that undertakes to cure or attempt to cure any such failure or default must provide written notice to City that it is undertaking efforts of such a nature; provided that no initiation of any such efforts by a Mortgagee obligates such Mortgagee to complete or succeed in any such curative efforts.

14.5 Liability for Past Defaults or Obligations. Subject to the foregoing, any Mortgagee or other party who comes into possession of the Project or the Project Site or any part thereof pursuant to Foreclosure, eviction or otherwise, takes such property subject to the rights and obligations of this Agreement and in no event will any such property be released from any

obligations associated with its use and development under the provisions of this Agreement. Nothing in this Article 14 prevents City from exercising any remedy it may have for a default under this Agreement; provided, however, that in no event will any Mortgagee or other party who comes into possession of the Project or the Project Site or any part thereof pursuant to Foreclosure, eviction or otherwise, be liable for any defaults or monetary obligations of Developer or its successors in interest arising before acquisition of possession of such property by such Mortgagee or other party.

ARTICLE 15 MISCELLANEOUS

15.1 Project Is A Private Undertaking. The development proposed to be undertaken by Developer is a private development, and Developer may exercise full dominion and control over the Project subject only to the limitations and obligations of Developer contained in this Agreement.

15.2 Cooperation in the Event of Legal Challenge.

15.2.1 Third Party Challenges. In the event of any administrative, legal or equitable action or other proceeding instituted by any person or entity not a party to the Agreement challenging the validity of any provision of this Agreement, challenging any Approval, or challenging the sufficiency of any environmental review of either this Agreement or any Approval under CEQA (each a "Third Party Challenge"), each party must cooperate in the defense of such Third Party Challenge, in accordance with this Section 15.2.1. Developer agrees to pay the City's costs of defending a Third Party Challenge, including all court costs and reasonable attorney's fees expended by City (including the time of the City Attorney) in defense of any Third Party Action, as well as the time of the City's staff spent in connection with such defense. Developer may select its own legal counsel to represent Developer's interests in any Third Party Challenge at Developer's sole cost and expense. City agrees that it will not enter into a settlement agreement to any Third Party Challenge without Developer's written consent. Developer's obligation to pay the City's costs in the defense of a Third Party Challenge does not extend to those costs incurred on appeal unless otherwise authorized by Developer in writing.

15.2.2 Third Party Challenges Related to the Applicability City Laws. The provisions of this Section 15.2.2 will apply only in the event of a legal or equitable action or other proceeding, before a court of competent jurisdiction, instituted by any person or entity not a party to the Agreement challenging the applicability to the Project or Project Site of a conflicting City Law (as contemplated by Section 5.2.2 of this Agreement) (a "Third Party Enforcement Action"):

(a) In the event of a Third Party Enforcement Action, the City must (i) promptly notify Developer of such action or proceeding, and (ii) stipulate to Developer's intervention as a party to such action or proceeding unless Developer has already been named as a respondent or real party in interest to such action or proceeding. In no event will City take any action that would frustrate, hinder, or otherwise complicate Developer's efforts to intervene, join or otherwise participate as a party to any Third Party Enforcement Action. As requested by Developer, City must use its best efforts to ensure that Developer is permitted to intervene, join or otherwise participate as a party to any Third Party Enforcement Action. If, for any reason, Developer is not permitted to intervene, join or otherwise participate as a party to any Third Party Enforcement Action, the parties to this Agreement agree to cooperate, to the maximum extent permitted by law, in the defense of such action or proceeding. For purposes of this Section, the required cooperation between the parties includes, without limitation, developing litigation strategies, preparing litigation briefs and other related documents, conferring on all aspects of the litigation, developing settlement strategies, and, to the extent permitted by law, jointly making significant decisions related to the relevant litigation, throughout the course thereof.

(b) City's costs of defending any Third Party Enforcement Action, including all court costs, and reasonable attorney's fees expended by City (including the time of the City Attorney) in defense of any Third Party Enforcement Action, as well as the time of the City's staff spent in connection with such defense (the "Enforcement Action Defense Costs), will be paid by in accordance with Section 15.2.1 of this Agreement. Notwithstanding the forgoing, in no event will the Enforcement Action Defense Costs extend to, nor will Developer or the Project be obligated to pay, any costs incurred on appeal unless otherwise authorized by Developer in writing;

(c) City must not enter into a settlement agreement or take any other action to resolve any Third Party Enforcement Action without Developer's written consent. City must not, without Developer's written consent, take any action that would frustrate, hinder or otherwise prevent Developer's efforts to settle or otherwise resolve any Third Party Enforcement Action.

(d) Provided that City complies with this Section 15.2.2 and provided that Developer is a party to the relevant Third Party Enforcement Action, Developer agrees to be bound by any final judgment (i.e., following all available appeals) arising out of a Third Party Enforcement Action and further agrees that no default under this Agreement will arise if such final judgment requires City to apply to the Project or Project Site a City Law that conflicts with Applicable Law or this Agreement.

15.3 Defense and Indemnity. Developer must defend and indemnify City from and against any and all damages, claims, costs and liabilities arising out of the personal injury or death of any third party, or damage to the property of any third party, to the extent such damages, claims, costs or liabilities result from the construction of the Project by Developer or by Developer's contractors, subcontractors, agents or employees. Nothing in this Section 15.3 will be construed to mean that Developer must defend or indemnify City from or against any damages, claims, costs or liabilities arising from, or alleged to arise from, activities associated with the maintenance or repair by City or any other public agency of improvements that have been offered for dedication and accepted by City or such other public agency or for any other public improvements constructed by City or constructed by Developer at direction of City. City and Developer may from time to time enter into subdivision improvement agreements, as authorized by the Subdivision Map Act, which agreements may include defense and indemnity provisions different from those contained in this Section 15.3. In the event of any conflict between such provisions in any such subdivision improvement agreement and the provisions set forth above, the provisions of such subdivision improvement agreement will prevail.

15.4 Governing Law. This Agreement is to be construed and enforced in accordance with the laws of the State of California. Jurisdiction for all disputes is Ventura County, California. The standard of review for determining whether a default has occurred under the Agreements is to be the standard generally applicable to contractual obligations in California. The terms and provisions of this Section 15.4 will survive any termination of this Agreement.

15.5 Resolution of Disputes.

15.5.1 In General. Section 15.5 of this Agreement establishes the exclusive process by which disputes between or among the parties to this Agreement concerning or relating to this Agreement will be resolved. The dispute resolution process established herein will apply to disputes between the parties related to the interpretation or enforcement of, or compliance with, the terms and provisions of this Agreement. Disputes that are not alleged to relate to the interpretation or enforcement of, or compliance with, this Agreement are not subject to this dispute resolution process.

15.5.2 Informal Discussions. With regard to any dispute between or among the parties contemplated by Section 15.5.1 above, within seven (7) days written notice from either party, the City Manager and Developer's senior executives must meet and attempt in good faith to resolve any such disputes through informal discussions, which discussions will not exceed ten (10) business days.

15.5.3 Mediation.

(a) If the parties are unable to resolve their dispute through informal discussion, as contemplated by Section 15.5.2, then either party may commence mediation by providing to JAMS (or other mediator mutually agreed to by the parties) and the other parties a written request for mediation, setting forth the subject of the dispute and the relief requested. The parties will cooperate with JAMS and with one another in selecting a mediator from JAMS' panel of neutrals, and in scheduling the mediation proceedings. The parties covenant that they will participate in all phases of the mediation in good faith.

(b) The mediation process will occur in two phases, if necessary, as described below. During the first phase of the mediation, which in no event will exceed thirty (30) days unless otherwise agreed to by the parties, the parties will attempt to resolve their dispute in accordance with JAMS standard mediation procedures. If the parties are unable to resolve their dispute during this first phase of the mediation process, then the second phase of the mediation process will be conducted in a manner consistent with subsection (c) of this Section 15.5.3.

(c) If the parties are unable to resolve their dispute through the first phase of mediation, as described in Section 15.5.3(b) above, the party that commenced mediation in accordance with Section 15.5.3(a) above (the "Complaining Party"), will have ten (10)

business days from the expiration of the thirty (30) business day period described in Section 15.5.3(b) to file a brief with the other party (the "Responding Party") and with the mediator presiding over the first phase of the mediation process (the "Mediator"), which brief must set forth the merits of the Complaining Party's position regarding the issues raised during the first phase of mediation (the "Initial Brief"). The Responding Party will have ten (10) business days from its receipt of the Initial Brief to file a brief with the Mediator and the Complaining Party responding to the issues raised in the Initial Brief and setting forth the merits of the Responding Party's position regarding the issues raised during the first phase of mediation (the "Responding Brief"). The Complaining Party will have five (5) business days from its receipt of the Responding Brief to file a reply brief with the Mediator and the Responding Party replying to the issues raised in the Responding Brief (the "Reply Brief"). In no event will the Initial Brief and the Responding Brief be longer than fifteen (15) pages and in no event will the Reply Brief be longer than ten (10) pages. Except as otherwise set forth in this Section 15.5.3(c), the Initial Brief, the Responding Brief and the Reply Brief will be formatted in accordance with requirements of Rule 201 of the California Rules of Court, unless otherwise agreed to by the parties. The Mediator will have two weeks following its receipt of the Reply Brief to consider the arguments set forth by the Complaining Party and the Responding Party in their respective briefs and issue an opinion stating which party the Mediator would consider to be the prevailing party if the Mediator were a judge presiding over the dispute in a court of law (the "JAMS Opinion").

(d) All offers, promises, conduct and statements, including the JAMS Opinion, whether oral or written, made in the course of the mediation by any of the parties, their agents, employees, experts and attorneys, and by the mediator and any JAMS employees, are confidential, privileged and inadmissible for any purpose, including impeachment, in any litigation or other proceeding involving the parties, provided that evidence that is otherwise admissible or discoverable will not be rendered inadmissible or non-discoverable as a result of its use in the mediation. Notwithstanding the forgoing, the JAMS Opinion will serve as the basis solely for determining whether, in the event a dispute between the parties is litigated, either party will be awarded attorneys fees in accordance with Section 15.5.4 of this Agreement.

(e) Either party may, at its own cost, seek (i) equitable relief before the mediation to preserve the status quo pending the completion of the mediation process, and (ii)

any available relief necessary to prevent the running of any applicable statutes of limitation governing any and all causes of action related to a dispute between or among the parties concerning or relating to this Agreement. Except for those actions or proceedings described in subsection (i) and (ii) above, neither party may commence a civil action with respect to the matters submitted to mediation until after the completion of the initial mediation session, or ninety (90) days after the date of filing the written request for mediation, whichever occurs first.

(f) The provisions of this Section 15.5.3 may be enforced by any Court of competent jurisdiction, and the party seeking enforcement will be entitled to an award of all related costs, fees and expenses, including attorney's fees, to be paid by the party against whom enforcement is ordered.

(g) Nothing in this Section 15.5.3 will in any way be interpreted as requiring that Developer and City and/or City's designee reach agreement with regard to those matters being addressed, nor will the outcome of these meetings be binding in any way on City or Developer unless expressly agreed to in writing by the parties to such meetings. Notwithstanding the forgoing, the JAMS Opinion will be binding on the parties solely for the purposes of determining whether, in the event a dispute between or among the parties is litigated, either party will be awarded attorneys fees in accordance with Section 15.5.4 below.

15.5.4 Judicial Remedies and Attorneys Fees.

(a) Except as otherwise specifically stated in this Agreement, either party may, in addition to any other rights or remedies, institute legal action to cure, correct, or remedy any default, enforce any covenant or agreement herein, enjoin any threatened or attempted violation hereof, enforce by specific performance the obligations and rights of the parties thereto or obtain any other remedy consistent with this Agreement, including economic or other applicable damages.

(b) Should any judicial remedy be sought by any party because of any default under this Agreement or to enforce any provision hereof, or to obtain a declaration of rights hereunder (each individually a "Judicial Action"), the prevailing party in such Judicial Action is entitled to reasonable attorney's fees, court costs and such other costs as may be fixed by the court (collectively, "Attorneys Fees"), provided the prevailing party in the Judicial Action was also determined to be the prevailing party in the JAMS Opinion. For purposes of this Agreement, Attorneys Fees will be calculated from the start of the first phase of mediation, as

described in 15.5.3(b), and will include all reasonable costs related to the first and second phases of mediation. If the prevailing party in a Judicial Action was determined to be the losing party in the JAMS Opinion, then each party will assume the cost of their own Attorneys Fees. Not in limitation of the forgoing, the parties will assume their own costs related to the informal dispute resolution process described in Section 15.5.2 above.

15.6 Force Majeure. Performance by any party of its obligations under this Agreement (other than for payment of money) will be excused during any period of "Permitted Delay" as hereinafter defined. For purposes hereof, Permitted Delay includes delay beyond the reasonable control of the party claiming the delay (and despite the good faith efforts of such party) including, without limitation (i) civil commotion, (ii) riots, (iii) strikes, picketing or other labor disputes, (iv) shortages of materials or supplies, (v) terrorism, (vi) damage to work in progress by reason of fire, floods, earthquake or other casualties, (vii) failure, delay or inability of the other party to act, (viii) as to Developer only, the failure, delay or inability of City to provide adequate levels of public services, facilities or infrastructure to the Project Site, (ix) as to City only, with respect to completion of the Annual Review or processing applications for Approvals, the failure, delay or inability of Developer to provide adequate information or substantiation as reasonably required to complete the Annual Review or process applications for Approvals, (x) delay caused by governmental restrictions imposed or mandated by other governmental entities, (xi) enactment of conflicting state or federal laws or regulations, (xii) judicial decisions or similar basis for excused performance, and (xiii) litigation brought by a third party attacking the validity of this Agreement. Any party claiming a Permitted Delay must notify the other party (or parties) in writing of such delay within thirty (30) days after the commencement of the delay, which notice ("Permitted Delay Notice") includes the estimated length of the Permitted Delay. A Permitted Delay will be deemed to occur for the time period set forth in the Permitted Delay Notice unless a party receiving the Permitted Delay Notice objects in writing within ten (10) days after receiving the Permitted Delay Notice. In the event of such objection, the parties must meet and confer within thirty (30) days after the date of the objection with the objective of attempting to arrive at a mutually acceptable solution to the disagreement regarding the Permitted Delay. If no mutually acceptable solution can be reached, either party may take action as may be permitted under Article 12 above.

15.7 Notices. Any notice or communication required under either Agreement between the parties must be in writing, and may be given either personally, by facsimile (with original forwarded by regular U.S. Mail); by email (with original forwarded by regular U.S. Mail) or by FedEx, UPS or other similar courier promising overnight delivery. If personally delivered, a notice or communication is deemed to have been given and received when delivered to the party to whom it is addressed. If given by facsimile transmission, a notice or communication is deemed to have been given and received upon actual physical receipt of the entire document by the receiving party's facsimile machine. Notices transmitted by facsimile after 5:00 p.m. on a normal business day or on a Saturday, Sunday or holiday is deemed to have been given and received on the next normal business day. If given by FedEx, UPS or similar courier, a notice or communication is be deemed to have been given and received on the date delivered as shown on a receipt issued by the courier if such date is a business day or, if such date is not a business day, on the next business day thereafter. Such notices or communications must be given to the parties at their addresses set forth below:

If to City to: Wally Bobkiewicz, City Manager
City of Santa Paula
970 Ventura St.
P.O. Box 569
Santa Paula, CA 93060
Facsimile: (805) 525-6258
Email: wbobkiewicz@ci.santa-paula.ca.us

With copies to: Karl H. Berger, City Attorney
Jenkins & Hogin LLP
Manhattan Towers
1230 Rosecrans Avenue, Suite 110
Manhattan Beach, CA 90266
Facsimile: (310) 643-8441
Email: kberger@localgovlaw.com

If to Developer to: Harold S. Edwards, President
Limoneira Company
1141 Cummings Road
Santa Paula, CA 93060
Facsimile: (805)
Email: Hedwards@limoneira.com

With copies to: Michael C. Penrod
Parkstone Companies
860 Hampshire Road, Suite U
Westlake Village, CA 91361
Facsimile: (805)379-1219
Email: m.penrod@parkstoneinc.com

And: Carla K. Ryhal, Esq.
5776-D Lindero Canyon Road # 244
Westlake Village, CA 91362
Facsimile: (818) 707-0141
Email: ckryhalesq@msn.com

Any party hereto may at any time, by giving ten (10) days' written notice to the other parties, designate any other address or facsimile number in substitution of the address or facsimile number to which such notice or communication will be given.

15.8 No Joint Venture or Partnership. Nothing contained in this Agreement will be construed as creating a joint venture, partnership or any agency relationship between the parties. City will have no responsibility for public improvements until such time as they are accepted by City.

15.9 Severability. If any provision of this Agreement is held invalid, void or unenforceable but the remainder of this Agreement can be enforced without failure of material consideration to any party, then this Agreement will not be affected and it will remain in full force and effect, unless amended by mutual consent of the parties.

15.10 Estoppel Certificate. Any party to this Agreement, or any Mortgagee, may at any time and from time to time, deliver written notice to the other party or parties requesting such party or parties to certify in writing that, to the knowledge of the certifying party, (i) the Agreement is in full force and effect and a binding obligation of the parties, (ii) the Agreement has not been amended or modified either orally or in writing, and if so amended, identifying the amendments, and (iii) as of the date of the last Annual Review, the requesting party (or any party specified by a Mortgagee) is not, to the knowledge of such requesting party, in default in the performance of its obligations under the Agreement, or if in default, to describe therein the nature and amount of any such defaults. A party receiving a request hereunder must execute and return such certificate or give a written detailed response explaining why it will not do so within thirty (30) days following the receipt thereof. Each party acknowledges that such a certificate may be relied upon by third parties acting in good faith. A certificate provided by City

establishing the status of this Agreement must be in recordable form and may be recorded at the expense of the recording party.

15.11 Further Assurances. Each party will execute and deliver to the other party or parties all such other further instruments and documents and take all such further actions as may be reasonably necessary to carry out this Agreement and the Approvals and to provide and secure to the other party or parties the full and complete enjoyment of its rights and privileges hereunder.

15.12 Construction. All parties have been represented by counsel in the preparation of the Agreements and no presumption or rule that ambiguity be construed against a drafting party will apply to interpretation or enforcement hereof. Captions on sections and subsections are provided for convenience only and will not be deemed to limit, amend or affect the meaning of the provision to which they pertain. In the event of any conflict between the Agreement and the rules, regulations or official policies of City, the provisions of this Agreement prevail to the extent of such conflict.

15.13 Other Miscellaneous Terms. The singular includes the plural; the masculine gender includes the feminine; "must" and "will" are mandatory; "may" is permissive.

15.14 Entire Agreement, Execution and Recordation, Counterparts and Exhibits. This Agreement may be executed in any number of counterparts, each of which is deemed to be an original, and will be deemed duly executed when each of the parties has executed such a counterpart. This Agreement consists of sixty-eight (68) pages and four (4) exhibits which constitute in full, the final and exclusive understanding and agreement of the parties and supersedes all negotiations or previous agreements of the parties with respect to all or any part of the subject matter hereof. All waivers of the provisions of this Agreement must be in writing and signed by the appropriate authorities of City and Developer. The following exhibits are attached to this Agreement and incorporated herein for all purposes:

- Exhibit A-1** Map of East Area 1
- Exhibit A-2** Legal Description of Project Site
- Exhibit B** Map of Off-Site Agricultural Preserve
- Exhibit C** Public Benefit Benchmarks

15.15 Covenant of Good Faith and Fair Dealing. The covenant of good faith and fair dealing is hereby incorporated into this Agreement and will apply to all of the parties' actions and obligations hereunder.

15.16 Time. Time is of the essence of each and every provision hereof.

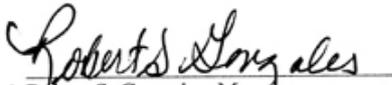
IN WITNESS WHEREOF, City and Developer have executed this Agreement as of the day and year first above written.

CITY:

DEVELOPER:

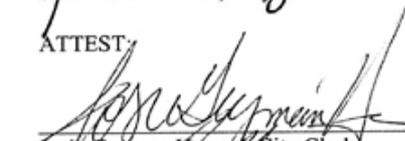
CITY OF SANTA PAULA,
a municipal corporation

LIMONEIRA COMPANY,
a Delaware Corporation


Robert S. Gonzales, Mayor


Harold S. Edwards, President

ATTEST:


Josie Guzman Herrero, City Clerk



APPROVED AS TO FORM:


Karl H. Berger, City Attorney

APPROVED AS TO CONTENT:

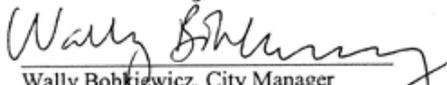

Wally Bobkiewicz, City Manager

EXHIBIT A-1
MAP OF EAST AREA 1

EXHIBIT A-2
LEGAL DESCRIPTION OF PROJECT SITE



EXHIBIT B
MAP OF OFF-SITE AGRICULTURAL PRESERVE

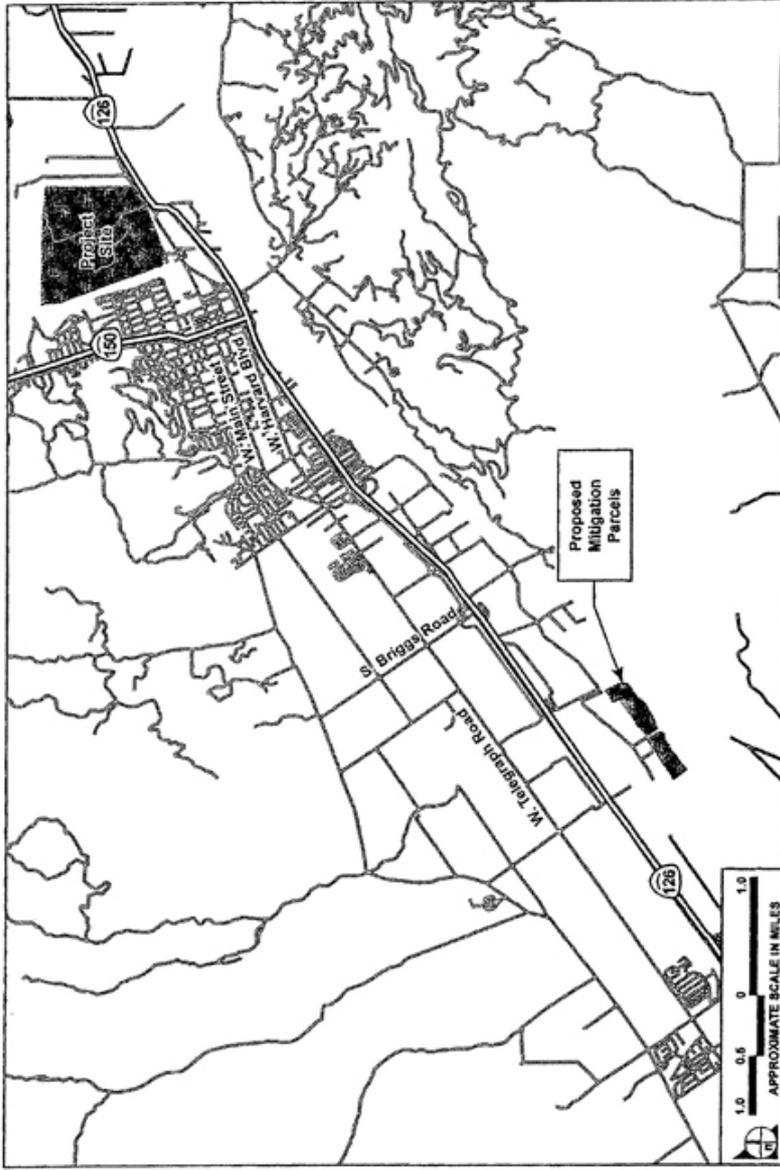


FIGURE C-1

Location of Proposed Mitigation Parcels

831-001-0207

EXHIBIT C

PUBLIC INFRASTRUCTURE AND FACILITIES

PUBLIC INFRASTRUCTURE OR FACILITY	BENCHMARK
<i>Parks & Open Space</i>	
Santa Paula Creek Sports Park (35 acres w/ \$5M improvements)	500 th C of O
Central Park (3.5 acres w/ \$1M improvements)	
Santa Paula Creek Neighborhood Park (2 acres improved)	2 years after 1 st C of O in Santa Paula Creek Neighborhood
Foothill Neighborhood Park & Trailheads (4 acres improved)	2 years after 1 st C of O in Foothill Neighborhood
Haun Creek Neighborhood Park (1.5 acres improved)	2 years after 1 st C of O in Haun Creek Neighborhood
Santa Paula Creek Linear Park (5.5 acres improved)	Final maps in Santa Paula Creek Civic District and Santa Paula Creek Neighborhood
Haun Creek Linear Park (11.6 acres improved)	Final maps in Haun Creek Neighborhood and Foothill Neighborhood
Southerly Detention Basin Soccer Fields (14.3 acres improved)	1 st C of O
Northerly Detention Basin Passive Park (13.7 acres improved) [per Specific Plan	500 th C of O
Open Space Preserve (79 acres)	1 st Grading Permit
On-Site Agricultural Preserve (55 acres)	1 st Grading Permit
Off-Site Agricultural Preserve (34 acres)	1 st Grading Permit
<i>Utilities</i>	

Extra Potable Water Tank	1,000 th C of O
Dedication of 1,174.4 AFY Potable Water (up to 1,699 AFY)	Annexation; Per monitoring
\$5.5 million Contribution of City Wastewater Treatment Plant	Each C of O
Sewer Development Impact Fees (~\$1,233,144 total)	Each C of O
Traffic Improvements	
Santa Paula Bridge	500 th C of O
Improvement (curbs, gutters, sidewalk & landscaping) of southerly side of Santa Paula Street east of 12 th street	500 th C of O
\$500,000 for drainage Santa Paula/12 Streets	250 th CofO
Traffic signal & reconfigure intersection of Telegraph Road & Hallock Drive	1st C of O
Widen & reconfigure intersection of Hwy. 126 & Hallock Drive	500 th C of O
Traffic signal and reconfigure intersection of 12 th Street & Santa Paula Street	500 th C of O
Widen & reconfigure intersection of Ojai Road (SR-150)/10 th Street & Santa Paula Street	500 th C of O
Widen & Reconfigure intersection of 8 th Street & Santa Paula Street	1,000 th C of O
Reconfigure intersection of Palm Avenue & Santa Paula Street	1,000 th C of O
Reconfigure intersection of Steckel Drive & Santa Paula Street	1,000 C of O
\$100,000 SR-150 Bypass Project Study	City contract
Dedicate SR-150 Right-of-way (1 acre)	1 st Grading Permit
Flooding	

Haun Creek Detention Basins (28 acres)	Southern basin @ 1 st C of O; northern basin @ 500 th C of O
Educational & Civic Facilities	
Dedication of College Site (11.6 acres)	Execution of Development Agreement
Reservation of High School Site (8.3)	1 st Tract Map in Santa Paula Civic District
Joint Civic Facility (5.6 acres w/ \$5M improvements)	500 th C of O
Public Safety Facility (1.5 acres w/ \$4M improvements)	500 th C of O
\$500,000 Development Agreement Contribution	Annexation
City Gateway (\$50,000 monumentation + \$50,000 to beautification of Telegraph between Hallock & Santa Paula)	500 C of O
Elementary & Middle School Facilities [per SPESD Memorandum of Intent]	
Temporary Elementary School	1 st C of O
Reservation of Elementary School Site (\$10.8 acres + ~\$4 M site preparation)	1 st Tract Map in Haun Creek Neighborhood
New Elementary School (~\$12.5M)	150 students (~500 th C of O)
Elementary Start-Up Costs (max. \$100,000)	1 st C of O
\$200,000 Middle School Facilities Assessment Study	District Contract
Fair Share Middle School Facilities (~\$6.5 M)	To be determined thru Middle School Facilities Assessment Study
Reservation of Middle School Site, if necessary	To be determined thru Middle School Facilities Assessment Study
Fair Share Middle School Bus, if necessary (max. \$250,000)	To be determined thru Middle School Facilities Assessment Study
\$25,000	Execution of Mitigation Agreement with SPESD
Housing	
100 Public Benefit Housing Units	Throughout Buildout

\$6.5 million Contribution to City's Affordable Housing Trust Fund	Each C of O
TOTAL: 298 acres <i>\$54M contributions & facilities costs</i> <i>unquantified improvements</i>	



Rabobank

December 8, 2009

Via First Class Mail

Mr. Don Delmatoff
Chief Financial Officer
Vice President Finance and Administration
1141 Cummings Road
Santa Paula, CA 93060

Re: Rabobank Loan No. 92595535-03
Revolving Line of Credit Loan
Failure to Maintain DSCR

Dear Mr. Delmatoff:

I am writing with respect to the above-referenced loan (the "Loan") from Raboank, N.A. ("Bank") to Limoneira Company, a Delaware corporation ("Borrower"). The Loan is governed by that certain Amended and Restated Line of Credit Agreement, dated December 15, 2008, as amended by that certain First Amendment to Amended and Restated Line of Credit Agreement dated May 12, 2009, entered into by and between Bank and Borrower (as amended, the "Credit Agreement"). All capitalized terms used in this letter without definition have the same meanings given to them in the Credit Agreement.

Section 11.01 of the Credit Agreement requires that Borrower maintain a Debt Service Coverage Ratio of at least 1:25:1 measured annually with Borrower's Fiscal Year End Statements.

Borrower was unable to comply with this requirement as of Borrower's Fiscal Year End October 31, 2009.

Borrower acknowledges this default and the Bank agrees to waive non-compliance with this requirement for Borrower's fiscal year ending October 31, 2009, only.



Rabobank

Mr. Don Delmatoff
Limoneira Company
December 8, 2009
Page 2

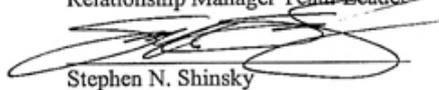
Bank does not elect to exercise any rights or remedies at this time as a result of the occurrence of the foregoing condition. However, Bank expressly reserves all rights and remedies available to it. This letter does not constitute a waiver of any right or remedy that is now or may in the future become available to Bank or of any Default or Event of Default now existing or hereafter occurring.

Very truly yours,

Rabobank, N.A.



Jetze Kempenaar
Relationship Manager Team Leader


Stephen N. Shinsky
Senior Vice President

REQUEST AND AGREEMENT FOR EXTENSION

Borrower: Windfall Investors, LLC
 Lender: Farm Credit West, PCA
 Loan Type & Program: Short Term & Loan Account ST
 Application Date: 10-30-09

Office: VENTURA
 Loan Number: 3843165
 Amount: \$10,500,000.00

REQUEST FOR EXTENSION of Short Term Loan
 Approval is requested to change payment schedule to:

Proposed Repayment Schedule

Acct No.	Acct Type/Class	Acct Amount	Schedule Type	Payment Amount	Frequency Type	First Payment	No. of Pmts
101	Capital	\$5,570,027.83	Interest	Interest Only	Monthly	11-01-2009	4
			Principal & Interest	\$5,570,027.83	Once	03-01-2010	1
201	Special Intermediate	\$4,929,972.17	Interest Only	Interest Only	Monthly	11-01-2009	4
			Principal & Interest	\$4,929,972.17	Once	03-01-2010	1

Borrower has requested, and Farm Credit West, PCA ("FCW, PCA") has approved, an extension of the maturity date of Loan No. 3843165 ("Loan") and all subject "accounts" as noted in the schedule above, from the current maturity dates of November 1, 2009 to March 1, 2010. In consideration of the terms and provisions contained herein, and other valuable consideration, the receipt of which is hereby acknowledged, Borrower and FCW, PCA agree as follows:

- The terms and conditions in the original Master Loan Agreement dated September 23, 2005 ("MLA") and the Promissory Note and Supplement to Master Loan Agreement ("Note") dated May 28, 2008 and September 23, 2005, are hereby amended to extend the maturity date of the Note to March 1, 2010.
- A condition of FCW, PCA's approval of this Extension Agreement is the conversion from the Note's current applicable interest rate program to Lender's Variable Interest Rate program. The undersigned hereby agree to the following changes to the applicable interest rate on the Note, effective 11-01-09, as defined in Section 3 below.
- INTEREST.

3.1 INITIAL INTEREST RATE. The interest rate applicable to the Note is a Variable Interest Rate ("Variable Interest Rate") and shall change in accordance with Sections 3.2 through 3.3 below. Interest shall accrue at the variable interest rate as established by Lender for the interest rate group to which this Note is assigned.

Interest will be charged on the entire unpaid principal balance of this Note, including payments not made when due and any other sums owing hereunder. Interest charged hereunder, including any acceleration interest rate, all late charges, default interest and other charges, and all other amounts charged hereunder, shall not be limited by the laws of any state, including any state laws relating to a legal rate or other interest rate, but shall be governed solely by applicable federal laws.

Interest will be calculated on the basis of a 365-day year and the actual number of days in each month. Interest charges will begin on the date Lender disburses principal and continue until the Indebtedness is paid in full with interest. The initial interest rate in effect on this date is 3.50% per annum ("Initial Interest Rate").

3.2 CHANGE IN INTEREST RATE AND INTEREST RATE GROUP. The Variable Interest Rate applicable to this Note may be adjusted automatically as of the first day of any month to the rate then made

REQUEST AND AGREEMENT FOR EXTENSION

applicable to the Note's assigned interest rate group under the provisions of Lender's Variable Interest Rate Plan in effect at that time.

In adjusting the rate, Lender considers certain standard factors set forth in the plan, including but not limited to, changes in its costs of funds, operating expenses, earnings requirements to meet certain capital objectives, credit risk factors, and the competitive environment, which factors may change during the term of the Loan.

Borrower understands and agrees that (a) the interest rate group to which this Note is assigned may be changed at any time to any other interest rate group based on Lender's evaluation of the change in Borrower's credit quality, quality of collateral, costs of servicing the loan, and other factors which are set forth in Lender's interest rate plan in effect at that time; and (b) the interest rate group may be automatically adjusted to the highest interest rate group if a default shall occur under this Note or under any other note or agreement between Borrower and Lender.

3.3 NOTICE. If Lender changes Borrower's Variable Interest Rate, Lender will give Borrower notice of such rate change to the extent required by and in accordance with the then applicable law.

4. It is expressly understood and agreed that, except as specifically amended herein, all other terms and conditions of the MLA, Note and other loan documents evidencing and/or relating to the Loan shall remain in full force and effect.

This Request and Agreement for Extension is dated and effective November 1, 2009. This Agreement may be executed by Borrowers in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

Borrower:

Windfall Investors, LLC, a California Limited Liability Company

By: Windfall, LLC, a California Limited Liability Company, Member

By: 

Dwain Alan Davis, Managing Member

By: Limoneira Company, a Delaware Corporation, Member

By: 

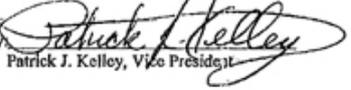
Harold S. Edwards, President

By: 

Don Delmatoff, Secretary

Lender:

Farm Credit West, PCA

By: 

Patrick J. Kelley, Vice President

REQUEST AND AGREEMENT FOR EXTENSION

Borrower: Windfall Investors, LLC
 Lender: Farm Credit West, PCA
 Loan Type & Program: Short Term & Loan Account ST
 Application Date: 02-28-2010

Office: VENTURA
 Loan Number: 3843165
 Amount: \$10,500,000.00

REQUEST FOR EXTENSION of Short Term Loan
 Approval is requested to change payment schedule to:

Proposed Repayment Schedule

Acct No.	Acct Type/Class	Acct Amount	Schedule Type	Payment Amount	Frequency Type	First Payment	No. of Pmts
101	Capital	\$5,570,027.83	Interest	Interest Only	Monthly	03-01-2010	4
			Principal & Interest	\$5,570,027.83	Once	05-01-2010	1
201	Special intermediate	\$4,929,972.17	Interest Only	Interest Only	Monthly	03-01-2010	4
			Principal & Interest	\$4,929,972.17	Once	05-01-2010	1

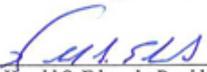
Borrower has requested, and Farm Credit West, PCA ("FCW, PCA") has approved, an extension of the maturity date of Loan No. 3843165 ("Loan") and all subject "accounts" as noted in the schedule above, from the current maturity dates of March 1, 2010 to May 1, 2010. In consideration of the terms and provisions contained herein, and other valuable consideration, the receipt of which is hereby acknowledged, Borrower and FCW, PCA agree as follows:

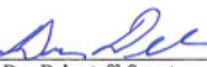
- The terms and conditions in the original Master Loan Agreement dated September 23, 2005 ("MLA") and the Promissory Note and Supplement to Master Loan Agreement ("Note") dated May 28, 2008 and September 23, 2005, are hereby amended to extend the maturity date of the Note to May 1, 2010.
- It is expressly understood and agreed that, except as specifically amended herein, all other terms and conditions of the MLA, Note and other loan documents evidencing and/or relating to the Loan shall remain in full force and effect.

This Request and Agreement for Extension is dated and effective March 1, 2010.

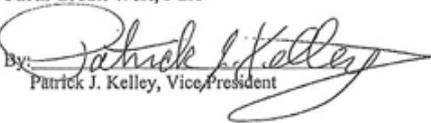
Borrower:
 Windfall Investors, LLC, a California Limited Liability Company

By: Limoneira Company, a Delaware Corporation, Member

By: 
 Harold S. Edwards, President

By: 
 Don Delmatoff, Secretary

Lender:
 Farm Credit West, PCA

By: 
 Patrick J. Kelley, Vice President

1. ARTHUR L. LITTLEWORTH, ESQ. (State Bar No. 22041)
2. BEST BEST & KRIEGER LLP
3. 3750 University Avenue
4. 400 Mission Square
5. Riverside, CA 92501
6. Telephone: (909) 686-1450

VENTURA COUNTY
SUPERIOR AND MUNICIPAL COURTS

FILED

MAR 7 - 1996

7. Special Counsel for City of San Buenaventura,
8. Defendant and Cross-Complainant . SHEILA GONZALEZ, Superior and Municipal
9. Courts Executive Officer and Clerk
10. BY: _____, Deputy

11. SUPERIOR COURT OF THE STATE OF CALIFORNIA
12. FOR THE COUNTY OF VENTURA

13. UNITED WATER CONSERVATION)	CASE NO. 115611
14. DISTRICT,)	
15. Petitioner and Plaintiff,)	(Complaint filed
16. vs.)	April 9, 1991)
17. CITY OF SAN BUENAVENTURA and)	JUDGMENT
18. DOES 1 through 1,000, Inclusive,)	
19. Respondent and Defendant.)	
<hr/>		
20. LIMONEIRA COMPANY, ALTA MUTUAL)	
21. WATER CO., et al.,)	
22. Intervenors)	
<hr/>		
23. CITY OF SAN BUENAVENTURA,)	
24. Cross-Complainant,)	
25. vs.)	
26. LIMONEIRA COMPANY, ALTA MUTUAL)	
27. WATER CO., et al.,)	
28. Cross-Defendants.)	

RECITALS

1
2
3 (a) Complaint. On or about April 9, 1991, the United Water
4 Conservation District (sometimes "District") filed its Petition for
5 Writ of Mandate and Complaint against the City of San Buenaventura
6 (sometimes "City"). The pleadings alleged a violation of the
7 California Environmental Quality Act with respect to the proposed
8 construction by the City of a new well or wells in the Santa Paula
9 Basin (sometimes "Basin"), the expansion of an existing water
10 conditioning facility, and increased extractions from the City's
11 Saticoy wells. The Complaint further alleged that the Santa Paula
12 Basin was in a condition of overdraft or threatened overdraft, and
13 that the City's proposed production of water therefrom, together
14 with the pumping of others from the Basin, would exceed the safe
15 yield thereof. In its First Amended Petition for Writ of Mandate
16 and Complaint, the District alleged on information and belief that
17 there was no surplus or temporary surplus available in the Basin
18 for appropriation by the City.

19
20 (b) Complaint in Intervention. By stipulation and order
21 filed June 18, 1991, pumpers from the Santa Paula Basin were
22 allowed to intervene. By stipulation and order filed February 20,
23 1996, plaintiffs in intervention were allowed to file a first
24 amended complaint in intervention naming the following Santa Paula
25 Basin pumpers as plaintiff intervenors: Limoneira Company, Alta
26 Mutual Water Company, Inc., Aliso Vista Ranch, Associated Concrete
27 Products, Inc., Farmers Irrigation Company, Inc., Hampton Canyon
28 Ranch, Leavens Ranches, John McConica II, John McGrath & Sons,

1 Nichols Associates, Petty & Petty, Robert L. Pinkerton & Sons,
2 Rancho Attilio, Rancho Filoso, J. M. Sharp Company, Southern
3 Pacific Milling, Thermal Belt Mutual Water Company, Inc., Walking
4 Beam Ranches, We 5 Properties, Randall Axell as Trustee of the
5 Dorothy E. Axell Trust, Basso Properties, Billiwhack Ranch, Frank
6 R. Brucker as Trustee of the Frank R. Brucker Trust, Casa De Oro
7 Ranch, Nola Clow as Trustee of the Monte Clow Estate, Gladys Daily
8 Coffman, Paul R. and Irene Cummings & Sons, Flying-D Ranch,
9 Evergreen Ranch AKA San Miguel Products, J. J. & H. H. Finch,
10 Galbreaith Brothers, Inc., Gooding Ranch (John F. Gooding), Eva
11 Gregory as Trustee of the Gregory Family Trust, Elizabeth Broome
12 Grether, Ann B. Priske, John S. Broome Jr. as Trustee of the
13 John S. Broome Jr. Trust, Hadley-Williams Partnership, Regents of
14 the University of California, Headley Property Corporation, La Mesa
15 Partnership #1, Fred Malzacher, John R. McConica et al., John R.
16 McConica II et al., Alice C. Newsom as Trustee of the Newsom Family
17 Trust, Nutwood Farms, Roger Orr as Trustee of the Orr Family Trust,
18 Panamerican Seed, Pear Blossom Town & Country Market, Inc., Wesley
19 Pinkerton Estate, W. B. Pinkerton Limited Partnership, W. J.
20 Pinkerton Estate Ranch #1 & #2, R. F. Robertson as Trustee of the
21 Robertson Family Trust, Santa Paula Basin Pumpers Association, City
22 of Santa Paula, Saticoy Foods Corp., Frank Silva, John Shores
23 Family Partnership, Shozi Brothers, Tri-Leaf Nursery (Bruce
24 Arikawa), Tucker Ranch, William Wallace, James W. Williams III.
25 Interveners sought an adjudication of water rights in the Santa
26 Paula Basin.
27
28

1 (c) Answers and Cross-Complaint. On or about September 27,
2 1991, the City of San Buenaventura answered the first amended
3 pleadings of the District and the Complaint in Intervention, and
4 filed a cross-complaint against Intervenor, alleging that the
5 Santa Paula Basin was not then in a condition of overdraft, that
6 surplus or temporary surplus water was available for appropriation,
7 and seeking a declaration of water rights. Subsequently, answers
8 were filed to the City's Cross-Complaint.

9
10 (d) Parties. The plaintiff United Water Conservation
11 District is a public agency duly organized and operating under the
12 provisions of Division 21 of the Water Code of the State of
13 California, Sections 74000 through 76501. The defendant City of
14 San Buenaventura is a charter city of the State of California,
15 situated in the County of Ventura, California. Intervenor all
16 pump water from the Santa Paula Basin and include individuals,
17 trusts, partnerships, corporations, mutual water companies, and the
18 City of Santa Paula, a general law city. Intervenor are all
19 members of the Santa Paula Basin Pumpers Association (sometimes
20 "Association" or "SPBPA"), and hereinafter are referred to under
21 those names. The Association shall be included within the meaning
22 of a "party" as used in this Judgment, and all motions on behalf of
23 the Intervenor shall be made by and through the Association,
24 unless an Intervenor makes a request to the Association to bring
25 such a motion and the Association refuses, and provided that this
26 provision shall not be used to involve the City or United in the
27 internal affairs of the Association and its members.

28

1 (e) Settlement Negotiations. All of the parties have an
2 interest in the Santa Paula Basin, and in the proper management and
3 protection of both the quantity and quality of this important
4 groundwater supply. The Basin is a significant water resource in
5 the County of Ventura. Members of the Santa Paula Basin Pumpers
6 Association and the City of San Buenaventura exercise rights to
7 pump water from the Basin for reasonable and beneficial uses. The
8 United Water Conservation District does not produce water from the
9 Basin, but the Basin is located within its boundaries and the
10 District is authorized to engage in groundwater management
11 activities and to commence actions to protect the water supplies
12 which are of common benefit to the lands within the District or its
13 inhabitants. Recognizing the need to work together in order to
14 achieve proper basin management and the protection of all uses
15 against overdraft, the parties have joined in extensive technical
16 studies and settlement negotiations. Much engineering, hydrologic
17 and geologic data not previously known have been collected and
18 analyzed by the United Water Conservation District, and verified by
19 the parties. Included therein are estimates of recent pumping from
20 the Basin. The results of these efforts provide the foundation for
21 this Judgment, although all parties recognize that more data and
22 knowledge based upon continued experience and studies are needed.
23 Such data are included in the Engineering Appendix, and made a
24 part hereof.

25
26 (f) Assumed Initial Yield. For a period of seven years
27 commencing January 1, 1996, and until modified by the full
28 agreement of the Technical Advisory Committee or by Court order,

1 the parties have agreed that the assumed initial yield of the Basin
2 shall be considered to be 33,500 acre-feet annually, which
3 corresponds to the maximum amount of recent pumping. This amount,
4 however, does not necessarily represent the safe yield of the Basin
5 on a long term basis. United believes that the additional
6 monitoring and studies called for in Paragraph 4 will show that the
7 safe yield of the Basin is less than this amount. The Association
8 and the City do not necessarily agree with United in this regard.
9 This Judgment represents the beginning of a program of basin
10 management, including the regulation of pumping, which is aimed at
11 meeting the reasonable water supply needs of the parties, including
12 protection for historic users, without harm to the Basin. The
13 Judgment is not a determination of water rights, but represents a
14 complete physical solution under Article X, Section 2 of the
15 California Constitution. All pre-existing water rights to
16 groundwater within the Basin held or claimed by any party are
17 hereby settled and defined in terms of the pumping allocations and
18 obligations provided under this Judgment. The respective
19 allocations for each party are expressly set forth in Paragraph 3,
20 subject to modification as provided herein. Any rights to surface
21 water held by the parties are not affected by this Judgment,
22 including but not limited to those rights held by the City of Santa
23 Paula which were the subject of Santa Paula Water Works, et al. v.
24 Julia Peralta (1896) 113 Cal. 38.

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1 operate the Basin and monitor groundwater extractions in
2 conformance with the provisions of the Judgment so as to avoid
3 overdraft and minimize potential adverse impacts. Within the
4 meaning of this Judgment, the term Basin does not include surface
5 water as it may exist from time to time in Santa Paula Creek or in
6 the Santa Clara River.

7
8 2. Wells Pumping from Basin. The wells described on Exhibit
9 "B," attached hereto and made a part hereof, are determined for
10 purposes of this Judgment to be producing water from the Santa
11 Paula Basin.

12
13 3. Pumping Allocations. For a period of seven years
14 commencing January 1, 1996, the following pumping allocations shall
15 apply:

16
17 (a) Members of the Santa Paula Basin Pumpers Association
18 shall have a cumulative allocation to pump on average 27,500 acre-
19 feet annually. Any person producing groundwater from the Basin and
20 not a party to the Judgment is referred to herein as a nonparty.
21 The 27,500 acre-feet annual allocation shall be held in trust by
22 the Association for the benefit of the members of the Association
23 and any nonparties, and it shall be distributed among the members
24 of the Association and nonparties as follows:

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SANTA PAULA GROUNDWATER BASIN

PARTY ALLOCATIONS

<u>Party Name</u>	<u>Individual Party Allocations</u>
Aliso Vista Ranch	1.8
Alta Mutual Water Company, Inc.	758.1
Associated Concrete Products, Inc.	5.8
Randall Axell as Trustee of the Dorothy E. Axell Trust	362.3
Basso Properties	43.4
Billiwhack Ranch	161.4
Frank R. Brucker as Trustee of the Frank R. Brucker Trust	121.8
Casa De Oro Ranch	99.3
Nola Clow as Trustee of the Monte Clow Estate	33.6
Gladys Daily Coffman	97.0
Paul R. and Irene Cummings & Sons	50.7
Flying-D Ranch	321.2
Evergreen Ranch AKA San Miguel Products	282.3
Farmers Irrigation Company, Inc.	9,406.4
J.J. & H.H. Finch	201.4
Galbreath Brothers Inc.	78.4
Gooding Ranch (John F. Gooding)	101.8
Eva Gregory as Trustee of the Gregory Family Trust	50.7
Elizabeth Broome Grether, Ann B. Priske, John S. Broome Jr. as Trustee of the John S. Broome Jr. Trust	97.6
Hadley-Williams Partnership	129.2
Hampton Canyon Ranch	21.9

	<u>Party Name</u>	<u>Individual Party Allocations</u>
1		
2		
3	Regents of the University of California	23.1
4	Headley Property Corporation	763.5
5	La Mesa Partnership #1	469.5
6	Leavens Ranches	297.0
7	Limoneira Company	3,173.1
8	Fred Malzacher	3.2
9	John McConica II	24.7
10	John R. McConica et al.	5.8
11	John R. McConica II et al.	70.8
12	John McGrath & Sons	101.9
13	Alice C. Newsom as Trustee of the Newsom Family Trust	138.1
14	Nichols Associates	46.7
15	Nutwood Farms	126.4
16		
17	Roger Orr as Trustee of the Orr Family Trust	193.9
18	Panamerican Seed	410.3
19	Pear Blossom Town & Country Market, Inc.	33.1
20	Petty & Petty	116.0
21	Robert L. Pinkerton & Sons	62.1
22	Wesley Pinkerton Estate	61.9
23	W. B. Pinkerton Limited Partnership	39.1'
24	W. J. Pinkerton Estate Ranch #1 & #2	291.2
25	Rancho Attilio	335.8
26	Rancho Filoso	119.6
27		
28	R. F. Robertson as Trustee of the Robertson Family Trust	39.1

	<u>Party Name</u>	<u>Individual Party Allocations</u>
1		
2		
3	City of Santa Paula	6,085.5
4	Saticoy Foods Corp.	134.0
5	Frank Silva	108.6
6	J. M. Sharp Company	167.3
7	John Shores Family Partnership	126.7
8	Shozi Brothers	66.2
9	Southern Pacific Milling	107.5
10	Thermal Belt Mutual Water Company, Inc.	497.3
11	Tri-Leaf Nursery (Bruce Arikawa)	8.8
12	Tucker Ranch	68.0
13	Walking Beam Ranches	13.0
14	William Wallace	2.9
15	We 5 Properties	9.8
16	James W. Williams III	27.6
17	Santa Paula Basin Pumpers Association as Trustee for the following Nonparties:	704.8
18	ABC Rhubarb Farms	31.1
19	Andrew Alsono	1.1
20	Patricia Conklin	2.7
21	Thomas Courtmarche	1.0
22	G. Dominguez	0.9
23	William Garman	2.0
24	Juanamaria Land Company	220.0
25	Albert Kimura	37.5
26	Tama Kimura	55.9
27	Madeline Lassich	1.1
28	Richard Ray	0.1

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<u>Party Name</u>	<u>Individual Party Allocations</u>
Thomas H. Vint	4.9
Southern California Edison Co.	12.5
Ventura County, Jail Property	172.2
Ventura County, Parks Department	131.0
Ventura Unified School District	30.8
TOTALS:	27,500.0

The Association shall use its continuing best efforts to obtain the voluntary joinder of any nonparty to the Judgment. Any party may initiate legal proceedings to compel the joinder of any nonparty. The Technical Advisory Committee shall monitor and annually report the individual and cumulative groundwater production by all nonparties. Both the groundwater production of the Association and the groundwater production of the nonparties shall be attributed to the cumulative annual allocation available for the Association as set forth in Paragraph 3(c). In the event the combined pumping of the Association and the nonparties exceed the Association's allocation as provided in Paragraph 3(c), the Association shall be responsible for the over-production, and shall reduce its future groundwater production by an amount sufficient to offset the quantity of over-production by the nonparties. Under no circumstances shall the combined production by members of the Association and the nonparties exceed the Association's allocation

1 provided in Paragraph 3(c), subject to the provisions of Paragraph
2 5(b) and 5(d).

3
4 Water produced pursuant to this allocation shall be applied to
5 reasonable and beneficial uses within the Basin, except for lands
6 located outside of the Basin which are presently supplied with
7 Basin water. Such lands are described in Exhibit "C," attached
8 hereto and made a part hereof. No additional exports shall be
9 allowed. Groundwater supplied to the customers of the City of
10 Santa Paula is not an "export" within the meaning of the Judgment.
11 To the extent that the City pumps water at the request of Alta
12 Mutual Water Company for delivery to the Company's customers, such
13 amounts of water shall be charged against the allocation
14 attributable to Alta Mutual Water Company and not against the
15 City's allocation. The City shall report annually to the
16 Association the amount of all water delivered on behalf of the Alta
17 Mutual Water Company.

18
19 (b) The City of San Buenaventura shall have an alloca-
20 tion to pump on average 3,000 acre-feet annually for distribution
21 in its municipal water supply system, and for reasonable and
22 beneficial uses by its customers. The City's present production is
23 from a well known as Saticoy 2, and in the future its allocation
24 may be pumped in whole or in part from an additional well proposed
25 to be drilled, known as Saticoy 3, the proposed site of which is
26 in the west end of the Basin approximately 1000 yards from Saticoy
27 2.

28

1 (c) The cumulative pumping allocation in Paragraph 3(a)
2 and the City's allocation in Paragraph 3(b) shall be based on
3 calendar years and shall be averaged over seven years commencing
4 January 1, 1996. The parties are not limited to their respective
5 allocations in any single year, but may produce seven times their
6 average annual allocations over the seven-year period. Thereafter,
7 and until modified by full agreement of the Technical Advisory
8 Committee or Court order, the applicable seven year period shall be
9 the immediately preceding seven calendar years. In the event
10 reductions in allocations are required pursuant to Paragraph 6, the
11 reductions shall be implemented prospectively so that any portion
12 of a party's unused allocation accrued during the immediately
13 preceding seven year period is not lost or forfeited. Pumping
14 within these allocations may occur from present wells, from
15 replacement wells, or from new wells.

16
17 (d) Upon review of the Technical Advisory Committee, the
18 Association and the City may agree in writing to permit extractions
19 from the Basin in addition to these pumping allocations, either in
20 view of hydrologic conditions in the Basin, or to meet specific
21 individual needs, or as part of a program to determine whether
22 surplus water exists, and if so, to what extent.

23
24 (e) During the first seven year period commencing
25 January 1, 1996, the difference between the total pumping
26 allocations of the City and the Association, and the assumed yield
27 for that period, namely, 3000 acre-feet annually, shall be
28

1 available to meet the needs of the City under a Class II emergency,
2 pursuant to the requirements of Paragraph 7 hereof.

3
4 4. Basin Monitoring and Studies. A Technical Advisory
5 Committee shall be formed with equal representation from the United
6 Water Conservation District, the City of San Buenaventura, and the
7 Santa Paula Basin Pumpers Association. Appointments to the
8 Committee shall be in the discretion of the respective parties, but
9 at least one representative of each party shall have technical
10 qualifications appropriate to the tasks of the Committee. To the
11 extent possible, the Technical Advisory Committee shall work by
12 consensus. Disputes may be resolved on motion to the Court brought
13 by any of the parties, or through independent arbitration, provided
14 that an effort is first made to resolve the matter in accordance
15 with the provisions of Paragraph 17(d). The Committee initially
16 shall establish a program to monitor conditions in the Basin,
17 including but not necessarily limited to verification of future
18 pumping amounts, measurements of groundwater levels, estimates of
19 inflow to and outflow from the Basin, increases and decreases in
20 groundwater storage, and analyses of groundwater quality. In
21 addition, the Committee shall undertake or cause to be made studies
22 which may: assist in determining the amount of water which can be
23 taken from the Basin without causing overdraft; assist in determin-
24 ing whether surplus or temporary surplus water exists, and if so,
25 to what extent; identify additional replenishment sources for the
26 Basin; develop programs for the conjunctive use and operation of
27 the Basin; and provide such other information as may be useful in
28 developing a management plan for operation of the Basin. The

1 Committee shall also consider and attempt to agree upon the safe
2 yield of the Basin. The United Water Conservation District shall
3 have the primary responsibility for collecting, collating and
4 verifying the data required under the monitoring program, and shall
5 present the results thereof in annual reports to the Technical
6 Advisory Committee.

7
8 5. Future Pumping. At the end of the initial seven year
9 period provided herein, any party, or the Technical Advisory
10 Committee if it is in full agreement, may seek to have the Court
11 review the assumed initial yield agreed to in Paragraph (f), and
12 the pumping allocations provided in Paragraphs 3(a) and 3(b), and
13 to determine the safe yield of the Basin. If no such review is
14 sought, these pumping allocations shall remain in effect until
15 further order of the Court.

16
17 (a) Any party or the Committee seeking such a review and
18 determination shall file with the Court as part of its motion a
19 written report including its recommendation and the data in support
20 thereof. The report may recommend that the assumed initial yield
21 of 33,500 acre-feet annually be adjusted either upward or downward,
22 or otherwise modified. The Court shall conduct a hearing on the
23 recommendation. The parties' Stipulation to use an assumed initial
24 yield of 33,500 acre-feet annually for the first seven years shall
25 have no bearing on any party's right to seek a safe yield
26 determination that is either greater or less.

27
28

1 (b) If the Court finds that the safe yield of the Basin
2 is greater than 30,500 acre-feet annually, or that temporary
3 surplus may exist under certain conditions, the City of San
4 Buenaventura and the Santa Paula Basin Pumping Association may both
5 apply to increase their respective pumping allocations, and the
6 Court relying upon established principles of water law shall
7 determine how the additional water shall be allocated.

8
9 (c) If the Court finds that the safe yield of the Basin
10 is less than the total pumping allocations provided in Paragraphs
11 3(a) and 3(b), then the pumping allocations of the parties shall be
12 reduced in accordance with Paragraph 6, unless the Court finds that
13 certain practical measures may be taken that will prevent harm to
14 the Basin or to existing users.

15
16 (d) If either the Technical Advisory Committee or any
17 party recommends a more flexible management plan for the operation
18 of the Basin, the Court shall have authority after noticed hearing
19 to modify the pumping allocations of the parties, provided that any
20 such modifications will promote the more efficient use of the
21 groundwater supply, will not result in overdraft or harm to
22 existing users, and will not modify the priorities identified in
23 Paragraph 6.

24
25 6. Overdraft. At the end of the seven-year period provided
26 herein, and upon motion and hearing as provided in Paragraph 5(a),
27 if the Court finds that the safe yield of the Basin is less than
28 the total pumping allocations provided in Paragraphs 3(a) and 3(b),

1 reductions in pumping shall be required in the following order of
2 priority:

3
4 (a) Stage 1. All uses in excess of the pumping
5 allocations provided in Paragraph 3(a) and 3(b) shall first be cut
6 back.

7
8 (b) Stage 2. The cumulative pumping allocation of the
9 Santa Paula Basin Pumpers Association shall be reduced by 500 acre-
10 feet annually, such reduction reflecting reasonable conservation
11 that can be achieved. The Association shall determine how any
12 reduction in its cumulative allocation required under any Stage of
13 Paragraph 6 shall be implemented.

14
15 (c) Stage 3. The pumping allocation of the City of San
16 Buenaventura shall be reduced to 1141 acre-feet annually, such
17 amount reflecting the City's annual historical maximum production
18 prior to commencement of this action.

19
20 (d) Stage 4. The remaining pumping allocations of the
21 parties shall be further reduced simultaneously by the following
22 amounts: 2000 acre-feet annually by the Santa Paula Basin Pumpers
23 Association, and 500 acre-feet annually by the City of San
24 Buenaventura.

25
26 (e) Stage 5. The City of San Buenaventura shall cease
27 pumping from the Basin.

28

1 (f) Stage 6. The remaining pumping allocation of the
2 Santa Paula Basin Pumpers Association shall be reduced by whatever
3 amount is required to bring production into balance with the safe
4 yield of the Basin.

5
6 The timing of each reduction set forth above shall be determined by
7 the Court, allowing sufficient time between stages to determine
8 whether any further cutbacks are necessary. The Technical Advisory
9 Committee shall attempt to develop a trigger perhaps based upon
10 water levels, to determine when overdraft is deemed to commence and
11 reductions in pumping are required. In the event the Technical
12 Advisory Committee is unable to agree upon such a trigger, the
13 issue of the commencement of overdraft, and required reductions in
14 pumping, shall remain within the jurisdiction of the Court, to be
15 decided upon motion of any party.

16
17 7. Emergency Pumping. Notwithstanding the provisions of
18 Paragraphs 3(b), 5(c) and 6, and in addition to the amounts
19 available thereunder, the City of San Buenaventura shall have the
20 right, under the conditions hereinafter set forth, to pump water
21 from the Basin during an emergency in order to reasonably supply
22 public needs. Before this section applies, the City shall first
23 meet its needs from any supplies that are reasonably available from
24 City sources other than the Basin. The rights under this Paragraph
25 shall apply only so long as an emergency exists.

26
27 (a) An emergency causing a water shortage may result
28 from a sudden and unexpected occurrence such as fire, flood,

1 earthquake, contamination, systems failure, or extraordinary peak
2 demand, hereinafter referred to as a Class I Emergency. An
3 emergency may also result from a long-term drought situation
4 affecting especially the City's surface water supplies, hereinafter
5 referred to as a Class II Emergency.

6
7 (b) The City shall have the right to pump up to 300
8 acre-feet annually under a Class I Emergency provided that it gives
9 prompt notice to the parties and the Technical Advisory Committee.
10 Such notice shall include a description of the emergency, an
11 explanation of the unavailability of other non-Basin supplies, the
12 expected duration of the emergency, and an estimate of the amount
13 of water required. Any party by motion may challenge the City's
14 pumping under this emergency provision, and if successful, the
15 amount of water pumped under the claim of emergency shall be
16 charged against the City's pumping allocation. The City may pump
17 more than 300 acre-feet annually under a Class I Emergency with the
18 full approval of the Technical Advisory Committee or by order of
19 Court. The City shall not be required to give more than 72 hours
20 notice of any motion seeking Court approval for additional
21 emergency pumping.

22
23 (c) The City shall be required to obtain full approval
24 of the Technical Advisory Committee or the Court prior to any
25 emergency pumping under a Class II Emergency. As a prerequisite to
26 any such approval, the City must have in force drought conservation
27 measures at least as stringent as those required in Resolution No.
28 90-16 adopted February 26, 1990 and in Ordinance No. 90-3 adopted

1 March 20, 1990, as amended. During the initial seven year period,
2 the amount of water available for a Class II Emergency shall not
3 exceed 3000 acre-feet annually as provided in Paragraph 3(e).
4 Thereafter, there shall be no limit on the amount of water used for
5 such Class II Emergency, provided: that the City render annual
6 reports to the Court and parties concerning its past and projected
7 use of emergency water; that the City mitigate all adverse impacts
8 upon Intervenor, or any of them, caused by the City's emergency
9 pumping; and provided that if the Intervenor or any of them should
10 be required to reduce their respective individual pumping
11 allotments in order to allow the City to pump emergency water under
12 this Paragraph 7(c), the City shall pay the actual damages suffered
13 by such Intervenor. Any such damages shall be determined by the
14 Court under its continuing jurisdiction, and no claim under
15 Government Code, Sections 900 et seq. shall be required.

16
17 8. Local Well Interference. The City's Saticoy 2 well is
18 located in close proximity to two wells identified as 2N 22W 02
19 K02 and 2N 22W 02 K08 (Wittenberg-Livingston Inc.), and is about
20 400 feet away from Alta Mutual Water Co. Well No. 9, and about 2600
21 feet away from the Grether Well 35Q-02. The City's proposed
22 Saticoy 3 well is proposed to be drilled in the same locality, and
23 would be about 1800 feet away from the Grether Well. In the event
24 that production from either or both of these City wells causes
25 unreasonable interference with production from any of the wells
26 herein identified, the City shall mitigate such impacts.
27 Mitigation may include, but shall not be limited to, scheduling
28 pumping so as to avoid interference, paying the cost of lowering

1 the bowls in or deepening the affected wells, or producing water
2 from City wells for use by the owners of such affected wells at
3 costs the owners might otherwise have incurred. Any water produced
4 from the Basin by the City for the benefit of such owners shall be
5 charged against the cumulative pumping allocation of the Santa
6 Paula Basin Pumpers Association. Nothing herein shall preclude any
7 party from seeking relief against any other party for unreasonable
8 well interference.

9
10 9. Regulating Pumping within the SPBPA. It shall be the
11 responsibility of the Santa Paula Basin Pumpers Association to keep
12 the total amount of water pumped by its members within the
13 cumulative pumping allocation provided herein. In the event the
14 Association fails to do so, the Court retains jurisdiction over the
15 individual members as parties to this action, and shall issue such
16 orders affecting the individual pumping of the parties as may be
17 required. Successors in interest to any of the parties who are
18 members of the Association shall be joined as parties to the
19 action.

20
21 10. Transfers. Upon providing written notification to the
22 Technical Advisory Committee, any party may transfer to any other
23 party or person all or any part of its individual allocation
24 provided in Paragraph 3(a), or as subsequently determined by the
25 Court. Reasonable notice shall be given to the Committee prior to
26 any proposed transfer of any such allocation apart from the land
27 where the water has been used. Any such transfer shall be subject
28 to all provisions of the Judgment, and any transferee not a party

1 to the action shall be required to join as a party in order for the
2 transfer to be effective. Any transfer to the City of San
3 Buenaventura shall reduce the allocation of the Santa Paula Basin
4 Pumpers Association by the amount of the transfer.

5

6 11. Storage of Water. Nothing in this Judgment is intended
7 to preclude the underground storage of water in the Basin provided:

8

9 (a) That the water to be stored is imported, or is
10 reclaimed or native water that would otherwise waste to the ocean
11 or would not replenish the Basin.

12

13 (b) That the storage program is approved in advance by
14 the full agreement of the Technical Advisory Committee.

15

16 (c) That the storage program will not adversely impact
17 the water quality of the Basin.

18

19 (d) That the storage program will not cause injury to
20 any vested rights.

21

22 (e) That in the event the storage of water causes the
23 Basin to spill, the first water lost to the Basin shall be deemed
24 to be the stored water.

25

26 (f) That title may be retained to water stored
27 underground pursuant to this Paragraph, and the stored water less

28

1 losses may be pumped in addition to the pumping allocations,
2 provided no injury is caused to any Intervenor or party.

3
4 12. Forfeiture. It is in the interest of sound Basin
5 management that no party be encouraged to take or use more water
6 than is actually required. Failure to produce all of the water to
7 which a party is entitled under this Judgment shall not, in and of
8 itself, be deemed to constitute an abandonment or forfeiture of
9 such party's right, either in whole or in part. Abandonment,
10 forfeiture or extinction of any pumping allocation or right decreed
11 herein shall occur only upon written election filed by the party,
12 or upon motion filed by any party or the Technical Advisory
13 Committee, and after hearing thereon. In either case, such loss of
14 right shall be expressly confirmed by order of this Court.

15
16 13. Inter-Basin Litigation. In the event of future
17 litigation between any party to this action and water users or
18 water rights holders in basins contiguous or adjacent to the Basin,
19 the parties hereto shall exercise good faith cooperation to
20 preserve and protect their collective pumping allocations settled
21 and determined under this Judgment.

22
23 14. Injunction. The parties and each of them, and their
24 agents, successors and assigns, are enjoined from extracting any
25 more water from the Santa Paula Basin than is permitted under this
26 Judgment, and from otherwise violating the terms hereof.

27
28

1 15. CEQA Dismissal. The causes of action brought by the
2 United Water Conservation District alleging violations of the
3 California Environmental Quality Act are hereby dismissed.

4
5 16. Costs and Attorney Fees. Each party shall bear its own
6 costs and attorney fees.

7
8 17. Continuing Jurisdiction. Full jurisdiction, power and
9 authority are retained and reserved by the Court for the purpose of
10 enabling the Court, upon motion of any party and after hearing
11 thereon:

12
13 (a) to make such further or supplemental orders or
14 directions as may be necessary or appropriate for the interpreta-
15 tion, enforcement or carrying out of this Judgment;

16
17 (b) to determine any dispute between or among the
18 parties concerning the Judgment; and

19
20 (c) to modify, amend or amplify any of the provisions of
21 this Judgment whenever in the Court's opinion a substantial change
22 in circumstances, or experience under the Judgment, or the results
23 of new data and studies, justify or require such modification,
24 including modification of the safe yield of the Basin and the
25 pumping allocations, as provided in Paragraph 5.

26
27 (d) Prior to any party or the Technical Advisory
28 Committee filing a motion for judicial review or dispute resolution

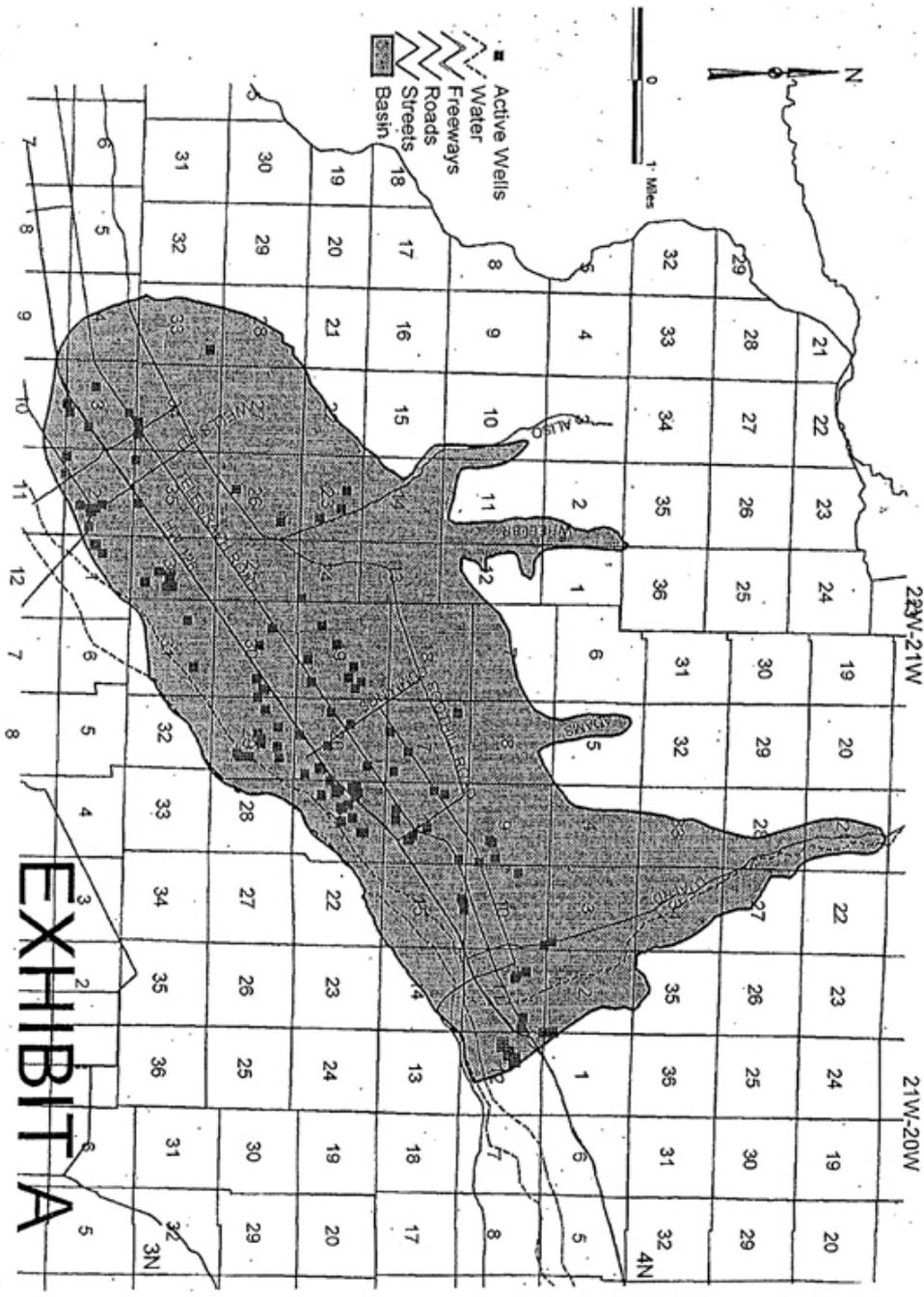
1 under this Judgment, the party shall provide written notice of its
2 intention, together with a brief summary of the basis for the
3 request, to United, the City and the Association. Upon receipt of
4 such request and within 30 days from the date of the notice,
5 United, the City and the Association shall meet to attempt promptly
6 to resolve the dispute without resort to judicial action. This
7 provision shall not apply in the event of an emergency, either
8 Class I or Class II.

MAR 7 - 1996

9
10 DATED: _____, 1996.

11 JOHN J. HUNTER
12 Judge of the Superior Court
13
14
15
16
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28

BOUNDARY OF SANTA PAULA GROUNDWATER BASIN SETTLEMENT



**Santa Paula Groundwater Basin
WELLS AND OWNERS LIST**

State Well No.	Name
03N/21W-16P01	ABC RHUBARB FARMS
03N/22W-23Q01	ALISO VISTA RANCH
03N/21W-21M01	ANDREW ALSONO
02N/22W-02K07	ALTA MUTUAL WATER COMPANY, INC.
03N/21W-29K01	ASSOCIATED CONCRETE PRODUCTS, INC.
03N/21W-16P02	DOROTHY E. AXELL TRUST
03N/21W-16P04	DOROTHY E. AXELL TRUST
03N/21W-09J01	BASSO PROPERTIES
03N/22W-23F02	BILLIWHACK RANCH
03N/21W-29F01	FRANK R. BRUCKER TRUST
03N/21W-20F01	CASA DE ORO RANCH
02N/22W-02K09	CITY OF SAN BUENAVENTURA
03N/21W-20A01	NOLA CLOW TRUST
03N/22W-35N01	GLADYS DAILY COFFMAN (c/o McAVOY)
03N/21W-21D02	PATRICIA CONKLIN
03N/21W-21G01	THOMAS COURTMARCHE
03N/21W-12E07	G. DOMINGUEZ
03N/21W-19R01	EVERGREEN RANCH
03N/21W-09R04	FARMERS IRRIGATION COMPANY, INC.
03N/21W-12B04	FARMERS IRRIGATION COMPANY, INC.
03N/21W-12B08	FARMERS IRRIGATION COMPANY, INC.
03N/21W-12F03	FARMERS IRRIGATION COMPANY, INC.
03N/21W-16K01	FARMERS IRRIGATION COMPANY, INC.
03N/21W-16K02	FARMERS IRRIGATION COMPANY, INC.
03N-21W-16K03	FARMERS IRRIGATION COMPANY, INC.

EXHIBIT "B"

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State Well No.	Name
03N/21W-19H06	FARMERS IRRIGATION COMPANY, INC.
03N/21W-19H07	FARMERS IRRIGATION COMPANY, INC.
03N/22W-34Q02	J.J. AND H.H. FINCH
03N/21W-10M01	FLYING "D" RANCH
03N/21W-17Q01	GALBREATH/PINKERTON/ROBERTSON
02N/22W-02N04	WILLIAM GARMAN
03N/21W-09K02	GOODING RANCH
03N/21W-19L01	GREGORY/CUMMINGS
03N/22W-35Q02	ELIZABETH GREYHER
03N/21W-19A02	HAMPTON CANYON RANCH
03N/22W-36K02	HEADLEY PROPERTY CORPORATION
03N/22W-36R01	HEADLEY PROPERTY CORPORATION
02N/22W-03E01	JUANAMARIA LAND CO./HADLEY/WILLIAMS
03N/21W-11H03	ALBERT KIMURA
03N/21W-11H01	TAMA KIMURA
03N/21W-16E01	LA MESA PARTNERSHIP #1
03N/21W-17R01	LA MESA PARTNERSHIP #1
03N/21W-29B02	MADLINE LASSICH
02N/22W-03M03	LEAVENS RANCHES
03N/22W-24R01	LEAVENS RANCHES
03N/21W-01N02	LIMONEIRA COMPANY
03N/21W-02P01	LIMONEIRA COMPANY
03N/21W-02Q01	LIMONEIRA COMPANY
03N/21W-02R02	LIMONEIRA COMPANY
03N/21W-19G02	LIMONEIRA COMPANY
03N/21W-30F01	LIMONEIRA COMPANY
03N/21W-30H04	LIMONEIRA COMPANY

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State-Well No.	Name
03N/21W-31B01	LIMONBIRA COMPANY
03N/21W-31E03	LIMONBIRA COMPANY
03N/21W-21G03	FRED MALZACHER
02N/22W-03Q02	JOHN McCONICA, II
03N/21W-21B01	JOHN McCONICA, II, ET AL.
03N/21W-21B03	JOHN McCONICA, II, ET AL.
02N/22W-02N01	JOHN R. McCONICA, ET AL.
03N/21W-20R02	JOHN McGRATH & SONS
03N/21W-21E05	JOHN McGRATH & SONS
03N/21W-21F03	JOHN McGRATH & SONS
03N/21W-21G02	JOHN McGRATH & SONS
03N/21W-11A01	NEWSOM FAMILY TRUST
03N/22W-36H01	NICHOLS ASSOCIATES
03N/22W-36H02	NICHOLS ASSOCIATES
03N/22W-36J01	NUTWOOD FARM
03N/22W-36J02	NUTWOOD FARM
03N/21W-20J03	ORR FAMILY TRUST
03N/21W-20K01	PANAMERICAN SEED
03N/21W-20M01	PANAMERICAN SEED
03N/21W-20P02	PANAMERICAN SEED
03N/21W-10E01	PEAR BLOSSOM TOWN & COUNTRY MARKET, INC.
03N/22W-36K04	PETTY & PETTY
03N/22W-36K05	PETTY & PETTY
03N/21W-17P02	ROBERT L. PINKERTON & SONS
03N/21W-21E01	WESLEY PINKERTON
03N/21W-16E02	W.J. PINKERTON ESTATE RANCH
03N/21W-29B03	W.J. PINKERTON ESTATE RANCH

EXHIBIT "B"

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State Well No.	Name
02N/22W-02K02	RANCHO ATTILIO
02N/22W-02K08	RANCHO ATTILIO
02N/22W-02Q01	RANCHO ATTILIO
03N/21W-09K03	RANCHO FILOSO
03N/22W026P01	RICHARD RAY
03N/22W-34R02	REGENTS OF UNIVERSITY OF CALIFORNIA
03N/21W-11D02	CITY OF SANTA PAULA
03N/21W-11E02	CITY OF SANTA PAULA
03N/21W-11F03	CITY OF SANTA PAULA
03N/21W-11J02	CITY OF SANTA PAULA
03N/21W-15C02	CITY OF SANTA PAULA
03N/21W-15C06	CITY OF SANTA PAULA
03N/21W-16A02	CITY OF SANTA PAULA
03N/21W-16G01	CITY OF SANTA PAULA
03N/21W-30H03	SATICOY FOODS CORP.
03N/21W-30H05	SATICOY FOODS CORP.
03N/21W-19M01	J.M. SHARP COMPANY
03N/21W-20J04	JOHN SHORES FAMILY PARTNERSHIP
02N/22W-03B01	SHOZI BROTHBRS
02N/22W-01M03	FRANK SILVA
02N/22W-01M04	FRANK SILVA
03N/21W-29K02	SOUTHERN PACIFIC MILLING
03N/21W-29K03	SOUTHERN PACIFIC MILLING
03N/22W-27M02	SOUTHERN CALIFORNIA EDISON
03N/21W-15C04	THERMAL BELT MUTUAL WATER COMPANY
03N/21W-30E01	TRI-LEAF NURSERY
02N/22W-02E03	TUCKER RANCH

EXHIBIT "B"

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State Well No.	Name
02N/22W-03K02	TUCKER RANCH
03N/21W-29E01	VENTURA COUNTY JAIL
03N/21W-30H07	VENTURA COUNTY JAIL
02N/22W-02G01	VENTURA COUNTY PARKS
02N/22W-03P01	VENTURA UNIFIED SCHOOL DISTRICT
03N/21W-21H03	THOMAS H. VINT
03N/21W-19G03	WALKING BEAM RANCHES
03N/21W-21E02	WILLIAM WALLACE
02N/22W-02J03	WE 5 PROPERTIES
03N/22W-23G01	JAMES WILLIAMS

**LAND OUTSIDE OF SANTA PAULA BASIN
RECEIVING WATER FROM THE BASIN**

1. Alta Mutual Water Company, Inc. serves properties outside of the Basin, which are as follows:
 - Lloyd Partnership, Sexton Canyon, Parcel Nos. 128-0-060-125 and 140
 - Nichols and Associates, West of Kimball Avenue, Parcel No. 088-0-040-110 and 130
 - Bird of Paradise Ranch, Parcel Nos. 065-0-150-170 and 066-0-150-180
 - Browkaw Nursery, West of Brown Barranca, Parcel Nos. 128-0-060-125 and 140
 - Cherrie, Gene & Marty, West of Kimball Avenue, Parcel Nos. 085-0-010-165, 175 and 195
 - R.H. Smith Family Partnership, North of Foothill/East of Wells Road, Parcel No. 064-0-120-015, 055, 045 and 064-0-280-060.

2. Farmers Irrigation Company, Inc. serves the Limco Del Mar Ranch, Inc. and the Daniel M. Campbell properties near Hill Road in Ventura. Assessor parcel numbers are as follows:
 - Limco Del Mar Ranch, Inc., 085-0-010-150
 - Daniel M. Campbell, portion South of Telegraph Road, adjacent to the Limco Del Mar Ranch, Inc., 083-0-040-295
 - Smith, RH Family Partnership, Alsio Canyon, (Alta Mutual Water Company, from Farmers Irrigation Company) several parcels: 035-0-270-095, 105, 115; 064-0-050-035, 085; 064-0-061-075 and 064-0-063-055.
 - Calvary Chapel Farmers, Inc. in Adams Canyon has a Northern parcel with the number of 038-0-010-115.

EXHIBIT "C"

**APPENDIX -- SANTA PAULA BASIN BACKGROUND
AND MONITORING PROGRAM**

CONTENTS

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2. OVERVIEW OF SANTA PAULA BASIN
 - A. Location and Dimensions
 - B. Hydrogeology
 - C. Groundwater Elevations
 - D. Water Level Fluctuations
 - E. Santa Clara River Base Level
 - F. Localized Well Interference
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 - B. City of Buenaventura
 - C. Santa Paula Water Works, Ltd.
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APPENDIX -- SANTA PAULA BASIN BACKGROUND AND MONITORING PROGRAM

This document is the appendix for the Stipulated Judgment among the City of San Buenaventura, intervenors represented by the Santa Paula Basin Pumpers Association, and United Water Conservation District (UWCD). The Stipulated Judgment contains provisions regarding operation and pumping from the Santa Paula basin, and the Appendix contains background information and basin monitoring procedures upon which the judgment is based.

1. INTRODUCTION.

The purpose of this Appendix is to describe to the extent necessary, the background hydrogeologic conditions of the Santa Paula basin, the monitoring plan for collecting data, well interference, if any, and other matters from which the condition of the groundwater basin can be determined. This Appendix also describes the duties and responsibilities of the parties who will jointly prepare an annual report on the condition and trend of the Santa Paula basin.

2. OVERVIEW OF SANTA PAULA BASIN.

A. Location and dimensions. The Santa Paula basin (shown on Exhibit A to Stipulated Judgment) is located along the Santa Clara River, between Saticoy and Santa Paula Creek on the east side of the City of Santa Paula. The basin is bounded by the Sulphur Mountain foothills on the north and South Mountain on the south. The basin is elongated in a northeast-southwest direction about 10 miles long and as much as 3.5 miles wide. The surface area of the basin is approximately 13,000 acres, and ranges in elevation from 270 feet above sea level near the City of Santa Paula to about 130 feet above sea level near Saticoy. On-going uplift along the Oak Ridge and other faults has created a deep basin, with Plio-Pleistocene deposits reaching in excess of 10,000 feet thick in the basin.

B. Hydrogeology. The principal fresh water-bearing strata of the Santa Paula basin are the Pleistocene San Pedro Formation, overlying Pleistocene river deposits of the ancient Santa Clara River, alluvial fan deposits shed from the uplifted mountain blocks, and recent river and stream sediments deposited locally along the Santa Clara River and its tributaries. These water-bearing sediments are underlain by relatively impermeable Pliocene and older units.

The sediments of the basin have been warped into a syncline that is oriented in a northeast-southwest direction along the center of the basin. To the east, the Santa Paula basin is considered

to be in hydraulic connection with the Fillmore basin. To the south, the Oak Ridge fault forms a partial barrier to groundwater movement. On the north, the San Pedro Formation is exposed along the foothills, and rainfall on the surface exposures or streams crossing that sediments provide some groundwater recharge to the basin. The Santa Paula basin borders the Montalvo and Mound basins on the west. The San Pedro Formation is uplifted along this western flank of the Santa Paula basin and geologic structures such as the Country Club fault are present.

Groundwater pumped from the eastern and central portions of the Santa Paula basin is considered to come primarily from unconfined aquifers. However, a combination of overlying fine-grained alluvial-fan sediments and interlayering of sediments in the San Pedro Formation form confining conditions in the western portion of the basin. During high rainfall years, wells in this western portion may flow under artesian conditions and rising water is common in the Santa Clara River at the western edge of the basin.

The primary recharge to the Santa Paula basin is by percolation from the Santa Clara River, Santa Paula Creek, and other tributaries, and by underflow from the Fillmore basin. Recharge from the Santa Clara River is limited to reaches north of the Oak Ridge fault, which restricts the amount of recharge that the basin can receive in any year.

C. Groundwater Elevations. UWCD and its predecessors have measured groundwater elevations within the Santa Paula basin since the early part of the century. Ground-surface elevations decrease from northeast to southwest in the basin and, accordingly, the natural hydraulic gradient also declines.

D. Water Level Fluctuations. Within the Santa Paula basin, most notably in the Saticoy area, there are localized lenses of clay. These confining beds cause some wells to flow following periods of higher rainfall. Additionally, the Oak Ridge fault, Country Club fault (postulated), Saticoy fault and other subsurface geologic anomalies cause artesian conditions to occur more or less continuously. For example well 02N/22W-0K07 (Alta #9) flowed in March of 1983. Well 03N/21W-31L01 flowed in March of 1993. These flowing conditions are not found in the unconfined eastern part of the basin.

E. Santa Clara River Base Level. The base level of the Santa Clara River has changed during this century, caused by local gravel mining and upstream impoundments. Degradation of the river has been measured. The river has been degraded by as much as 15 feet or more where it flowed across the Santa Paula basin. This degradation has been stabilized locally by the Freeman Diversion, completed in 1991, upstream from Saticoy, which will result in aggradation upstream therefrom.

F. Localized Well Interference.

1. Vanoni Well (2N/22W-2K08). The Vanoni well is located about 275 feet south of the City of San Buenaventura's well (2N/22W-2K09 herein Saticoy well No. 2).

Vanoni's well is 240 feet deep with perforation intervals from 24 to 108 feet. When Saticoy well No. 2 (-2K09) is pumping, the water level in the Vanoni well is lowered 11 to 12 feet under certain conditions. When Saticoy well No. 2 and the Vanoni well are both pumping, the water level in the Vanoni well under certain conditions is lowered approximately 38 feet. When the Alta Mutual well (-2K07) is pumping, the water level in the Vanoni well is lowered 3 to 4 feet.

2. Alta Mutual (2N/22W-2K07). The Alta Mutual well is located about 535 feet southeast of Saticoy well No. 2. The Alta well is perforated at three intervals down to 698 feet which is the depth of the well. When Saticoy well No. 2 is pumping, the water level in the Alta Mutual well is lowered 5 to 6 feet under certain conditions.

3. OVERVIEW OF WATER SYSTEMS

A. Introduction. Water users in the Santa Paula basin receive and deliver water in a variety of ways. An overview of the water systems of the City of San Buenaventura, City of Santa Paula, and agricultural pumps is included in this section.

B. City of San Buenaventura. The City of San Buenaventura obtains its water supply for municipal and industrial demands from five different sources:

- Ventura River (Foster Park)
- Lake Casitas (Casitas Municipal Water District)
- Oxnard Plain Basin Groundwater (Golf Course Wells)
- Mound Basin Groundwater (Victoria Well)
- Santa Paula Basin Groundwater (Saticoy Well)

Ventura River

The City's oldest source of water supply is the Ventura River from the Foster Park Diversion. This facility includes an underground dam, a surface water diversion, two active subsurface intake pipes and four shallow wells (Nye Wells) within the Ventura River alluvium. Water from the Foster Park facilities is treated at the City's Avenue Water Treatment Plant, which has a nominal capacity of 13 mgd and can be operated at up to 15 mgd. The Foster Park supply is highly variable based on local hydrologic conditions. During the period of 1971-1990, the diversions averaged 5,866 acre-feet/year. Historically, diversions have ranged from a high of 9,874 acre-feet/year in 1992 to a low of 1,463 acre-feet/year in 1951 at the end of a four-year drought. The minimum supply in the recent drought was 2,860 acre-feet/year. The quality of the Foster Park supply varies with the hydrologic conditions. Average TDS concentrations are 660mg/l.

The historical minimum diversion from Foster Park occurred before construction of the Lake Casitas facilities. Hydrologic analysis of this source indicates that the minimum expected annual

supply from this source should be about 700 acre-feet. In August 1991, the City installed instrumentation at the Avenue Water Treatment Plant (Avenue WTP) which allows this facility to operate 24 hours per day as opposed to the previous two shifts, 16 hours per day operation. This will enable the City to better utilize flows at Foster Park. These improvements increase the capacity of the Avenue WTP to about 14,000 acre-feet/year.

Major facilities are also underway to help move Ventura River water to the eastern part of the City to reduce Ventura's need to use as much groundwater. Included are improvements to:

- Foster Park Diversion
- Avenue Treatment Plant
- Major Transmission Lines
- Booster Pump Stations

Lake Casitas

The Casitas Dam and Reservoir Project was constructed by the U.S. Bureau of Reclamation (BuRec) in 1959 to provide water supply for the Casitas Municipal Water District (Casitas MWD) service area. Lake Casitas has a total storage capacity of 254,000 acre feet, of which approximately 250,000 acre feet is usable storage. Recent studies conducted for Casitas MWD determined the safe yield of Lake Casitas to be 21,500 acre-feet per year. Recent demands on the lake have ranged from 26,180 acre-feet in 1989 to 12,042 acre-feet in 1992. Over the past 20 years, City of San Buenaventura's annual use of Casitas water has been as high as 11,998 acre-feet in 1974 and has averaged 7,310 acre-feet.

Casitas MWD has developed a five stage Water Efficiency and Allocation Program Ordinance to balance supply with demand. Stage 2 of this ordinance includes an allocation for the City of San Buenaventura of 7,090 acre-feet/year. It is likely that Stage 2 will not go into effect until the reservoir storage drops to about 90,000 or 95,000 acre-feet. Stage 5 would be implemented during periods of extreme drought when Lake Casitas storage drops below 65,000 acre-feet. Under Stage 5, the City's allocation would be reduced to 70 percent of the Stage 2 allocation, or 4,963 acre-feet/year. The quality of the Lake Casitas supply is generally good with a total dissolved solids concentration averaging 450 mg/l.

Oxnard Plain Basin

The City of San Buenaventura has operated wells at the Buenaventura Golf Course since 1961. Currently, three wells extract groundwater from the Fox Canyon Aquifer of the Oxnard Plain Basin. The Golf Course Booster Pumping Station limits the combined yield of these wells to 8.6 mgd. A fourth well is not used due to poor water quality. The Fox Canyon groundwater Management Agency (FCGMA) was created by the State Legislature in 1982 to manage the groundwater resources of the Oxnard Plain Basin with the objective of controlling overdraft and seawater intrusion. In January 1991, the FCGMA implemented Ordinance 5 to regulate and reduce

groundwater extraction. The City of San Buenaventura's baseline allocation was determined using the 1985-1989 production of the Golf Course wells and is set at 5,459 acre-feet/year. This allocation will be reduced in steps until the year 2010 when the City's allocation will be 75 percent of the baseline or 4,094 acre-feet/year. As of December 1994, Ventura has banked approximately 12,500 acre-feet for future use by using less than the allocation in recent years. The Oxnard Plain Basin has water quality problems including salinity, nitrates, iron, manganese, fairly high hardness and sulfates. The City's Golf Course wells have averaged about 1,100 mg/l TDS with a range of 1,000 to 1,240 mg/l.

Mound Basin

The Mound Groundwater Basin underlies much of the City of San Buenaventura. The Victoria Well, located at the County Government Center, is the only City of San Buenaventura well extracting water from this basin. The current production capacity from the Victoria Well is approximately 9.8 acre-feet per day. The safe yield of the Mound Basin has been estimated at about 10,000 acre-feet/year and basin production in 1989 was estimated to be about 7,600 acre-feet/year (Staal, Gardner and Dunne, Inc., October 1990). Groundwater in the Mound Basin is generally of poor quality and is the highest TDS water source the City of San Buenaventura currently uses. The TDS has ranged from 1,100 to 1,800 mg/l and the water is high in hardness, sulfates, iron and manganese.

Santa Paula Basin

The Santa Paula Basin underlies a portion of the lower Santa Clara River valley and supplies most of the agricultural demand in the area and the City of Santa Paula. There is no consensus estimate of safe yield for the Santa Paula Basin. The City of San Buenaventura recently activated Saticoy Well 2, located in the western portion of the basin near Telephone Road and Wells Road. This well replaced the abandoned Saticoy Well 1. An EIR is currently in preparation for Saticoy Well 3. It is expected that the Saticoy wells will each be capable of producing 11 acre-feet per day. These two wells would be operated to produce an average of 3,000 acre-feet/year. This groundwater is treated at the Saticoy Water Conditioning Facility to reduce iron and manganese and high nitrates. The Saticoy wells are projected to have a TDS concentration of 1,000 mg/l.

C. Santa Paula Water Works, Ltd. The municipal and industrial water supply for the City of Santa Paula and surrounding areas has been provided by an investor owned utility, Santa Paula Water Works, Ltd., since the 1860's. The private company was incorporated in 1891 and has been regulated by the California Public Utility Commission since the early 1900's. The City of Santa Paula purchased this private company on January 2, 1996.

In the 1800's the system consisted of a diversion structure on Santa Paula Creek with open channels to deliver water to the residents of the area. In the early 1900's water lines were installed to serve its customers. In the 1920's the first wells were dug to augment the creek supply and to develop an on demand system.

Until 1971 the company enjoyed two sources of supply to meet the needs of the municipal and industrial system. Increased recreational activity along Santa Paula Creek above the diversion caused bacteriological problems in the water. In 1971 the California Department of Health Services stopped the delivery of creek water for domestic purposes. Since that time creek water has only been used for agricultural irrigation purposes along Santa Paula Canyon.

Treating the creek water for domestic purposes was not cost effective as the flow in the creek in most years was very low during the summer season when the system demand was the highest.

On the average nearly 70 percent of the water used for irrigation purposes on approximately 750 acres of citrus and avocados in the Santa Paula Canyon comes from Santa Paula Creek. Historically, two wells in the Santa Paula Basin have been used to make up the water that is not available from the creek. These two wells have had the capability to deliver water into the domestic system for peaking purposes. In recent years nitrates have caused a problem in these two wells restricting this water's use for domestic purposes.

The last of the initial three wells that were dug for the system was abandoned in 1993. Some of the other older wells are now being abandoned with new replacement wells coming on line. The most recent replacement well was started in 1995.

The Middle Road Mutual Water Company was established in the mid 1950's to serve domestic water to those ranches along Foothill Road and Santa Paula Street between Peck and Cummings Roads. They obtain all of their water from Santa Paula Water Works, Ltd., which has varied from 50 to 90 acre feet per year.

The average annual production from the basin for all uses from 1981 through 1990 by Santa Paula Water Works, Ltd. was 5,646 acre feet. The average or per capita use of water has been on the decline since the 1977 drought.

D. Agricultural Pumpers. Irrigation water is pumped from wells in the Santa Paula Basin. There is also a limited use of the water being discharged from the Santa Paula Wastewater Treatment Plant along the Santa Clara River.

The three major mutual companies which serve the majority of the water pumped from the basin are as follows:

1. **Farmers Irrigation Company, Inc.** serves approximately 5,000 acres of land and has used 8,726 acre feet annually during the period from 1981 through 1990. Peak annual demand has reached approximately 12,000 acre feet. It serves agricultural lands from approximately Peck Road in Santa Paula to Hill Road in Ventura and from the Santa Clara River area to approximately Santa Paula Street to the north.

- **Aliso Mutual Water Company**, a membership holder of the Farmers

of groundwater conditions within the Santa Paula basin. Following a compilation and preliminary analysis of these data by United Water Conservation District, a report of evaluations, conclusions, and recommendations will be prepared annually.

A. Data Availability. Through the years, a number of agencies have routinely collected data on surface and groundwater conditions within and adjacent to the Santa Paula basin as indicated in Table 1.

Table 1. Examples of Data Sources

Source	GrdWtr Level	Pump-age	GrdWtr Qual	Surf Water Flow	Climate	Crops
San Buenaventura	X	X	X			
Santa Paula Basin	X	X	X			
United Water Cons. Dist.	X	X	X	X	X	
US Geological Survey				X		
County of Ventura	X		X	X	X	
Calif DWR						X
Res Cons Dist Mobile Lab						
Others						

UWCD collects groundwater elevation data on a monthly basis from 2 groundwater wells and on a semi-annual basis from 49 groundwater wells in the Santa Paula basin. Additionally, UWCD collects pumpage data from each pumper on a semi-annual basis within its district including the Santa Paula basin.

B. Monitoring Program. The following Santa Paula basin data will be collected and reported upon in the indicated manner.

1. Groundwater Levels. Groundwater levels will be measured at key wells and at times intervals to be identified by the Technical Advisory Committee (TAC). The data will be presented in the Santa Paula Basin Annual Report.

2. Pumpage Data. Semi-annual pumpage data will be collected by UWCD from all wells within the Santa Paula basin and reported and submitted to the TAC.

3. Water Quality Data. Water quality data will be collected from wells in the Santa Paula basin as may be determined by the TAC. The quality data will be reported annually in the Santa Paula Basin Annual Report. In addition, 6 to 10 of the wells will be sampled on a semiannual basis and reported in the Annual Report.

4. Surface Water. Both UWCD and the County of Ventura monitor flow rates and surface water quality in the Santa Clara River and its tributaries. UWCD conducts quarterly monitoring of quality at four points along the river, as well as in Lake Piru and its outflow. This information will become part of United's GIS data base. In addition, DWR and the USGS are engaged in cooperative research projects with UWCD that include surface water quality monitoring.

5. Climatological Data. Data and information regarding rainfall and evapotranspiration will be collected on a daily basis in order to determine the climatological factors influencing irrigation and residential use. This information is presently collected by UWCD and includes rainfall at several locations in and adjacent to the Santa Paula basin, and evaporation at UWCD station, at El Rio and the California Irrigation Management Information System station at Piru.

6. Crop Production. In order to supplement the analysis of reported pumping data, and to analyze longer-term trends in water use in the basin, crop production in the basin will be tracked by general crop type and acreage. This analysis will be documented periodically as determined by the TAC, and will integrate information from the Agricultural Extension Service, the Departments of Water Resources and Conservation, and the Pumpers Association. These data will be put into the GIS data base, with additional calibration from interpretation of remote sensing products (e.g., color infrared images).

5. ANALYSIS OF BASIN DATA

United Water Conservation District will coordinate data measurement and compilation. UWCD will then analyze the information, and prepare a Santa Paula Basin Annual Report. The following information will be analyzed:

Groundwater Levels - Hydrographs of at least four index wells, long-term trend of index wells, contours from semi-annually-monitored wells, changes in basin storage from GIS data.

Pumpage Data - Tabulation and plots of annual pumpage data, comparison with the average and with the extraction limits set in settlement.

Groundwater Quality Data - Examination of data to determine any problem constituents, plots of critical constituents, display of problem constituents on GIS maps, analysis of water quality trends.

Surface Water - Examination of water quality, analysis of any problem constituents.

Climatological Data - Determination of weather cycle by comparison with historic.

Irrigated Crops - Analysis of crop types and acreages every five years, determine change in irrigation demand.

6. BASIN WATER SUPPLY ENHANCEMENTS.

Physical solutions to water rights litigation are preferred so as to allow pumpers to efficiently use the quantity of water needed for beneficial uses. Physical solutions mean the implementation of a procedure or project which would augment existing supplies, or make better use of existing supplies. In the case of the Santa Paula basin, a number of projects have been or are currently being studied which could augment basin supplies either directly, or through in-lieu recharge.

In anticipation that water elevations may decrease or pumpage increase in the future to an adverse level, the City of San Buenaventura, Pumpers Association and UWCD agree to explore or continue exploring, the possibility of implementing a number of physical solutions which include water use efficiency, artificial replenishment of the aquifer in the Santa Paula basin, re-sequencing supply sources, importation of State Water, desalination, and other proposals.

A. Water Use Efficiency. As a matter of policy, Best Management Residential and Agricultural Practices (BMP's) will be used on an on-going basis within the Santa Paula basin by all pumpers and consumers. To a large degree, these practices encourage conservation and efficient

use of existing supplies through careful, moderate, and efficient use of available water.

B. Replenishment of the Basin. Recharge of the Santa Paula basin from the Santa Clara River is most effective at the eastern end of the basin where the Santa Clara River flows to the north of the Oak Ridge fault. UWCD is now cooperating with the U.S. Geological Survey (USGS) on a comprehensive study of the groundwater basins of the Santa Clara River upstream to about 1 mile east of the community of Piru. As part of this study, the USGS has been requested to evaluate the potential for constructing spreading grounds in, or adjacent to, the Santa Clara River channel in the vicinity of the City of Santa Paula.

[SPBASIN2.MRD]
f:\water

PO Box 17100,
3500 HG Utrecht
The Netherlands

**Rabobank***Office Address:*

*Rabobank International
Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-O-356
Crosselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX*

Facsimile

To: LIMONEIRA COMPANY
Attn: ATTN: DON DELMATOFF, VP FINANCE
Fax No: 001 805 525 8211

From: RABOBANK INTERNATIONAL, UTRECHT
Contact: Derivatives Documentation
Tel No: INTL +31 30 213 0675
Fax No: INTL +31 30 216 6928
Email: fm.nl.utrecht.GFMDerivativesConfirmations@rabobank.com
Date: 21 August 2008
Trade Type: Swap
Trade Ref. No.: 08N01284 / 114140

Dear Sir or Madam:

Please see the attached Confirmation for the above referenced transaction. We would be very grateful if you could sign and return this by fax to +31 30 216 6928 to the attention of Derivative Confirmations at your earliest convenience. If you have any queries, please do not hesitate to contact us on the above number.

No hard copy will follow this fax Confirmation. If you require a hardcopy of this Confirmation please contact us on the above telephone number at your earliest convenience.

The information contained in this fax message is intended for the personal and confidential use of the recipients named above. If the reader of this message is not the intended recipient, or the person responsible for delivering it to the intended recipient, please note that any review, dissemination, distribution or copying of this message is strictly prohibited. If you have received this communication in error, please notify the sender by telephone and destroy this facsimile message immediately. Thank you.

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3500 HG Utrecht
The Netherlands



Rabobank

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Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-0-356
Crosselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX

21 August 2008
To: LIMONEIRA COMPANY
ATTN: DON DELMATOFF, VP FINANCE
1141 CUMMINGS ROAD
SANTA PAULA CA-93060
UNITED STATES
Tel: 001 805 525 5541
Fax: 001 805 525 8211

From: RABOBANK INTERNATIONAL, UTRECHT
Attn: Derivatives Documentation
Tel: INTL +31 30 213 0675
Fax: INTL +31 30 216 6928

Re: Swap Our Ref. No. 08N01284/114140

CONFIRMATION OF A SWAP TRANSACTION

The purpose of this letter agreement is to set forth the terms and conditions of the swap transaction traded between RABOBANK INTERNATIONAL, UTRECHT ("Rabobank") registered trading name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and LIMONEIRA COMPANY, SANTA PAULA ("Counterparty") on the trade date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the Agreement specified below.

Notwithstanding anything to the contrary in the Agreement, the definitions and provisions contained in the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Definitions") are incorporated into this Confirmation. To the extent that there is any inconsistency between those Definitions and Provisions and this Confirmation, this Confirmation will govern. For the purposes of the Definitions, all references to a "Transaction" in this Confirmation shall also be deemed to be references to a "Swap Transaction".

This Confirmation evidences a complete binding agreement between you and us as to the terms of the Transaction to which this Confirmation relates. In addition, you and we agree to use all reasonable efforts promptly to negotiate, execute and deliver an agreement in the form of an ISDA Master Agreement, with such modifications as you and we will in good faith agree. Upon the execution by you and us of such an agreement, this Confirmation will supplement, form a part of, and be subject to that agreement. All provisions contained in or incorporated by reference in that agreement upon its execution will govern this Confirmation except as expressly modified below. Until we execute and deliver that agreement, this Confirmation, together with all other documents referring to an ISDA Master Agreement (each a "Confirmation") confirming transactions (each a "Transaction") entered into between us shall supplement, form part of, and be subject to an agreement in the form of the 2002 ISDA Master Agreement as if we had executed an agreement in such form (but without any Schedule except for the election of the laws of the State of New York as the governing law and USD as the Termination Currency) on the Trade Date of the first such Transaction between us. In the event of any inconsistency between the provisions of that agreement and this Confirmation, this Confirmation will prevail for purposes of this Swap Transaction.

Rabobank's recourse in the Transaction referred to in this Confirmation shall not be limited in any way unless specifically agreed to in writing by Rabobank to the contrary.

The terms of the particular Swap Transaction to which this Confirmation relates are as follows:

General Terms:
 Trade Date: 19 Aug 2008
 Effective Date: 01 October 2008
 Termination Date: 30 June 2013
 Notional Amount: USD 22,000,000.00

Calculation Agent: Rabobank, unless otherwise specified in the Agreement.
 Broker: None

Floating Amounts:
 Floating Rate Payer: Rabobank
 Floating Rate Payer Payment Date(s): Commencing on 01 November 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.
 Period End Date(s): No Adjustment applies.
 Floating Rate Option: USD-LIBOR-BBA
 Floating Rate for initial Calculation Period: To be set
 Designated Maturity: 1 month
 Spread: None
 Day Count Fraction: Actual/360
 Reset Date(s): The first day of each relevant Calculation Period.
 Compounding: Inapplicable
 Business Days: NEW YORK, LONDON

Fixed Amounts:
 Fixed Rate Payer: Counterparty
 Fixed Rate Payer Payment Date(s): Commencing on 01 November 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.
 Period End Date(s): No Adjustment applies.
 Fixed Rate: 4.25 per cent
 Day Count Fraction: Actual/360
 Fixed Amount for initial Calculation Period: USD 80,513.88
 Business Days: NEW YORK, LONDON
 Compounding: Inapplicable

Early Termination:
 Optional Early Termination: Applicable
 Option Style: European
 Business Days for Payments: NEW YORK, LONDON
 Exercise Business Day: NEW YORK, LONDON
 Calculation Agent: Rabobank, unless otherwise specified in the Agreement.

Procedure for Exercise:
 Expiration Date: The date that is five (5) Exercise Business Days preceding the Cash Settlement Payment Date.
 Earliest Exercise Time: 9:00 a.m. in the location of the relevant Financial Centre of

Expiration Time:	the Currency of this Transaction
Partial Exercise:	11:00 a.m. New York time
Multiple Exercise:	Inapplicable
Written Confirmation of Exercise:	Inapplicable
	Applicable, (failure to provide will not in any way affect the validity of any telephonic exercise).
Settlement Terms:	
Cash Settlement:	Applicable
Cash Settlement Valuation Time:	11:00 a.m. New York time
Cash Settlement Valuation Date:	The date that is two (2) Valuation Business Days preceding the Cash Settlement Payment Date
Valuation Business Days:	NEW YORK, LONDON
Cash Settlement Payment Date:	15 December 2008
Business Day Convention for Cash Settlement Payment Date:	Modified Following
Cash Settlement Method:	Cash Price
Settlement Rate:	Reference Banks
Cash Settlement Reference Banks:	To be mutually agreed five (5) Exercise Business Days preceding the Cash Settlement Payment Date
Quotation Rate:	mid

Other Provisions:

For the purposes of this Transaction, the provisions of Section 6(e)(ii) of the ISDA Form will apply and the following shall constitute an Additional Termination Event: If the parties fail to negotiate, execute and deliver an agreement in the form of the ISDA Form with agreed Schedule thereto, on or before 30 calendar days after the Trade Date of this Transaction. For the purposes of this Additional Termination Date, there is one Affected Party and Counterparty shall be the Affected Party and Market Quotation shall apply.

Additional Representations. Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

- (a) **Non-Reliance.** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations relating to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.
- (b) **Assessment and Understanding.** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.
- (c) **Status of Parties.** The other party is not acting as a fiduciary for an adviser to it in respect of that Transaction.

Account Details:

Account for payments to Rabobank:
USD

JP MORGAN CHASE BANK - NEW YORK
SWIFT: CHASUS33XXX
A/C: 001 1 627312 ABA: 021000021
FO: RABOBANK INTERNATIONAL
UTRECHT BRANCH
SWIFT: RABONL2UXXX

Account for payments to Counterparty:
USD

Please provide

Offices:

Rabobank
Trading Location

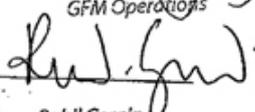
The Office of Rabobank for this Transaction is **UTRECHT**; and
Transaction is originated by our trader located in:
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York
Branch
The Office of **LIMONEIRA COMPANY** for this Transaction is
SANTA PAULA.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this
Confirmation and returning it by fax to INTL +31 30 216 6928 to the attention of Derivative Confirmations.
If you have any queries with this Confirmation please do not hesitate to contact us on the telephone number shown on
the front page of this Confirmation.

We are very pleased to have executed this Transaction with you.

RABOBANK INTERNATIONAL, UTRECHT
registered trading name of
Coöperatieve Centrale Raiffeisen Boerenleenbank B.A.

By: 
Name: Richard Jofsiung
Title: GFM Operations

By: 
Name: Robil Gergin
Title: GFM Operations

Confirmed as of the date first written above:

LIMONEIRA COMPANY, SANTA PAULA

By: 
Name:
Title:

By: 
Name: DON DELMATOFF
Title: CFO

PO Box 17100,
3500 HG Utrecht
The Netherlands



Rabobank

Office Address:
Rabobank International
Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-O-356

Croeselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX

Facsimile

To: LIMONEIRA COMPANY
Attn: ATTN: DON DELMATOFF, VP FINANCE
Fax No: 001 805 525 8211

From: RABOBANK INTERNATIONAL, UTRECHT
Contact: Derivatives Documentation
Tel No: INTL +31 30 213 0675
Fax No: INTL +31 30 216 6928
Email: fm.nl.utrecht.GFMDerivativesConfirmations@rabobank.com
Date: 10 October 2008
Trade Type: Swap
Trade Ref. No.: 08N01492 / 175540

Dear Sir or Madam:

Please see the attached Confirmation for the above referenced transaction. We would be very grateful if you could sign and return this by fax to +31 30 216 6928 to the attention of Derivative Confirmations at your earliest convenience. If you have any queries, please do not hesitate to contact us on the above number.

No hard copy will follow this fax Confirmation. If you require a hardcopy of this Confirmation please contact us on the above telephone number at your earliest convenience.

The information contained in this fax message is intended for the personal and confidential use of the recipients named above. If the reader of this message is not the intended recipient, or the person responsible for delivering it to the intended recipient, please note that any review, dissemination, distribution or copying of this message is strictly prohibited. If you have received this communication in error, please notify the sender by telephone and destroy this facsimile message immediately. Thank you.

PO Box 17100,
3500 HG Utrecht
The Netherlands



Rabobank

Office Address:
Rabobank International
Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-O-356

Croeselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX

10 October 2008

To: LIMONEIRA COMPANY
ATTN: DON DELMATOFF, VP FINANCE
1141 CUMMINGS ROAD
SANTA PAULA CA-93060
UNITED STATES
Tel: 001 805 525 5541
Fax: 001 805 525 8211
From: RABOBANK INTERNATIONAL, UTRECHT
Attn: Derivatives Documentation
Tel: INTL +31 30 213 0675
Fax: INTL +31 30 216 6928

Re: Swap Our Ref. No. 08N01492 / 175540

CONFIRMATION OF A SWAP TRANSACTION

The purpose of this letter agreement is to set forth the terms and conditions of the swap transaction traded between RABOBANK INTERNATIONAL, UTRECHT ("Rabobank") registered trading name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and LIMONEIRA COMPANY, SANTA PAULA ("Counterparty") on the trade date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the Agreement specified below. Notwithstanding anything to the contrary in the Agreement, the definitions and provisions contained in the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Definitions") are incorporated into this Confirmation. To the extent that there is any inconsistency between those Definitions and Provisions and this Confirmation, this Confirmation will govern. For the purposes of the Definitions, all references to a "Transaction" in this Confirmation shall also be deemed to be references to a "Swap Transaction".

This Confirmation supplements, forms a part of, and is subject to the ISDA Master Agreement dated as of 8 August 2008, as amended and supplemented from time to time (the "Agreement"), between Rabobank International, UTRECHT and Counterparty. All provisions contained in the Agreement govern this Confirmation except as expressly modify below.

Rabobank's recourse in the Transaction referred to in this Confirmation shall not be limited in any way unless specifically agreed to in writing by Rabobank to the contrary.

The terms of the particular Swap Transaction to which this Confirmation relates are as follows:

General Terms:

Trade Date:	09 October 2008
Effective Date:	14 October 2008
Termination Date:	01 November 2010
Notional Amount:	USD 10,000,000.00

Ref. No. 08N01492 / 175540

Page 2 of 5

Calculation Agent:	Rabobank, unless otherwise specified in the Agreement.
Broker:	None
Floating Amounts:	
Floating Rate Payer:	Rabobank
Floating Rate Payer Payment Date(s):	Commencing on 01 November 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.
Period End Date(s):	No Adjustment applies.
Floating Rate Option:	USD-LIBOR-BBA
Floating Rate for initial Calculation Period:	4.5125 per cent (inclusive of spread)
Floating Amount for initial Calculation Period:	USD 22,562.50
Designated Maturity for Initial Calculation Period:	Linear Interpolation between 2 weeks and 1 month shall apply.
Designated Maturity:	1 month
Spread:	None
Day Count Fraction:	Actual/360
Reset Date(s):	The first day of each relevant Calculation Period.
Compounding:	Inapplicable
Business Days:	NEW YORK, LONDON
Fixed Amounts:	
Fixed Rate Payer:	Counterparty
Fixed Rate Payer Payment Date(s):	Commencing on 01 November 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention.
Period End Date(s):	No Adjustment applies.
Fixed Rate:	3.2 per cent
Day Count Fraction:	Actual/360
Fixed Amount for initial Calculation Period:	USD 16,000.00
Business Days:	NEW YORK, LONDON
Compounding:	Inapplicable
Early Termination:	
Optional Early Termination:	Applicable
Option Style:	European
Business Days for Payments:	NEW YORK, LONDON
Exercise Business Day:	NEW YORK, LONDON
Calculation Agent:	Rabobank, unless otherwise specified in the Agreement.
Procedure for Exercise:	
Expiration Date:	The date that is five (5) Exercise Business Days preceding the Cash Settlement Payment Date.
Earliest Exercise Time:	9:00 a.m. in the location of the relevant Financial Centre of the Currency of this Transaction
Expiration Time:	11:00 a.m. New York time
Partial Exercise:	Inapplicable
Multiple Exercise:	Inapplicable
Written Confirmation of Exercise:	Applicable, (failure to provide will not in any way affect the validity of any telephonic exercise).
Settlement Terms:	
Cash Settlement:	Applicable
Cash Settlement Valuation Time:	11:00 a.m. New York time
Cash Settlement Valuation Date:	The date that is two (2) Valuation Business Days preceding the Cash Settlement Payment Date
Valuation Business Days:	NEW YORK, LONDON
Cash Settlement Payment Date:	15 December 2008

Business Day Convention for Cash Settlement Payment Modified Following
Date:
Cash Settlement Method: Cash Price
Settlement Rate: Reference Banks
Cash Settlement Reference Banks: To be mutually agreed five (5) Exercise Business Days
preceding the Cash Settlement Payment Date
Quotation Rate: mid

Other Provisions:**Account Details:**

Account for payments to Rabobank:
USD
Account for payments to Counterparty:
USD

As per SSI's
Please provide

Offices:

Rabobank
Trading Location

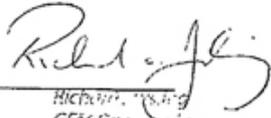
The Office of Rabobank for this Transaction is **UTRECHT**; and
Transaction is originated by our trader located in:
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., New York
Branch

Counterparty

The Office of LIMONEIRA COMPANY for this Transaction is **SANTA
PAULA**.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it by fax to INTL +31 30 216 6928 to the attention of Derivative Confirmations. If you have any queries with this Confirmation please do not hesitate to contact us on the telephone number shown on the front page of this Confirmation. We are very pleased to have executed this Transaction with you.

 **RABOBANK INTERNATIONAL, UTRECHT**
registered trading name of
Coöperatieve Centrale Raiffeisen Boerenleenbank B.A.

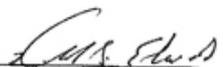
By: 
Name: Richard
Title: GFM Operations

By: 
Name: M.J. Heijmink
Title: GFM Operations

Confirmed as of the date first written above:

LIMONEIRA COMPANY, SANTA PAULA

By: 
Name: DON DELMATOFF
Title: CEO

By: 
Name: Harold S. Edwards
Title: CEO

PO Box 17100,
3500 HG Utrecht
The Netherlands



Rabobank

Office Address:

*Rabobank International
Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-O-356*

*Croeselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX*

Facsimile

To: LIMONEIRA COMPANY
Attn: ATTN: DON DELMATOFF, VP FINANCE
Fax No: 001 805 525 8211

From: RABOBANK INTERNATIONAL, UTRECHT
Contact: Derivatives Documentation
Tel No: INTL +31 30 213 0675
Fax No: INTL +31 30 216 6928
Email: fm.nl.utrecht.GFMDerivativesConfirmations@rabobank.com
Date: 13 November 2008
Trade Type: Swap
Trade Ref. No.: 08N01605 / 209440

Dear Sir or Madam:

Please see the attached Confirmation for the above referenced transaction. We would be very grateful if you could sign and return this by fax to +31 30 216 6928 to the attention of Derivative Confirmations at your earliest convenience. If you have any queries, please do not hesitate to contact us on the above number.

No hard copy will follow this fax Confirmation. If you require a hardcopy of this Confirmation please contact us on the above telephone number at your earliest convenience.

The information contained in this fax message is intended for the personal and confidential use of the recipients named above. If the reader of this message is not the intended recipient, or the person responsible for delivering it to the intended recipient, please note that any review, dissemination, distribution or copying of this message is strictly prohibited. If you have received this communication in error, please notify the sender by telephone and destroy this facsimile message immediately. Thank you.

1
Coöperatieve Centrale Raiffeisen-Boerenbank B.A.
Registered with the chamber of commerce in Amsterdam under number 129593

**RABOBANK
INTERNATIONAL**

PO Box 17100,
3500 HG Utrecht
The Netherlands



Rabobank

Office Address:

*Rabobank International
Investment Banking Services
Derivatives Confirmations
OTC-Derivatives UC-O-356*

*Croeselaan 18, 3521 CB
Utrecht, The Netherlands
Swift code RABONL2UXXX*

13 November 2008

To: LIMONEIRA COMPANY
ATTN: DON DELMATOFF, VP FINANCE
1141 CUMMINGS ROAD
SANTA PAULA CA-93060
UNITED STATES
Tel: 001 805 525 5541
Fax: 001 805 525 8211

From: RABOBANK INTERNATIONAL, UTRECHT
Attn: Derivatives Documentation
Tel: INTL +31 30 213 0675
Fax: INTL +31 30 216 6928
Re: Swap Our Ref. No. 08N01605/209440

CONFIRMATION OF A SWAP TRANSACTION

The purpose of this letter agreement is to set forth the terms and conditions of the swap transaction traded between RABOBANK INTERNATIONAL, UTRECHT ("Rabobank") registered trading name of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and LIMONEIRA COMPANY, SANTA PAULA ("Counterparty") on the trade date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the Agreement specified below.

Notwithstanding anything to the contrary in the Agreement, the definitions and provisions contained in the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (the "Definitions") are incorporated into this Confirmation. To the extent that there is any inconsistency between those Definitions and Provisions and this Confirmation, this Confirmation will govern. For the purposes of the Definitions, all references to a "Transaction" in this Confirmation shall also be deemed to be references to a "Swap Transaction".

This Confirmation supplements, forms a part of, and is subject to the ISDA Master Agreement dated as of 08 August 2008, as amended and supplemented from time to time (the "Agreement"), between Rabobank International, UTRECHT and Counterparty. All provisions contained in the Agreement govern this Confirmation except as expressly modify below.

Rabobank's recourse in the Transaction referred to in this Confirmation shall not be limited in any way unless specifically agreed to in writing by Rabobank to the contrary.

The terms of the particular Swap Transaction to which this Confirmation relates are as follows:

General Terms:

Trade Date: 12 Nov 2008
Effective Date: 14 November 2008
Termination Date: 01 December 2010
Notional Amount: USD 10,000,000.00
Calculation Agent: Rabobank, unless otherwise specified in the Agreement.
Broker: None

Floating Amounts:

Floating Rate Payer: Rabobank
Floating Rate Payer Payment Date(s): Commencing on 01 December 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the No Adjustment Business Day Convention.
Period End Date(s): No Adjustment applies.
Floating Rate Option: USD-LIBOR-BBA
Floating Rate for initial Calculation Period: To be set
Designated Maturity: 1 month
Designated Maturity for Initial Calculation Period: Linear Interpolation between 2 weeks and 1 month shall apply
Spread: None
Day Count Fraction: Actual/360
Reset Date(s): The first day of each relevant Calculation Period.
Compounding: Inapplicable
Business Days: NEW YORK, LONDON

Fixed Amounts:

Fixed Rate Payer: Counterparty
Fixed Rate Payer Payment Date(s): Commencing on 01 December 2008, and then every 1 month thereafter on the 1st day of the month to and including the Termination Date, subject to adjustment in accordance with the No Adjustment Business Day Convention.
Period End Date(s): No Adjustment applies.
Fixed Rate: 2.36 per cent
Day Count Fraction: Actual/360
Fixed Amount for initial Calculation Period: USD 11,144.44
Business Days: NEW YORK, LONDON
Compounding: Inapplicable

Early Termination:

Optional Early Termination: Applicable
Option Style: European
Business Days for Payments: NEW YORK, LONDON
Exercise Business Day: NEW YORK, LONDON
Calculation Agent: Rabobank, unless otherwise specified in the Agreement.

Procedure for Exercise:

Expiration Date: The date that is five (5) Exercise Business Days preceding the Cash Settlement Payment Date.
Earliest Exercise Time:

Expiration Time:	9:00 a.m. in the location of the relevant Financial Centre of the Currency of this Transaction
Partial Exercise:	11:00 a.m. New York time
Multiple Exercise:	Inapplicable
Written Confirmation of Exercise:	Inapplicable
	Applicable, (failure to provide will not in any way affect the validity of any telephonic exercise).
Settlement Terms:	
Cash Settlement:	Applicable
Cash Settlement Valuation Time:	11:00 a.m. New York time
Cash Settlement Valuation Date:	The date that is two (2) Valuation Business Days preceding the Cash Settlement Payment Date
Valuation Business Days:	NEW YORK, LONDON
Cash Settlement Payment Date:	15 December 2008
Business Day Convention for Cash Settlement Payment Date:	Modified Following
Cash Settlement Method:	Cash Price
Settlement Rate:	Reference Banks
Cash Settlement Reference Banks:	To be mutually agreed five (5) Exercise Business Days preceding the Cash Settlement Payment Date
Quotation Rate:	mid

Other Provisions:

Account Details:

Account for payments to Rabobank:
USD

JP MORGAN CHASE BANK – NEW YORK
SWIFT: CHASUS33XXX
A/C: 001 1 627312 ABA: 021000021
FO: RABOBANK INTERNATIONAL
UTRECHT BRANCH
SWIFT: RABONL2UXXX

Account for payments to Counterparty:
USD

Please provide

Offices:

Rabobank

The Office of Rabobank for this Transaction is
UTRECHT; *and*

Trading Location

Transaction is originated by our trader located in:
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.,
New York Branch

Counterparty

The Office of LIMONEIRA COMPANY for this
Transaction is SANTA PAULA.

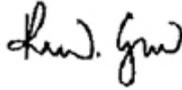
Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it by fax to INTL +31 30 216 6928 to the attention of Derivative Confirmations.

If you have any queries with this Confirmation please do not hesitate to contact us on the telephone number shown on the front page of this Confirmation.

We are very pleased to have executed this Transaction with you.

RABOBANK INTERNATIONAL, UTRECHT
registered trading name of

Coöperatieve Centrale Raiffeisen Boerenleenbank
B.A.



By: _____
Name: Robb Gerpin
Title: Manager GFM Operations



By: _____
Name: Richard Jorsling
Title: Supervisor GFM Operations

Confirmed as of the date first written above:

LIMONEIRA COMPANY, SANTA PAULA

By: 
Name: DON DELMATOFF
Title: CFO

By: 
Name: HAROLD EDWARDS
Title: CEO