



Edgar Filing: Limoneira CO - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth 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  
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 31, 2018, there were 17,669,314 shares outstanding of the registrant’s common stock.

LIMONEIRA COMPANY  
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	<u>4</u>
Item 1. Financial Statements	<u>4</u>
Consolidated Balance Sheets – July 31, 2018 and October 31, 2017	<u>4</u>
Consolidated Statements of Operations – three and nine months ended July 31, 2018 and 2017	<u>5</u>
Consolidated Statements of Comprehensive Income – three and nine months ended July 31, 2018 and 2017	<u>6</u>
Consolidated Statements of Cash Flows – nine months ended July 31, 2018 and 2017	<u>7</u>
Notes to Consolidated Financial Statements	<u>10</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>33</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>58</u>
Item 4. Controls and Procedures	<u>58</u>
PART II. OTHER INFORMATION	<u>59</u>
Item 1. Legal Proceedings	<u>59</u>
Item 1A. Risk Factors	<u>59</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>59</u>
Item 3. Defaults Upon Senior Securities	<u>59</u>
Item 4. Mine Safety Disclosures	<u>59</u>
Item 5. Other Information	<u>59</u>
Item 6. Exhibits	<u>60</u>
SIGNATURES	<u>62</u>

Cautionary Note on Forward-Looking Statements.

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q are subject to a number of risks and uncertainties, some of which are beyond the Company's control. The potential risks and uncertainties that could cause our actual financial condition, results of operations and future performance to differ materially from those expressed or implied include:

- changes in laws, regulations, rules, quotas, tariff, and import laws;
- adverse weather conditions, natural disasters and other adverse natural conditions, including freezes, rains, fires and droughts that affect the production, transportation, storage, import and export of fresh produce;
- market responses to industry volume pressures;
- increased pressure from disease, insects and other pests;
- disruption of water supplies or changes in water allocations;
- product and raw materials supplies and pricing;
- energy supply and pricing;
- changes in interest and currency exchange rates;
- availability of financing for development activities;
- general economic conditions for residential and commercial real estate development;
- political changes and economic crisis;
- international conflict;
- acts of terrorism;
- labor disruptions, strikes, shortages or work stoppages;
- loss of important intellectual property rights; and
- other factors disclosed in our public filings with the Securities and Exchange Commission.

The Company's actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which the Company is not currently aware or which the Company currently deems immaterial could also cause the Company's actual results to differ, including those discussed in the section entitled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

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

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## LIMONEIRA COMPANY

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(\$ in thousands, except share amounts)

	July 31, 2018	October 31, 2017
Assets		
Current assets:		
Cash	\$505	\$ 492
Accounts receivable, net	14,987	10,953
Cultural costs	4,957	4,124
Prepaid expenses and other current assets	6,493	6,981
Income taxes receivable	319	570
Total current assets	27,261	23,120
Property, plant and equipment, net	224,818	188,225
Real estate development	98,949	81,082
Equity in investments	18,511	14,061
Investment in Calavo Growers, Inc.	27,750	22,110
Other assets	14,604	10,433
Total Assets	\$411,893	\$ 339,031
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$6,799	\$ 6,311
Growers payable	12,597	8,828
Accrued liabilities	4,902	5,177
Fair value of derivative instrument	—	268
Current portion of long-term debt	3,177	3,030
Total current liabilities	27,475	23,614
Long-term liabilities:		
Long-term debt, less current portion	70,645	102,083
Deferred income taxes	27,742	31,415
Other long-term liabilities	4,510	3,920
Sale-leaseback deferral	44,127	30,396
Total liabilities	174,499	191,428
Commitments and contingencies	—	—
Series B Convertible Preferred Stock – \$100 par value (50,000 shares authorized: 14,790 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively) (8.75% coupon rate)	1,479	1,479
Series B-2 Convertible Preferred Stock – \$100 par value (10,000 shares authorized: 9,300 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively) (4% dividend rate on liquidation value of \$1,000 per share)	9,331	9,331
Stockholders' equity:		
Series A Junior Participating Preferred Stock – \$.01 par value (20,000 shares authorized: zero shares issued or outstanding at July 31, 2018 and October 31, 2017, respectively)	—	—
	177	144

Edgar Filing: Limoneira CO - Form 10-Q

Common Stock – \$.01 par value (39,000,000 shares authorized: 17,669,314 and 14,405,031 shares issued and outstanding at July 31, 2018 and October 31, 2017, respectively)

Additional paid-in capital	159,173	94,294
Retained earnings	54,824	34,692
Accumulated other comprehensive income	11,817	7,076
Noncontrolling interest	593	587
Total stockholders' equity	226,584	136,793
Total Liabilities and Stockholders' Equity	\$411,893	\$ 339,031

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

## LIMONEIRA COMPANY

## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(\$ in thousands, except share amounts)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2018	2017	2018	2017
Net revenues:				
Agribusiness	\$38,677	\$39,050	\$110,875	\$101,236
Rental operations	1,273	1,345	3,803	4,144
Real estate development	—	—	—	—
Total net revenues	39,950	40,395	114,678	105,380
Costs and expenses:				
Agribusiness	23,983	23,022	80,943	75,821
Rental operations	1,004	929	3,045	2,934
Real estate development	25	47	94	172
Impairments of real estate development assets	—	—	—	120
Selling, general and administrative	3,513	3,229	11,529	10,192
Total costs and expenses	28,525	27,227	95,611	89,239
Operating income	11,425	13,168	19,067	16,141
Other income (expense):				
Interest expense, net	(260 )	(521 )	(1,054 )	(1,372 )
Equity in earnings of investments	123	76	40	9
Other income, net	26	37	283	364
Total other expense	(111 )	(408 )	(731 )	(999 )
Income before income tax (provision) benefit	11,314	12,760	18,336	15,142
Income tax (provision) benefit	(3,114 )	(5,017 )	5,093	(5,935 )
Net income	8,200	7,743	23,429	9,207
Net loss (income) attributable to noncontrolling interest	1	34	(4 )	38
Net income attributable to Limoneira Company	8,201	7,777	23,425	9,245
Preferred dividends	(125 )	(125 )	(376 )	(435 )
Net income attributable to common stock	\$8,076	\$7,652	\$23,049	\$8,810
Basic net income per common share	\$0.51	\$0.53	\$1.54	\$0.62
Diluted net income per common share	\$0.50	\$0.52	\$1.50	\$0.62
Dividends per common share	\$0.06	\$0.06	\$0.19	\$0.17
Weighted-average common shares outstanding-basic	15,947,000	14,396,000	14,979,000	14,287,000
Weighted-average common shares outstanding-diluted	16,551,000	14,989,000	15,578,000	14,570,000

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





## LIMONEIRA COMPANY

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Net income	\$8,200	\$7,743	\$23,429	\$9,207
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(75 )	113	218	(113 )
Minimum pension liability adjustment, net of tax of \$51, \$83, \$154 and \$247 for the three and nine months ended July 31, 2018 and 2017, respectively.	125	126	372	378
Unrealized holding (loss) gain on security available-for-sale, net of tax of \$105, \$1001, \$1,653 and \$1,763 for the three and nine months ended July 31, 2018 and 2017, respectively.	(255 )	1,534	3,987	2,707
Unrealized gains from derivative instrument, net of tax of \$12, \$67, \$79 and \$288 for the three and nine months ended July 31, 2018 and 2017, respectively.	2	102	163	443
Total other comprehensive (loss) income, net of tax	(203 )	1,875	4,740	3,415
Comprehensive income	7,997	9,618	28,169	12,622
Comprehensive income attributable to noncontrolling interest	(30 )	45	6	49
Comprehensive income attributable to Limoneira Company	\$7,967	\$9,663	\$28,175	\$12,671

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

## LIMONEIRA COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine Months Ended July 31,	
	2018	2017
Operating activities		
Net income	\$23,429	\$9,207
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,210	4,824
Impairments of real estate development assets	—	120
Loss on disposals of assets	188	215
Gain on sales of real estate development assets	(25 )	—
Stock compensation expense	1,216	1,088
Equity in earnings of investments	(40 )	(9 )
Cash distributions from equity investments	175	377
Deferred income taxes	(5,519 )	—
Accrued interest on note receivable	(136 )	(18 )
Changes in operating assets and liabilities:		
Accounts receivable	(4,031 )	(1,335 )
Cultural costs	(246 )	880
Prepaid expenses and other current assets	(954 )	(1,010 )
Income taxes receivable	250	2,810
Other assets	26	420
Accounts payable and growers payable	3,927	480
Accrued liabilities	(314 )	1,968
Other long-term liabilities	47	105
Net cash provided by operating activities	23,203	20,122
Investing activities		
Capital expenditures	(9,003 )	(9,607 )
Purchase of real estate development parcel	(1,444 )	—
Net proceeds from sales of real estate development assets	1,543	—
Agriculture property acquisition	(13,111 )	—
Business combinations	(25,000 )	(5,706 )
Equity investment contributions	(3,500 )	(7,450 )
Investments in mutual water companies	(337 )	(350 )
Net cash used in investing activities	(50,852 )	(23,113 )
Financing activities		
Borrowings of long-term debt	135,127	161,425
Repayments of long-term debt	(167,881)	(153,442)
Dividends paid – common	(2,920 )	(2,362 )
Dividends paid – preferred	(376 )	(435 )
Exchange of common stock	(401 )	(294 )
Issuance of common stock	64,097	—
Payments of deferred financing costs	—	(108 )

Edgar Filing: Limoneira CO - Form 10-Q

Net cash provided by financing activities	27,646	4,784
Effect of exchange rate changes in cash	16	(9 )
Net increase in cash	13	1,784
Cash at beginning of period	492	38
Cash at end of period	\$505	\$1,822

7

---

## LIMONEIRA COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(In thousands)

	Nine Months Ended July 31,	
	2018	2017
Supplemental disclosures of cash flow information		
Cash paid during the period for interest (net of amounts capitalized)	\$1,547	\$1,295
Cash paid during the period for income taxes, net of (refunds)	\$210	\$(1,500)
Non-cash investing and financing activities:		
Unrealized holding gain on Calavo investment	\$(5,640)	\$(4,470)
Increase in real estate development and sale-leaseback deferral	\$13,731	\$4,216
Increase in equity in investments and other long-term liabilities	\$1,080	\$—
Non-cash issuance of note receivable	\$3,000	\$—
Non-cash reduction of note receivable	\$79	\$—
Capital expenditures accrued but not paid at period-end	\$331	\$328
Accrued interest on notes receivable	\$136	\$18
Accrued Series B-2 Convertible Preferred Stock dividends	\$31	\$31
Non-cash issuance of note payable	\$1,435	\$—

On July 24, 2018, the Company entered into an agreement to acquire assets from Oxnard Lemon Associates, Ltd. for a purchase price of \$25,000,000 in cash as further described in Note 3 - Acquisitions.

On July 18, 2018, the Company acquired Fruticola San Pablo S.A. ("San Pablo") ranch for a total purchase price of \$13,111,000 in cash as further described in Note 3 - Acquisitions.

In February 2013, the Company entered into an option agreement for the purchase of a 7-acre parcel adjacent to its East Area II real estate development project. In February 2018, the Company exercised its option and purchased the property for \$3,145,000, by making a cash payment of \$1,444,000 and issuing a note payable for \$1,435,000.

In November 2017, the holder of the note receivable from a 2004 sale of property completed the drilling of a water well at the Company's La Campana Ranch. The fair value of the well drilling services was \$79,000 and the Company recorded a non-cash reduction of the note receivable.

During 2017 certain shares of Series B Convertible Preferred Stock were converted into common stock as described in Note 21 - Series B and Series B-2 Preferred Stock.

In October 2017, the Company entered an agreement to sell its Centennial Square ("Centennial") real estate development property for \$3,250,000. This transaction closed in December 2017 with the Company receiving net proceeds of \$179,000 and issuing a \$3,000,000 promissory note secured by the property for the balance of the purchase price.

On June 20, 2017, the Company entered into a Master Loan Agreement with Farm Credit West, FLCA ("Farm Credit West") and repaid \$68,572,000 of outstanding debt under the Rabobank revolving credit facility as further described in Note 13 - Long-Term Debt.

Edgar Filing: Limoneira CO - Form 10-Q

On February 24, 2017, the Company acquired 90% of the outstanding stock of Fruticola Pan de Azucar S.A. (“PDA”) for a purchase price of \$5,706,000 in cash as further described in Note 3 - Acquisitions.

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

LIMONEIRA COMPANY

CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Preface

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

The unaudited interim consolidated financial statements for the three and nine months ended July 31, 2018 and 2017 and balance sheet as of July 31, 2018 included herein have not been audited by an independent registered public accounting firm, but in management's opinion, all adjustments (consisting of normal recurring adjustments) necessary to make a fair statement of the financial position at July 31, 2018 and the results of operations and the cash flows for the periods presented herein have been made. The results of operations for the three and nine months ended July 31, 2018 are not necessarily indicative of the operating results expected for the full fiscal year.

The consolidated balance sheet at October 31, 2017 included herein has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements.

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Although the Company believes 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 GAAP have been condensed or omitted pursuant to such rules or regulations. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

LIMONEIRA COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Business

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

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

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

The unaudited interim consolidated financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. The unaudited interim consolidated financial statements represent the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of cash flows of the Company and its wholly-owned subsidiaries. The Company’s material subsidiaries include: Limoneira Mercantile, LLC, Windfall Investors, LLC (“Windfall”), Templeton Santa Barbara, LLC, Associated Citrus Packers, Inc. (“Associated”), Limoneira Chile, SpA, Limoneira EA1 Land, LLC, San Pablo and PDA, in which the Company has a 90% ownership interest. All significant intercompany balances and transactions have been eliminated in consolidation. The Company considers the criteria established under the Financial Accounting Standards Board (“FASB”) – Accounting Standards Code (“ASC”) 810, Consolidation, and the effect of variable interest entities, in its consolidation process. These unaudited consolidated financial statements should be read in conjunction with the notes thereto included in this Quarterly Report on Form 10-Q.

2. Summary of Significant Accounting Policies

Foreign Currency Translation

San Pablo and PDA’s functional currency is the Chilean Peso. Their balance sheets are translated to U.S. dollars at exchange rates in effect at the balance sheet date and their income statements are translated at average exchange rates during the reporting period. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic

605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and tangible assets within the scope of Topic 350, Intangibles – Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

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

- 1. Identify the contract(s) with a customer.
- 2. Identify the performance obligations in the contract.
- 3. Determine the transaction price.
- 4. Allocate the transaction price to the performance obligations in the contract.



LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

Recognize revenue when (or as) the entity satisfies a performance obligation.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services. In May 2016, the FASB issued, ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 provides clarifying guidance in certain narrow areas and adds some practical expedients.

The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company currently anticipates adopting the standard in the first quarter of its fiscal year ending October 31, 2019 and anticipates using the modified retrospective method. The Company has inventoried and evaluated its current revenue streams and related contracts with customers. The Company continues to evaluate the effect this ASU may have on its consolidated financial statements.

FASB ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory

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

An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The Company’s adoption of this ASU had no impact on its consolidated financial statements.

FASB ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

The amendments in ASU 2016-01, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets (i.e., securities or loans and receivables). Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost.

ASU 2016-01 is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect this ASU may

have on its consolidated financial statements.

FASB ASU 2016-02, Leases (Topic 832)

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

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

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

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The ASU will be effective for the Company beginning in the first quarter of its fiscal year ending October 31, 2019. The Company is evaluating the effect this ASU may have on its consolidated financial statements; however, it expects to apply the practical expedients provided in the ASU and to record right-of-use assets and lease obligations for its operating leases that exist on the date of adoption. Note 20 – Commitments and Contingencies in the Notes to Consolidated Financial Statements included in the Company's fiscal year 2017 Annual Report on Form 10-K describes its operating lease arrangements as of October 31, 2017.

FASB ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria remain intact. The Company adopted this ASU during the quarter ended July 31, 2017 in connection with the refinancing of its line of credit arrangements and related interest rates swap as described in Note 13 – Long-Term Debt and Note 14 – Derivative Instrument and Hedging Activities.

FASB ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

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

The amendments are effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company's early adoption of this ASU on November 1, 2016 resulted in a cumulative effect provision of \$21,000 recognized in fiscal year 2017. The Company has also elected to account for forfeitures as they occur using the modified retrospective approach. In addition, the Company is now required to present excess tax benefits (provisions) as operating activity (combined with other income tax cash flows) on the statements of cash flows rather than as financing activity and has elected to adopt this change prospectively.

FASB ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business

This amendment clarifies the definition of a business. The amendment affects all companies and other reporting organizations that must determine whether they have acquired or sold a business.

The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendment is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.

This amendment is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. For all other companies and organizations, the amendment is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendment should be applied prospectively as of the beginning of the period of adoption. The Company early adopted this ASU during the quarter ended July 31, 2018.

LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

FASB ASU 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The amendment requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed.

The amendment is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

FASB ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

These amendments refine and expand hedge accounting for both financial and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance.

The amendment is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption, including adoption in an interim period, is permitted. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

FASB ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

These amendments provide financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 (or portion thereof) is recorded.

The amendment is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is evaluating the effect of this ASU. It could have a significant effect on the Company's consolidated financial statements.

3. Acquisitions  
Agriculture Property Acquisition

San Pablo

On July 18, 2018, the Company completed the acquisition of San Pablo ranch and related assets in La Serena, Chile, for \$13,000,000. The San Pablo ranch consists of 3,317 total acres on two parcels, including 247 acres producing lemons, 61 acres producing oranges, the opportunity to immediately plant 120 acres for lemon production, as well as the potential for approximately 500 acres of avocado production. This acquisition was accounted for as an asset purchase and is included in property, plant and equipment in the Company's consolidated balance sheet at July 31, 2018. In addition, transaction costs of \$111,000 were capitalized as part of total acquisition costs.

Below is a summary of the fair value of the net assets acquired on the acquisition date based on a third-party valuation, which is considered a Level 3 fair value measurement under FASB ASC 820, Fair Value Measurements and Disclosures (in thousands):

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 3. Acquisitions

## Agriculture Property Acquisition (continued)

Cultural costs	\$579
Land and land improvements	9,114
Buildings and equipment	207
Orchards	2,058
Water rights	1,153
Total assets acquired	\$13,111

Revenue of \$5,000 and net loss of \$44,000 of San Pablo are included in the Company's consolidated statement of operations from the acquisition date to the period ended July 31, 2018. The unaudited, pro forma consolidated statement of operations as if San Pablo had been included in the consolidated results of the Company for the entire nine months ended July 31, 2018 results in revenue of \$115,424,000 and net income of \$23,179,000.

## Business Combinations

## Oxnard Lemon

On July 24, 2018, the Company and Oxnard Lemon Associates, Ltd., a California limited partnership ("Seller"), entered into an Asset Purchase Agreement (the "Purchase Agreement"). Pursuant to the Purchase Agreement, on July 26, 2018 (the "Initial Closing Date"), the Company acquired certain "hard assets" of Seller, including a packinghouse and related land ("Oxnard Lemon"), for a purchase price of \$24,750,000 (the "Initial Acquisition"). Pursuant to the Purchase Agreement, the closing on the purchase and sale of the "soft assets" of Seller, including Seller's tradenames, trademarks and copyrights, shall take place on or prior to October 31, 2018 (the "Final Closing Date"), at which point an additional \$250,000 in purchase price shall be paid to Seller by the Company. The aggregate purchase price for the "hard assets" and the "soft assets" provided in the Purchase Agreement is \$25,000,000. Additionally, the Purchase Agreement provides that Seller lease back the "hard assets" from the Company until the Final Closing Date, pursuant to a lease executed on the Initial Closing Date. Transaction costs of \$142,000 are included in selling, general and administrative expense.

Below is a summary of the preliminary (subject to finalization of the valuation of the assets) fair value of the net assets acquired on the acquisition date based on a third-party valuation, which is considered a Level 3 fair value measurement under FASB ASC 820, Fair Value Measurements and Disclosures (in thousands):

Land and land improvements	\$7,294
Buildings and equipment	14,906
Customer relationships and tradename	2,450
Goodwill	350
Total assets acquired	\$25,000

No revenue or earnings of Oxnard Lemon are included in the Company's consolidated statement of operations from the acquisition date to the period ended July 31, 2018.

## PDA

On February 24, 2017 (the "Acquisition Date"), the Company completed the acquisition of 90% of the outstanding stock of PDA, a privately-owned Chilean corporation, for \$5,800,000 in cash (the "Acquisition"). PDA also had

approximately \$1,700,000 in long-term debt on the Acquisition Date, which was assumed by the Company in the Acquisition. A holdback of 10% of the purchase proceeds to be paid to the seller was withheld for a six-month period to allow for potential contingencies as defined in the purchase agreement. PDA is a 200-acre lemon and orange orchard located near La Serena, Chile. PDA's total assets of \$9,451,000 on the Acquisition Date included a 13% equity interest in Rosales S.A. ("Rosales") in which the Company owns a 35% equity investment. After the Acquisition, the Company owns 47% of Rosales and PDA's 10% stockholder owns the remaining 53% of Rosales. Rosales packs and sells all of PDA's citrus production. PDA had approximately \$450,000 of net income on approximately \$1,900,000 in sales for the year ended December 31, 2016. Transactions costs incurred in connection with the Acquisition in 2017 were approximately \$57,000, which were included in selling, general and administrative expense.



LIMONEIRA COMPANY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

3. Acquisitions

Business Combinations (continued)

In August 2017, a third-party valuation of the fair value of the net assets was finalized, which resulted in a \$193,000 increase in investment in Rosales with a corresponding decrease in goodwill and increase in deferred income taxes. Additionally, a \$94,000 reduction in the purchase price was agreed upon per the terms of the purchase agreement with corresponding decreases in goodwill and noncontrolling interest. The Company received the \$94,000 in August 2017. Below is a summary of the fair value of the net assets acquired on the Acquisition Date based on the third-party valuation, which were considered a Level 3 fair value measurement under FASB ASC 820, Fair Value Measurements and Disclosures (in thousands):

Cultural costs	\$473
Other current assets	166
Land and land improvements	2,748
Buildings and equipment	206
Orchards	2,876
Investment in Rosales	1,021
Water rights	1,120
Deposit for land purchase	645
Goodwill	196
Total assets acquired	9,451

Current liabilities	(122 )
Current and long-term debt	(1,964 )
Deferred income taxes	(1,026 )
Noncontrolling interest	(633 )
Net cash paid	\$5,706

4. Fair Value Measurements

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

The following table sets forth the Company's financial assets and liabilities as of July 31, 2018 and October 31, 2017, which are measured on a recurring basis during the period, segregated by level within the fair value hierarchy (in thousands):

July 31, 2018	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Available-for-sale securities	\$27,750	\$—	\$—	\$27,750
Liabilities at fair value:				
Loan guarantee	\$—	\$—	-\$1,080	\$1,080
October 31, 2017	Level 1			Total

LevelLevel  
2 3

Assets at fair value:

Available-for-sale securities \$22,110\$— \$ -\$22,110

Liabilities at fair value:

Derivative \$— \$268 \$ -\$268

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 4. Fair Value Measurements (continued)

Available-for-sale securities consist of marketable securities in Calavo common stock. The Company currently owns 300,000 shares, representing approximately 1.7% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at July 31, 2018 and October 31, 2017 was \$92.50 and \$73.70 per share, respectively.

The derivative consisted of an interest rate swap, the fair value of which was estimated using industry-standard valuation models. The derivative expired in June 2018.

The loan guarantee consists of its fair value estimated using industry-standard valuation models. Such models project future cash flows and discounted projected payments on such obligations at guaranteed and non-guaranteed rates. The difference between the guaranteed versus the non-guaranteed values of the loan is the value of the loan guarantee.

## 5. Accounts Receivable

The Company grants credit in the course of its operations to customers, cooperatives, companies and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company provides allowances on its receivables, as required, based on accounts receivable aging and certain other factors. As of July 31, 2018 and October 31, 2017 the allowances totaled \$403,000 and \$577,000, respectively.

## 6. Concentrations

Lemons procured from third-party growers were 35% of lemon supply in the three months ended July 31, 2018. Lemons procured from third-party growers were 44% of lemon supply in the nine months ended July 31, 2018, of which one third-party grower was 5% of lemon supply. The Company sells the majority of its oranges and specialty citrus to a third-party packing house and sells all of its avocado production to Calavo.

## 7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	July 31, October 31,	
	2018	2017
Prepaid insurance	\$476	\$ 609
Prepaid supplies	1,750	806
Lemon supplier advances	759	271
Note receivable, net	2,844	—
Deferred lease expense, water assessments and other	664	958
Real estate development for sale	—	4,337
	\$6,493	\$ 6,981

## 8. Real Estate Development

Real estate development assets consist of the following (in thousands):

	July 31, October 31,	
	2018	2017
East Areas I and II	\$92,367	\$ 74,500
Templeton Santa Barbara, LLC	6,582	6,582
	\$98,949	\$ 81,082



LIMONEIRA COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

8. Real Estate Development (continued)

East Areas I and II

In fiscal year 2005, the Company began capitalizing the costs of two real estate development projects east of Santa Paula, California, for the development of 550 acres of land into residential units, commercial buildings and civic facilities. During the three months ended July 31, 2018 and 2017, the Company capitalized \$5,851,000 and \$1,415,000, respectively, of costs related to these real estate development projects. During the nine months ended July 31, 2018 and 2017, the Company capitalized \$17,867,000 and \$5,127,000, respectively, of costs related to these real estate development projects. Additionally, in relation to these projects, the Company incurred expenses of \$2,000 and \$2,000 in the three months ended July 31, 2018 and 2017, respectively, and \$15,000 and \$39,000 in the nine months ended July 31, 2018 and 2017, respectively.

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

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

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

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

The Company and the Joint Venture also entered into a Retained Property Development Agreement on the Transaction Date (the "Retained Property Agreement"). Under the terms of the Retained Property Agreement, the Joint Venture will transfer certain contributed East Area I property, which is entitled for commercial development, back to the Company (the "Retained Property") and arrange for the design and construction of certain improvements to the Retained Property, subject to certain reimbursements by the Company. In August 2018, the Retained Property was transferred back to the Company.

The Company's sale of an interest in the LLC in which the Company's contributed property comprises the LLC's primary asset, combined with the Lease Agreement is considered a sale-leaseback transaction under FASB ASC 840, Leases, because of the Company's continuing involvement in the property in the form of its agricultural operations. Accordingly, the property continues to be carried on the consolidated balance sheet as real estate development, rather than being classified as an equity investment and a sale-leaseback deferral has been recorded for the \$20,000,000 payment made by Lewis for the purchase of the LLC interest. Lease expense associated with the Lease Agreement is not required under sale-leaseback accounting since the Company is treated as though it continues to own the property. During the three months ended July 31, 2018 and 2017, the Company recorded \$5,306,000 and \$1,236,000, respectively, of real estate development costs and corresponding increases in the sale-leaseback deferral to recognize real estate development costs capitalized by the LLC. During the nine months ended July 31, 2018 and 2017, the Company recorded \$13,731,000 and \$4,216,000, respectively, of real estate development costs and corresponding increases in the sale-leaseback deferral to recognize real estate development costs capitalized by the LLC. There are no repayment requirements for the sale-leaseback deferral and as the Lease Agreement is terminated in connection with the staged development of the property, a corresponding amount of real estate development and the sale-leaseback deferral will be adjusted to equity investments on the consolidated balance sheet.

LIMONEIRA COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

8. Real Estate Development (continued)

East Areas I and II (continued)

In connection with the LLC Agreement, the Company was reimbursed \$250,000 by the Joint Venture in January 2018 for Initial Public Safety Facility Payments made to the City of Santa Paula in October 2015. This amount was included in prepaid expenses and other current assets in the consolidated balance sheets as of October 31, 2017. Additionally, the Company leases office space to Lewis and received rental income of \$16,000 and \$12,000 for the nine months ended July 31, 2018 and 2017, respectively.

The Company determined the Joint Venture to be a Variable Interest Entity (“VIE”) under ASC 810, because the Joint Venture will require additional subordinated financial support to finance its operations. The Company further determined that it is not the primary beneficiary of the VIE, as the Company and Lewis have joint control over all significant decisions affecting the Joint Venture’s economic performance. Accordingly, contributions made by the Company to the LLC, the Company’s proportionate share of Joint Venture’s results of operations and distributions received by the Company from the LLC will be accounted for under the equity method. The Company made contributions of zero and \$3,000,000 to the LLC in the three months ended July 31, 2018 and 2017, respectively. The Company made contributions of \$3,500,000 and \$7,450,000 to the LLC in the nine months ended July 31, 2018 and 2017, respectively. Additionally, the Company recorded equity losses of zero and \$54,000 in the nine months ended July 31, 2018 and 2017, respectively, related to the Joint Venture.

In January 2018, the Joint Venture entered into a \$45,000,000 unsecured Line of Credit Loan Agreement and Promissory Note (the “Loan”) with Bank of America, N.A. to fund early development activities. The Loan matures in January 2020, with an option to extend the maturity date until 2021, subject to certain conditions. The interest rate on the Loan is LIBOR plus 2.85%, payable monthly. The Loan contains certain customary default provisions and the Joint Venture may prepay any amounts outstanding under the Loan without penalty.

In February 2018, the obligations under the Loan were guaranteed by certain principals from Lewis and by the Company. The guarantee shall continue in effect until all of the Loan obligations are fully and finally paid and the guarantors are jointly and severally liable for all Loan obligations in the event of default by the Joint Venture. The Joint Venture recorded the Loan balance of \$18,564,000 as of July 31, 2018. The \$1,080,000 fair value of the guarantee at July 31, 2018 was recorded in the Company’s consolidated balance sheets and was included in other long-term liabilities with a corresponding increase in equity in investments. Additionally, a Reimbursement Agreement was executed between the Lewis guarantors and the Company which provides for unpaid liabilities of the Joint Venture to be shared pro-rata by the Lewis guarantors and the Company in proportion to their percentage interest in the Joint Venture.

In connection with facilitating the annexation of East Area I property into the City of Santa Paula, during February 2014 the Company entered into a Capital Improvement Cost Sharing Agreement for Improvements to Santa Paula Creek Channel (the “Cost Sharing Agreement”) with the Ventura County Watershed Protection District (the “District”). The Cost Sharing Agreement requires the Company to reimburse the District 28.5% of the costs of the improvements, up to a maximum of \$5,000,000. Additionally, the Company is required to pay the cost of preparing a study to determine a feasible scope of work and budget for the improvements. No cost reimbursements have been incurred to date in relation to the Cost Sharing Agreement.

In February 2013, the Company entered into an option agreement for the purchase of a 7-acre parcel adjacent to its East Area II real estate development project. The Company made a \$75,000 initial option payment in 2013 and four additional annual option payments of \$50,000 each from 2014 to 2017. In February 2018, the Company exercised its option and purchased the property for \$3,145,000, by making a cash payment of \$1,444,000 and issuing a note

payable for \$1,435,000. The \$275,000 of option payments were applied to the purchase price and the Company incurred \$9,000 of transaction costs. The note payable is due in five years, with interest-only, monthly payments at interest rates ranging from 5.0% to 7.0%.

#### Templeton Santa Barbara, LLC

The three real estate development parcels within the Templeton Santa Barbara, LLC project are described as Centennial, The Terraces at Pacific Crest (“Pacific Crest”), and Sevilla. The net carrying values of Pacific Crest and Sevilla at July 31, 2018 were \$3,250,000 and \$3,332,000, respectively. The net carrying values of Pacific Crest and Sevilla as of October 31, 2017 were \$2,983,000, \$3,250,000 and \$4,686,000, respectively. These projects were idle during the nine months ended July 31, 2018 and 2017 and, as such, no costs were capitalized. Additionally, in relation to these projects, the Company incurred expenses of \$23,000 and \$45,000 in the three months ended July 31, 2018 and 2017, respectively, and \$79,000 and \$133,000 in the nine months ended July 31, 2018 and 2017, respectively.



## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 8. Real Estate Development (continued)

## Templeton Santa Barbara, LLC (continued)

In October 2017, the Company entered an agreement to sell Centennial for \$3,250,000. This transaction closed in December 2017 with the Company receiving net proceeds of \$179,000 and issuing a \$3,000,000 promissory note secured by the property for the balance of the purchase price. After transaction costs, the sale resulted in a gain of \$194,000, to be recognized under the installment method, with \$15,000 recognized in the nine months ended July 31, 2018 and \$179,000 deferred until repayment of the promissory note. The promissory note was originally scheduled to mature in June 2018 but provides for potential extensions to December 2019. In 2018, per the terms of the promissory note, the holder of the note made two non-refundable \$100,000 payments to the Company, extending the due date to December 30, 2018.

In August 2017, the Company entered an agreement to sell the commercial portion of its Sevilla project for \$1,452,000. This transaction closed in November 2017 with the Company receiving net proceeds of \$1,364,000. The Company recognized a gain of \$10,000 after transaction costs.

In December 2017, the Company entered an agreement to sell Pacific Crest for \$3,500,000. After transaction costs, the Company expects to recognize a gain of \$40,000. To date, this transaction has not closed.

At July 31, 2018 and October 31, 2017, the \$3,250,000 carrying value of Pacific Crest and the \$3,332,000 carrying value of Sevilla were classified as real estate development. At October 31, 2017, the \$2,983,000 carrying value of Centennial and the \$1,354,000 carrying value of the commercial portion of Sevilla were classified as held for sale and included in prepaid expenses and other current assets.

## 9. Equity in Investments

Equity in investments consist of the following (in thousands):

	July 31,	October 31,
	2018	2017
Limoneira Lewis Community Builders, LLC	\$14,216	\$ 9,634
Limco Del Mar, Ltd.	2,101	1,968
Rosales	1,679	1,944
Romney Property Partnership	515	515
	\$18,511	\$ 14,061

The Rosales equity investment includes the Company's 35% interest acquired in fiscal year 2014 and an additional 12% interest acquired with the purchase of PDA as described in Note 3 - Acquisitions. The Company's investment in Rosales is accounted for using the equity method of accounting based on the sum of its direct and indirect ownership.

The Limoneira Lewis Community Builders, LLC investment balance includes the fair value loan guarantee corresponding equity investment as of July 31, 2018.

## 10. Investment in Calavo Growers, Inc.

In June 2005, the Company entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Company purchased 1,000,000 shares, or approximately 6.9%, of Calavo's common stock for \$10,000,000 and Calavo purchased 1,728,570 shares, or approximately 15.1%, of the Company's common stock for \$23,450,000. Under the terms of the agreement, the Company received net cash consideration of \$13,450,000. The Company has classified its marketable securities investment as available-for-sale.

In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of \$6,079,000, recognizing a gain of \$2,729,000. In fiscal year 2013, the Company sold 165,000 shares to Calavo for a total of \$4,788,000, recognizing a gain of \$3,138,000. In fiscal year 2015, the Company sold 140,000 shares for a total of \$6,433,000, recognizing a gain of \$5,033,000. In June and July 2016, the Company sold 60,000 shares, in aggregate, for a total of \$4,019,000, recognizing a gain of \$3,419,000. These gains are included in other income in the consolidated financial statements of operations. The Company continues to own 300,000 shares of Calavo common stock.

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 10. Investment in Calavo Growers, Inc. (continued)

Additionally, changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses for the remaining shares held by the Company. The Company recorded unrealized holding (loss)/gain of (\$360,000) (\$255,000 net of tax) and \$2,535,000 (\$1,534,000 net of tax), during the three months ended July 31, 2018 and 2017, respectively. The Company recorded unrealized holding gains and of \$5,640,000 (\$3,987,000 net of tax) and \$4,470,000 (\$2,707,000 net of tax), during the nine months ended July 31, 2018 and 2017, respectively.

## 11. Other Assets

Other assets consist of the following (in thousands):

	July 31, October 31,	
	2018	2017
Investments in mutual water companies	\$5,019	\$ 4,686
Acquired water and mineral rights	3,829	2,655
Deposit for land purchase	646	645
Deferred lease assets and other	416	448
Note receivable	563	625
Revolving funds and memberships	267	265
Acquired trade names and trademarks, net	2,637	233
Goodwill	1,227	876
	\$14,604	\$ 10,433

## 12. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	July 31, October 31,	
	2018	2017
Compensation	\$2,156	\$ 2,367
Property taxes	197	599
Interest	253	327
Deferred income and deposits	473	636
Lease expense	131	137
Lemon supplier payables	643	166
Capital expenditures and other	1,049	945
	\$4,902	\$ 5,177

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 13. Long-Term Debt

Long-term debt is comprised of the following (in thousands):

	July 31, 2018	October 31, 2017
Farm Credit West revolving and non-revolving lines of credit: the interest rate for the revolving line of credit is variable based on the one-month London Interbank Offered Rate (“LIBOR”), which was 2.10% at July 31, 2018, plus 1.85%. In July 2018 the interest rate for the non-revolving was fixed at 4.77%. Interest is payable monthly and the principal is due in full on July 1, 2022.	\$43,803	\$ 74,556
Farm Credit West term loan: the interest rate is variable and was 4.45% at July 31, 2018. The loan is payable in quarterly installments through November 2022.	2,741	3,155
Farm Credit West term loan: the interest rate is variable and was 4.45% at July 31, 2018. The loan is payable in monthly installments through October 2035.	1,133	1,167
Farm Credit West term loan: the interest rate is fixed at 4.70%. The loan is payable in monthly installments through March 2036.	9,256	9,504
Farm Credit West term loan: the interest rate is fixed at 3.62% until March 2021, becoming variable for the remainder of the loan. The loan is payable in monthly installments through March 2036.	6,878	7,083
Wells Fargo term loan: the interest rate is fixed at 3.58%. The loan is payable in monthly installments through January 2023.	6,712	7,730
Banco de Chile term loan: the interest rate is fixed at 6.48%. The loan is payable in annual installments through January 2025.	2,029	2,106
Note Payable: the interest rate ranges from 5.0% to 7.0% and was 5.0% at July 31, 2018. The loan includes interest-only monthly payments and principal is due in February 2023.	1,435	—
Subtotal	73,987	105,301
Less deferred financing costs, net of accumulated amortization	165	188
Total long-term debt, net	73,822	105,113
Less current portion	3,177	3,030
Long-term debt, less current portion	\$70,645	\$ 102,083

On June 20, 2017, the Company entered into a Master Loan Agreement (the “Loan Agreement”) with Farm Credit West, FLCA (“Farm Credit West”) which includes a Revolving Credit Supplement and a Non-Revolving Credit Supplement (the “Supplements”). Proceeds from the Supplements were used to pay down all the remaining outstanding indebtedness under the revolving credit facility the Company had with Rabobank, N.A. On January 29, 2018 the Company amended the Revolving Credit Supplement to increase the borrowing capacity from \$60,000,000 to \$75,000,000. The Supplements provide aggregate borrowing capacity of \$115,000,000 comprised of \$75,000,000 under the Revolving Credit Supplement and \$40,000,000 under the Non-Revolving Credit Supplement. In May 2018, the Company entered into a Conversion Agreement with Farm Credit West which will fixed the interest rate on the Non-Revolving Credit Supplement at 4.77% effective July 1, 2018. The agreement provides for a fee equal to 0.50% of any amounts prepaid under the Non-Revolving Credit Supplement. The Company may prepay any amounts under the Revolving Credit Supplement without penalty.

The interest rate for any amount outstanding under the Supplements is based on the one-month London Interbank Offered Rate (“LIBOR”) rate plus an applicable margin, which is subject to adjustment on a monthly basis. The applicable margin ranges from 1.60% to 2.35% depending on the ratio of current assets plus the remaining available commitment divided by current liabilities. On July 1, 2018, and on each one-year anniversary thereafter, we have the option to convert the interest rate in use under each Supplement from the preceding LIBOR-based calculation to a

variable interest rate, or the reverse, as applicable. Any amounts outstanding under the Supplements are due and payable in full on July 1, 2022.

All indebtedness under the Loan Agreements, including any indebtedness under the Supplements, is secured by a first lien on certain of the Company's agricultural properties in Tulare and Ventura counties in California and certain of the Company's building fixtures and improvements and investments in mutual water companies associated with the pledged agricultural properties. The Loan Agreement includes customary default provisions that provide should an event of default occur, Farm Credit West, at its option, may declare all or any portion of the indebtedness under the Loan Agreement to be immediately due and payable without demand, notice of non-payment, protest or prior recourse to collateral, and terminate or suspend the Company's right to draw or request funds on any loan or line of credit.

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 13. Long-Term Debt (continued)

The Loan Agreement subjects the Company to affirmative and restrictive covenants including, among other customary covenants, financial reporting requirements, requirements to maintain and repair any collateral, restrictions on the sale of assets, restrictions on the use of proceeds, prohibitions on the incurrence of additional debt and restrictions on the purchase or sale of major assets of the Company's business. The Company is also subject to a covenant that it will maintain a debt service coverage ratio greater than 1.25:1.0 measured annually at October 31.

The Farm Credit West credit facility provides for maximum borrowings of \$115,000,000 and the borrowing capacity based on collateral value was \$115,000,000 at July 31, 2018.

In fiscal year 2017, the Company paid and capitalized debt financing costs of \$108,000 related to the Loan Agreement and expensed \$45,000 of capitalized debt financing costs related to the Rabobank revolving credit facility.

The Banco de Chile term loan was assumed with the acquisition of PDA in February 2017. The interest rate is fixed at 6.48%. The loan is payable in eight annual principal and interest payments beginning January 2018. This loan is unsecured.

In February 2013, the Company entered into an option agreement for the purchase of a 7-acre parcel adjacent to its East Area II real estate development project. The Company made a \$75,000 initial option payment in 2013 and four additional annual option payments of \$50,000 each from 2014 to 2017. In February 2018, the Company exercised its option and purchased the property for \$3,145,000, by making a cash payment of \$1,444,000 and issuing a note payable for \$1,435,000. The \$275,000 of option payments were applied to the purchase price and the Company incurred \$9,000 of transaction costs. The note payable is due in five years, with interest-only, monthly payments at interest rates ranging from 5.0% to 7.0%.

Interest is capitalized on non-bearing orchards, real estate development projects and significant construction in progress. The Company capitalized interest of \$688,000 and \$551,000 during the three months ended July 31, 2018 and 2017, respectively, and \$1,637,000 and \$1,424,000 during the nine months ended July 31, 2018 and 2017, respectively. Capitalized interest is included in property, plant and equipment and real estate development in the Company's consolidated balance sheets.

The Company incurs certain loan fees and costs associated with its new or amended credit arrangements. Such costs are capitalized as deferred financing costs and amortized as interest expense using the straight-line method over the terms of the credit agreements. The balance of deferred financing costs net of amortization is included in long-term debt on the Company's consolidated balance sheet at July 31, 2018.

## 14. Derivative Instrument and Hedging Activities

The Company entered into an interest rate swap to minimize the risks and costs associated with its financing activities. Derivative financial instruments are as follows (in thousands):

	Notional Amount		Fair Value Liability	
	July 31,	October 31,	July 31,	October 31,
	2018	2017	2018	2017
Pay fixed-rate, receive floating-rate forward interest rate swap, beginning July 2013 until June 2018	\$ 40,000	\$ 40,000	\$ 268	\$ 268



## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 14. Derivative Instrument and Hedging Activities (continued)

In November 2011, the Company entered into a forward interest rate swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on \$40,000,000 of its outstanding borrowings under the Rabobank line of credit beginning July 2013 until June 2018. In connection with the paydown of the Rabobank debt noted above, on June 20, 2017 the Company entered into a novation agreement with Rabobank International, Utrecht and CoBank, ACB (“CoBank”). The agreement provided for the prior interest rate swap agreement with Rabobank to be in place with CoBank.

This interest rate swap qualified as a cash flow hedge and the fair value liability was included in fair value of derivative instrument and related accumulated other comprehensive income at October 31, 2017. The interest rate swap expired June 30, 2018.

## 15. 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 conversion of preferred stock. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding during the period plus the dilutive effect of conversion of unvested, restricted stock and preferred stock. The computations for basic and diluted net income per common share are as follows (in thousands, except per share amounts):

	Three Months		Nine Months	
	Ended July 31,		Ended July 31,	
	2018	2017	2018	2017
Basic net income per common share:				
Numerator: Net income for basic EPS	\$8,066	\$7,652	\$23,020	\$8,810
Denominator: Weighted average common shares-basic	15,947	14,396	14,979	14,287
Basic net income per common share	\$0.51	\$0.53	\$1.54	\$0.62
Diluted net income per common share:				
Numerator: Net income for diluted EPS	\$8,201	\$7,777	\$23,425	\$8,966
Denominator: Weighted average common shares–basic	15,947	14,396	14,979	14,287
Effect of dilutive unvested, restricted stock and preferred stock	604	593	599	283
Weighted average common shares–diluted	16,551	14,989	15,578	14,570
Diluted net income per common share	\$0.50	\$0.52	\$1.50	\$0.62

Diluted earnings per common share are computed using the more dilutive method of either the two-class method or the treasury method. Unvested stock-based compensation awards that contain non-forfeitable rights to dividends as participating shares are included in computing earnings per share. The Company’s unvested, restricted stock awards qualify as participating shares. The Company excluded 76,000 and 81,000, unvested, restricted shares, as calculated under the treasury stock method, from its computation of diluted earnings per share for the three and nine months ended July 31, 2018, respectively. Diluted earnings per common share were calculated under the two-class method for the three and nine months ended July 31, 2017.

## 16. Related-Party Transactions

The Company rents certain of its residential housing assets to employees on a month-to-month basis. The Company recorded \$175,000 and \$180,000 of rental revenue from employees in the three months ended July 31, 2018 and 2017, respectively. The Company recorded \$530,000 and \$548,000 of rental revenue from employees in the nine months ended July 31, 2018 and 2017, respectively. There were no rental payments due from employees at July 31, 2018 or October 31, 2017.



The Company has representation on the boards of directors of the mutual water companies in which the Company has investments. The Company recorded capital contributions and purchased water and water delivery services from such mutual water companies, in aggregate, of \$211,000 and \$207,000 in the three months ended July 31, 2018 and 2017, respectively. The Company recorded capital contributions and purchased water and water delivery services from such mutual water companies, in aggregate, of \$1,097,000 and \$925,000 in the nine months ended July 31, 2018 and 2017, respectively.

LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 16. Related-Party Transactions (continued)

Capital contributions are included in other assets in the Company's consolidated balance sheets and purchases of water and water delivery services are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the mutual water companies were, in aggregate, \$83,000 and \$141,000 at July 31, 2018 and October 31, 2017, respectively.

The Company has representation on the board of directors of a non-profit cooperative association that provides pest control services for the agricultural industry. The Company purchased services and supplies of \$396,000 and \$373,000 from the association in the three months ended July 31, 2018 and 2017, respectively. The Company purchased services and supplies of \$1,211,000 and \$1,354,000 from the association in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the association were \$78,000 and \$180,000 at July 31, 2018 and October 31, 2017, respectively.

The Company has an investment in and representation on the board of directors of Calavo and Calavo has an investment in and representation on the board of directors of the Company. The Company recorded dividend income of \$285,000 and \$270,000 in the nine months ended July 31, 2018 and 2017, respectively, on its investment in Calavo, which is included in other income (expense), net in the Company's consolidated statements of operations. The Company had \$5,643,000 and \$7,490,000 of avocado sales to Calavo for the three months ended July 31, 2018 and 2017, respectively. The Company had \$6,578,000 and \$9,519,000 of avocado sales to Calavo for the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. There were \$616,000 and zero amounts receivable by the Company from Calavo at July 31, 2018 and October 31, 2017, respectively. Additionally, the Company leases office space to Calavo and received rental income of \$74,000 and \$72,000 in the three months ended July 31, 2018 and 2017, respectively, and \$219,000 and \$214,000 in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in rental operations revenues in the Company's consolidated statements of operations. The Company purchased \$61,000 and \$16,000 of storage services from Calavo in the nine months ended July 31, 2018 and 2017, respectively. Amounts due to Calavo at July 31, 2018 and October 31, 2017 were \$61,000 and \$163,000, respectively.

Certain members of the Company's board of directors market lemons through the Company pursuant to its customary marketing agreements. The aggregate amount of lemons procured from entities owned or controlled by members of the board of directors was \$329,000 and \$1,135,000 in the three months ended July 31, 2018 and 2017, respectively, and \$1,715,000 and \$2,111,000 in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to these board members were \$576,000 and \$636,000 at July 31, 2018 and October 31, 2017, respectively. Additionally, the Company leases approximately 31 acres of orchards from entities affiliated with a member on the board of directors and incurred \$100,000 and \$15,000 of lease expense related to these leases in the nine months ended July 31, 2018 and 2017, respectively.

On July 1, 2013, the Company and Cadiz Real Estate, LLC ("Cadiz"), a wholly-owned subsidiary of Cadiz, Inc., entered into a long-term lease agreement (the "Lease") for a minimum of 320 acres, with options to lease up to an additional 960 acres, located within 9,600 zoned agricultural acres owned by Cadiz in eastern San Bernardino County, California. The initial term of the Lease runs for 20 years and the annual base rental rate is equal to the sum of \$200 per planted acre and 20% of gross revenues from the sale of harvested lemons (less operating expenses) not to exceed \$1,200 per acre per year. A member of the Company's board of directors serves as the CEO, President and a member of the board of directors of Cadiz, Inc. Additionally, this board member is an attorney with a law firm that provided services of

\$9,000 and \$30,000 to the Company during the three months ended July 31, 2018 and 2017, respectively, and \$28,000 and \$71,000 during the nine months ended July 31, 2018 and 2017, respectively. The Company incurred lease and farming expenses of \$42,000 and \$17,000 in the three months ended July 31, 2018 and 2017, respectively, and \$128,000 and \$113,000 in the nine months ended July 31, 2018 and 2017, respectively, which are recorded in agribusiness expense in the Company's consolidated statements of operations.

On February 5, 2015, the Company entered into a Modification of Lease Agreement (the "Amendment") with Cadiz. The Amendment, among other things, increased by 200 acres the amount of property leased by the Company under the lease agreement dated July 1, 2013. In connection with the Amendment, the Company paid a total of \$1,212,000 to acquire existing lemon trees and irrigations systems from Cadiz and a Cadiz tenant. In February 2016, Cadiz assigned this lease to Fenner Valley Farms, LLC ("Fenner"), a subsidiary of Water Asset Management, LLC ("WAM"). An entity affiliated with WAM is the holder of 9,300 shares of Limoneira Company Series B-2 convertible preferred stock. Payments due to Fenner were \$60,000 and \$61,000 at July 31, 2018 and October 31, 2017, respectively.

LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 16. Related-Party Transactions (continued)

The Company has representation on the board of directors of Colorado River Growers, Inc. (“CRG”), a non-profit cooperative association of fruit growers engaged in the agricultural harvesting business in Yuma County, Arizona. The Company paid no harvest costs to CRG in the three months ended July 31, 2018 and 2017, respectively. The Company paid harvest costs to CRG of \$2,451,000 and \$2,825,000 in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness expense in the Company’s consolidated statements of operations. Additionally, Associated provided harvest management and administrative services to CRG of zero in both three months ended July 31, 2018 and 2017. Associated provided harvest management and administrative services to CRG of \$218,000 and \$303,000 in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness revenues in the Company’s consolidated statements of operations. There was zero and \$209,000 due to Associated from CRG at July 31, 2018 and October 31, 2017, respectively, which is included in accounts receivable in the Company’s consolidated balance sheets.

The Company has representation on the board of directors of Yuma Mesa Irrigation and Drainage District (“YMIDD”). In December 2013, Associated entered into an agreement, as amended in December 2014 and 2015, with YMIDD to participate in a Pilot Fallowing Program in which Associated agreed to forego its water allocation for approximately 300 acres of land in exchange for \$750 per acre through December 31, 2016. In relation to this program, during the nine months ended July 31, 2018 and 2017 the Company recorded revenues of zero and \$34,000, respectively. These amounts are included in other income, net in the Company’s consolidated statements of operations. Additionally, the Company purchased no water from YMIDD during the three months ended July 31, 2018 and 2017. The Company purchased water in the amounts of \$149,000 and \$67,000 from YMIDD during the nine months ended July 31, 2018 and 2017, respectively. Such amounts are included in agribusiness expenses in the Company’s consolidated statements of operations. There were no amounts receivable from YMIDD at July 31, 2018 and October 31, 2017. Amounts due to YMIDD at July 31, 2018 and October 31, 2017 were zero and \$10,000, respectively.

The Company has a 1.3% interest in Limco Del Mar, Ltd. (“Del Mar”) as a general partner and a 26.8% interest as a limited partner. The Company provides Del Mar with farm management, orchard land development and accounting services and received expense reimbursements of \$56,000 and \$35,000 in the three months ended July 31, 2018 and 2017, respectively, and \$151,000 and \$104,000 in the nine months ended July 31, 2018 and 2017. The Company procures lemons from Del Mar and fruit proceeds due to Del Mar were \$1,194,000 and \$912,000 at July 31, 2018 and October 31, 2017, respectively and are included in grower’s payable in the Company’s consolidated balance sheets. In the three months ended July 31, 2018 and 2017, the Company received cash distributions of \$175,000 and \$176,000 and recorded equity in losses of this investment of \$45,000 and \$107,000, respectively. In the nine months ended July 31, 2018 and 2017, the Company received distributions of \$175,000 and \$176,000 and recorded equity in earnings of this investment of \$308,000 and \$244,000, respectively.

On August 14, 2014, the Company’s wholly owned subsidiary, Limoneira Chile SpA, invested approximately \$1,750,000 for a 35% interest in Rosales, a citrus packing, marketing and sales business located in La Serena, Chile. The Company purchased an additional 12% interest in Rosales with the February 2017 acquisition of PDA. The Company recognized \$86,000 and \$428,000 of lemon sales to Rosales in the three months ended July 31, 2018 and 2017, respectively. The Company recognized \$1,009,000 and \$1,038,000 of lemon sales to Rosales in the nine months ended July 31, 2018 and 2017, respectively. Additionally, PDA and San Pablo recognized, aggregate sales of \$456,000 and \$207,000 of lemon and orange sales to Rosales in the three months ended July 31, 2018 and 2017, respectively. PDA and San Pablo recognized, aggregate sales of \$1,159,000 and \$430,000 of lemon and orange sales to Rosales in the nine months ended July 31, 2018 and 2017, respectively. Such amounts are recorded in agribusiness revenues in the Company’s consolidated statements of operations. Amounts due from Rosales were \$426,000 and

\$101,000 at July 31, 2018 and October 31, 2017, respectively. The Company recorded equity in (gain) losses of this investment of \$(18,000) and \$70,000 in the three months ended July 31, 2018 and 2017, respectively and amortization of fair value basis differences of \$84,000 and \$102,000 in the three months ended July 31, 2018 and 2017, respectively. The Company recorded equity in losses of this investment of \$15,000 and \$24,000 in the nine months ended July 31, 2018 and 2017, respectively and amortization of fair value basis differences of \$253,000 and \$206,000 in the nine months ended July 31, 2018 and 2017, respectively. The Company received cash distributions from this equity investment of zero and \$134,000 in the nine months ended July 31, 2018 and 2017, respectively.

#### 17. Income Taxes

The Company's estimated annual effective blended tax rate for fiscal year 2018 is approximately 27.5%. As such, a (27.8)% estimated effective blended tax rate, after tax reform and stock compensation discrete items, was utilized by the Company in the nine months ended July 31, 2018 to calculate its income tax provision. The discrete driver of the significant increase in the estimated effective blended tax rate in the nine months ended July 31, 2018 is the approximately \$10.0 million decrease in deferred tax liabilities, related to the change in federal tax rate per the Tax Cuts and Jobs Act of 2017, from 34% to 21%.

LIMONEIRA COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

17. Income Taxes (continued)

The Company has no uncertain tax positions as of July 31, 2018. The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has not accrued any interest and penalties associated with uncertain tax positions as of July 31, 2018.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code ("IRC"). Except for certain provisions, the act is effective for tax years beginning on or after January 1, 2018. As a fiscal year U.S. taxpayer, the majority of the provisions will apply to the Company's 2019 fiscal year, such as eliminating the domestic production activities deduction, creating new taxes on certain foreign sourced income and introducing new limitations on certain business deductions. For fiscal year 2018 and effective in the first fiscal quarter, the most significant impacts include: lowering of the U.S. federal corporate income tax rate; remeasuring certain net deferred tax liabilities; and immediate expensing of certain capital expenditures. Changes effective fiscal year 2018 include, but not limited to, a corporate tax rate decrease from 34% to 21%, the transition of U.S. international taxation from a worldwide system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings.

The Company has calculated its best estimate of the impact of the Act on its quarter-end income tax provision in accordance with its understanding of the Act and guidance available as of the date of this filing and as a result of the corporate tax rate reduction, the Company has decreased its deferred tax liability balance as of July 31, 2018 by approximately \$10,000,000.

The Company is able to claim bonus depreciation to accelerate the expensing of the cost of certain qualified property acquired and placed in service after September 27, 2017 and before January 1, 2024. For the first five-year period (through 2022), the Company can deduct 100% of the cost of qualified property. Starting in 2023, the additional bonus depreciation is gradually phased out by 20% each year through 2027.

Deemed repatriation of foreign earnings is the one-time mandatory transition tax imposed on cumulative foreign earnings. The Company does not believe that there is an impact due to its current foreign earnings deficit. However, the Company will continue to evaluate its foreign earnings during the fiscal year.

The Act eliminates or reduces certain deductions, including Section 199 Domestic Production Activities Deduction. However, the Company's fiscal year began before the Act was effective and the Section 199 deduction is still available to the Company during fiscal year 2018 as allowable based on taxable income and other limitations.

Due to uncertainties which currently exist in the interpretation of the provisions of the Act regarding IRC Section 162(m), the Company has not evaluated the potential impacts of IRC Section 162(m) as amended by the Act on its financial statements.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company has determined that the approximately \$10,000,000 of deferred tax benefit recorded in connection with the re-measurement of certain deferred tax assets and liabilities and zero additional taxable income recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings is a provisional amount and a reasonable estimate at July 31, 2018. Additional work is necessary to do a more detailed analysis of historic earnings as well as potential correlative adjustments. Any subsequent adjustments to

these amounts will be recorded during the remainder of the fiscal year ended October 31, 2018, as they are identified.

#### 18. Retirement Plans

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

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 18. Retirement Plans (continued)

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of \$150,000 and \$150,000 during the three months ended July 31, 2018 and 2017, respectively, and \$450,000 and \$575,000 during the nine months ended July 31, 2018 and 2017, respectively.

The components of net periodic pension cost for the Plan for the three and nine months ended July 31, 2018 and 2017 were as follows (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Administrative expenses	\$64	\$76	\$190	\$228
Interest cost	192	194	577	582
Expected return on plan assets	(267 )	(263 )	(803 )	(789 )
Prior service cost	11	11	33	33
Recognized actuarial loss	176	208	526	624
Net periodic benefit cost	\$176	\$226	\$523	\$678

## 19. Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	July 31, October 31,	
	2018	2017
Minimum pension liability	\$3,405	\$3,858
Loan guarantee	1,080	—
Deferred gain and other	25	62
	\$4,510	\$3,920

## 20. Contingencies

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, and/or operating results. Legal claims are inherently uncertain, however, and it is possible that the Company's business, financial condition, liquidity and/or operating results could be adversely affected in the future by legal proceedings.

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

## Series B Convertible Preferred Stock

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., the Company issued 30,000 shares of Series B Convertible Preferred Stock at \$100.00 par value (the "Series B Stock").

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

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



Redemption: The Company, at the option of the board of directors, may redeem the Series B Stock, as a whole or in part, at any time or from time to time on or after August 1, 2017 and before July 31, 2027, at a redemption price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for redemption. Redemption by the Company of a portion of the Series B Stock totaling 14,790 shares is subject to certain conditions agreed upon between the Company and the holders of this portion of the Series B Stock.

LIMONEIRA COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

Series B Convertible Preferred Stock (continued)

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

Put: The holders of Series B Stock may at any time after July 1, 2017 and before June 31, 2027 cause the Company to repurchase such shares at a repurchase price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for repurchase. The put features of a portion of the Series B Stock totaling 14,790 shares are subject to certain conditions agreed upon between the Company and the holders of this portion of the Series B Stock.

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

In fiscal year 2017, a total of 14,210 shares of Series B preferred stock were converted into 177,624 shares of common stock. In fiscal year 2016, 500 shares of Series B preferred stock were converted into 6,250 shares of common stock. In fiscal year 2015, 500 shares of Series B preferred stock were converted into 6,250 shares of common stock.

Series B-2 Convertible Preferred Stock

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

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

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

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

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

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

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

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

## Series B-2 Convertible Preferred Stock (continued)

In connection with the sale of the Series B-2 Preferred Stock, Associated and another affiliate of WAM (“WPI-ACP”), entered into a series of agreements related to the future ownership and disposition of farmland with associated Colorado River water rights and other real estate that is held by Associated in Yuma, Arizona. The agreements allow the parties to explore strategies that will make the highest and best use of those assets, including but not limited to the sale or lease of assets or the expansion of a fallowing and water savings program in which a portion of Associated’s property is currently enrolled.

The net proceeds of any monetization event would be shared equally by the parties. The agreements entered into include a Water Development Agreement and an Option Agreement. Pursuant to the Water Development Agreement, Associated granted WPI-ACP exclusive rights to develop water assets attributable to the real estate owned by Associated for the mutual benefit of Associated and WAM. Pursuant to the Option Agreement, Associated granted WPI-ACP an option to purchase an undivided interest of up to one-half of the real estate owned by Associated in Yuma County, Arizona (the “Property”) and the water rights associated therewith until January 1, 2026. The purchase price for the Property subject to the Option Agreement will be paid via the redemption by the Company of a proportionate percentage of the Series B-2 Preferred Stock. Unless and until a definitive agreement or definitive agreements with respect to Associated’s real estate and water rights is entered into that would cause the cessation of farming operations, Associated expects to continue farming the Property and recognize all results of operations and retain all proceeds from such operations.

## 22. Stock-based Compensation

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

In December 2017, 41,291 shares of common stock with a per share value of \$22.86 were granted to management under the Stock Plan for fiscal year 2017 performance, resulting in a total compensation expense of approximately \$944,000, with \$605,000 recognized in the year ended October 31, 2017 and the balance to be recognized over the next two years as the shares vest. In addition, 90,000 shares of common stock with a per share value of \$22.19 were granted to key executives under the Stock Plan, resulting in a total compensation expense of approximately \$1,997,000, to be recognized equally over the next five years as the shares vest. In December 2016, 44,688 shares of common stock with a per share value of \$19.92 were granted to management under the Stock Plan for fiscal year 2016 performance, resulting in total compensation expense of approximately \$890,000, with \$544,000 recognized in the year ended October 31, 2016 and the balance to be recognized over the next two years as the shares vest. In December 2015, 27,424 shares of common stock with a per share value of \$15.29 were granted to management under the Stock Plan for fiscal year 2015 performance, resulting in total compensation expense of approximately \$410,000, with \$130,000 recognized in the year ended October 31, 2015 and the balance recognized over the next two years as the shares vested.

Stock-based compensation expense is recognized over the performance and vesting periods as summarized below (\$ in thousands):

Three	Nine
Months	Months
Ended	Ended

Performance Year	Shares Granted	July 31,		July 31,	
		2018	2017	2018	2017
2015	27,424	\$—	\$36	\$—	\$108
2016	44,688	24	64	74	192
2017	41,291	67	108	203	465
2018	90,000	187	—	630	—
		\$278	\$208	\$907	\$765

During the three months ended January 31, 2018 and 2017 members of management exchanged 17,520 and 14,773 shares, respectively of common stock with fair value of \$401,000 and \$294,000, respectively, at the date of the exchanges, for the payment of payroll taxes associated with the vesting of shares under the Company's stock-based compensation programs.

During January 2018 and 2017, 14,033 and 18,956 shares, respectively, of common stock were granted to the Company's non-employee directors under the Company's stock-based compensation plans. The Company recognized \$309,000 and \$323,000 of stock-based compensation to non-employee directors during the nine months ended July 31, 2018 and 2017, respectively.

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 23. Public Offering of Common Stock

In June 2018, the Company completed the sale of an aggregate of 3,136,362 shares of our common stock, at a price of \$22.00 per share, to a limited number of institutional and other investors in a registered offering under the shelf registration statement. The offering represented 18% of our outstanding common stock on an after-issued basis as of June 25, 2018. Upon completion of the offering and issuance of common stock, the Company had 17,669,314 shares of common stock outstanding. The gross proceeds of the offering totaled \$69.0 million and after an underwriting discount of \$4.5 million and other offering expenses of \$0.4 million, the net proceeds received by the Company were \$64.1 million.

## 24. Segment Information

The Company operates in six reportable operating segments: fresh lemons, lemon packing, avocados, other agribusiness, rental operations and real estate development. The reportable operating segments of the Company are strategic business units with different products and services, distribution processes and customer bases. The fresh lemons segment includes sales, farming and harvesting expenses and third-party grower costs relative to fresh lemons. The lemon packing segment includes packing revenues and shipping and handling revenues relative to lemon packing. The lemon packing segment expenses are comprised of lemon packing costs. The lemon packing segment revenues include intersegment revenues between fresh lemons and lemon packing. The intersegment revenues are included gross in the segment note and a separate line item is shown as an elimination. The avocados segment includes sales, farming and harvest costs. The other agribusiness segment includes sales, farming and harvesting of oranges, specialty citrus and other crops. The rental operations segment includes housing and commercial rental operations, leased land and organic recycling. The real estate development segment includes real estate development operations.

The Company does not separately allocate depreciation and amortization to its fresh lemons, lemon packing, avocados and other agribusiness segments. No asset information is provided for reportable operating segments as these specified amounts are not included in the measure of segment profit or loss reviewed by the Company's chief operating decision maker. The Company measures operating performance, including revenues and operating income, of its reportable operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income, interest expense and income taxes, or specifically identify them to its reportable operating segments. The Company earns packing revenue for packing lemons grown on its orchards and lemons procured from third-party growers. Intersegment revenues represent packing revenues related to lemons grown on the Company's orchards.

Segment information for the three months ended July 31, 2018 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocados	Other Agribusiness	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues from external customers	\$28,457	\$2,279	\$ —	\$ 5,643	\$ 2,298	\$ 38,677	\$ 1,273	\$ —	\$ —	\$39,950
Intersegment revenue	—	6,340	(6,340)	—	—	—	—	—	—	—
Total net revenues	28,457	8,619	(6,340)	5,643	2,298	38,677	1,273	—	—	39,950
Costs and expenses	18,872	6,033	(6,340)	1,829	2,066	22,460	810	25	3,454	26,749
Depreciation and amortization	—	—	—	—	—	1,523	194	—	59	1,776
Operating income	\$9,585	\$2,586	\$ —	\$ 3,814	\$ 232	\$ 14,694	\$ 269	\$ (25)	\$ (3,513)	\$11,425

Segment information for the three months ended July 31, 2017 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other	Total	Rental	Corporate	Total
--	--------------	---------------	--------------	-------	-------	--------	-----------	-------

Edgar Filing: Limoneira CO - Form 10-Q

	Lemons Packing	Avocado	Agribusiness	Agribusiness	Operations	Real Estate Development	and Other			
Revenues from external customers	\$27,837	\$2,158	\$ —	\$ 7,490	\$ 1,565	\$ 39,050	\$ 1,345	\$ —	\$ —	\$40,395
Intersegment revenue	—	5,731	(5,731)	—	—	—	—	—	—	—
Total net revenues	27,837	7,889	(5,731)	7,490	1,565	39,050	1,345	—	—	40,395
Costs and expenses	17,861	5,451	(5,731)	1,705	2,349	21,635	738	47	3,174	25,594
Depreciation and amortization	—	—	—	—	—	1,387	191	—	55	1,633
Operating income	\$9,976	\$2,438	\$ —	\$ 5,785	\$ (784)	\$ 16,028	\$ 416	\$ (47)	\$ (3,229)	\$13,168

30

## LIMONEIRA COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

## 24. Segment Information (continued)

Segment information for the nine months ended July 31, 2018 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocados	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues from external customers	\$83,994	\$8,120	\$ —	\$ 6,578	\$ 12,183	\$ 3,803	\$ —	\$—	\$ 114,678
Intersegment revenue	—	18,416	(18,416)	—	—	—	—	—	—
Total net revenues	83,994	26,536	(18,416)	6,578	12,183	3,803	—	—	114,678
Costs and expenses	64,363	18,927	(18,416)	63,408	8,195	2,461	94	11,369	90,401
Depreciation and amortization	—	—	—	—	—	4,466	584	160	5,210
Operating income	\$19,631	\$7,609	\$ —	\$ 3,170	\$ 3,988	\$ 758	\$ (94)	\$(11,529)	\$19,067

Segment information for the nine months ended July 31, 2017 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocados	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total	
Revenues from external customers	\$74,551	\$7,603	\$ —	\$ 9,519	\$ 9,563	\$ 4,144	\$ —	\$—	\$ 105,380	
Intersegment revenue	—	16,677	(16,677)	—	—	—	—	—	—	
Total net revenues	74,551	24,280	(16,677)	9,519	9,563	4,144	—	—	105,380	
Costs and expenses	57,435	17,422	(16,677)	73,215	10,333	2,367	292	10,028	84,415	
Depreciation and amortization	—	—	—	—	—	4,093	567	164	4,824	
Operating income	\$17,116	\$6,858	\$ —	\$ 6,304	\$(770)	\$ 25,415	\$ 1,210	\$(292)	\$(10,192)	\$16,141

The following table sets forth revenues by category, by segment for the three and nine months ended July 31, 2018 and 2017 (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Fresh lemons	\$28,457	\$27,837	\$83,994	\$74,551
Lemon packing	8,619	7,889	26,536	24,280
Intersegment revenue	(6,340)	(5,731)	(18,416)	(16,677)
Lemon revenues	30,736	29,995	92,114	82,154
Avocados	5,643	7,490	6,578	9,519
Navel and Valencia oranges	1,986	1,118	8,552	6,539
Specialty citrus and other crops	312	447	3,631	3,024
Other agribusiness revenues	2,298	1,565	12,183	9,563
Agribusiness revenues	38,677	39,050	110,875	101,236
Residential and commercial rentals	881	906	2,609	2,688



Edgar Filing: Limoneira CO - Form 10-Q

Leased land	304	372	958	1,114
Organic recycling and other	88	67	236	342
Rental operations revenues	1,273	1,345	3,803	4,144
Real estate development revenues	—	—	—	—
Total net revenues	\$39,950	\$40,395	\$114,678	\$105,380

LIMONEIRA COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

25. Subsequent Events

The Company has evaluated events subsequent to July 31, 2018 through the filing date to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. Based upon this evaluation, except as described in the Notes to Consolidated Financial Statements, it was determined that no other subsequent events occurred that require recognition or disclosure in the unaudited consolidated financial statements.

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

### Overview

Limoneira Company was incorporated in Delaware in 1990 as the successor to several businesses with operations in California since 1893. We are an agribusiness and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 14,500 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production, sales and marketing, real estate development and capital investment activities.

We are one of California's oldest citrus growers. According to Sunkist Growers, Inc. ("Sunkist"), we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, one of the largest growers of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of other specialty citrus and other crops. We have agricultural plantings throughout Ventura, Tulare, San Bernardino and San Luis Obispo Counties in California, Yuma County in Arizona and La Serena, Chile, which collectively consist of approximately 5,000 acres of lemons, 900 acres of avocados, 1,600 acres of oranges and 1,000 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, where we process and pack lemons that we grow, as well as lemons grown by others. We have a 47% interest in Rosales S.A. ("Rosales"), a citrus packing, marketing and sales business, a 90% interest in Fruticola Pan de Azucar S.A. ("PDA"), a lemon and orange orchard and 100% interest in Agricola San Pablo, SpA ("San Pablo"), a lemon and orange orchard, all located near La Serena, Chile.

Our water resources include water rights, usage rights and pumping rights to the water in aquifers under, and canals that run through, the land we own. Water for our farming operations is sourced from the existing water resources associated with our land, which includes rights to water in the adjudicated Santa Paula Basin (aquifer) and the un-adjudicated Fillmore and Paso Robles Basins (aquifers). We use ground water from the San Joaquin Valley Basin and water from water districts and irrigation districts in Tulare County, which is in California's San Joaquin Valley and we use ground water from the Cadiz Valley Basin in San Bernardino County. We also use surface water in Arizona from the Colorado River through the Yuma Mesa Irrigation and Drainage District ("YMIDD"). We use ground water provided by wells and surface water for our PDA and San Pablo farming operations in Chile.

For more than 100 years, we have been making strategic investments in California agribusiness and real estate development. We currently have three active real estate development projects in California. These projects include multi-family housing and single-family homes comprised of approximately 245 completed units and another approximately 1,700 units in various stages of development.

### Business Division Summary

We have three business divisions: agribusiness, rental operations and real estate development. The agribusiness division is comprised of four reportable operating segments: fresh lemons, lemon packing, avocados and other agribusiness, and includes our farming, harvesting, lemon packing and lemon sales operations. The rental operations division includes our residential and commercial rentals, leased land operations and organic recycling. The real estate development division includes our real estate projects and development. Financial information and discussion of our six reportable segments, which includes fresh lemons, lemon packing, avocados, other agribusiness, rental operations and real estate development, are contained in the notes to the accompanying consolidated financial statements of this Quarterly Report on Form 10-Q.

### Agribusiness Division

The agribusiness division is comprised of four of our reportable operating segments: fresh lemons, lemon packing, avocados and other agribusiness, which represented approximately 96%, 95% and 95% of our fiscal year 2017, 2016 and 2015 consolidated revenues, respectively, of which fresh lemons and lemon packing combined represented 78%, 76% and 79% of our fiscal year 2017, 2016 and 2015 consolidated revenues, respectively.

Our lemon farming is included in our “fresh lemons” and “lemon packing” reportable operating segments within our financial statements. We are one of the largest growers of lemons and avocados in the United States. We market and sell lemons directly to our food service, wholesale and retail customers throughout the United States, Canada, Asia, Australia and certain other international markets. During the nine months ended July 31, 2018, lemon sales were comprised of approximately 81% in domestic and Canadian sales, 19% in sales to domestic exporters and 3% in international sales. We sell a portion of our oranges and specialty citrus to Sunkist-licensed and other third-party packinghouses. We sell our pistachios to a roaster, packager and marketer of nuts; and our wine grapes are sold to various wine producers.

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

Fluctuations in price are a function of global supply and demand with weather conditions, such as unusually low 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 operations, even though a significant portion of the costs related to these 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 procured from other growers. Because the fresh utilization rate for our lemons, or percentage of lemons we harvest and pack that are sold 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 other growers if we determine their lemons are of good quality.

Our avocado producing business is important to us yet faces 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 can be 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 grow oranges, specialty citrus and other crops, typically utilizing land not suitable for growing high quality lemons. We regularly monitor the demand for the fruit we grow in the ever-changing marketplace to identify trends. For instance, while per capita consumption of oranges in the United States has been decreasing since 2000 primarily as a result of consumers increasing their consumption of mandarin oranges and other specialty citrus, the international market demand for U.S. oranges has increased. As a result, we have focused our orange production on high quality late season Navel 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. We carefully monitor the respective markets of specialty citrus and other crops and we believe that demand for the types and varieties of specialty citrus and other crops that we grow will continue to increase throughout the world.

#### Rental Operations Division

Our rental operations division is provided for in our financial statements as its own reportable operating segment and includes our residential and commercial rentals, leased land operations and organic recycling. Our rental operations division represented approximately 4%, 5% and 5% of our consolidated revenues in fiscal years 2017, 2016 and 2015, respectively. Our residential rental units generate reliable cash flows which we use to partially fund the operations of all three of our business divisions and provide affordable housing to many of our employees, including our agribusiness employees, a unique employment benefit that helps us maintain a dependable, long-term employee base. In addition, our leased land business provides us with a typically profitable diversification. Revenue from our rental operations segment is generally level throughout the year.

#### Real Estate Development Division

Our real estate development division is provided for in our financial statements as its own reportable operating segment and includes our real estate development operations. The real estate development division had no significant revenue in fiscal years 2017, 2016 or 2015. We recognize that long-term strategies are required for successful real

estate development activities. Our goal is to redeploy real estate earnings and cash flow into the expansion of our agribusiness and other income producing real estate. For real estate development projects and joint ventures, it is not unusual for the timing and amounts of revenues and costs, partner contributions and distributions, project loans and other financing assumptions and project cash flows to be impacted by government approvals, project revenue and cost estimates and assumptions, economic conditions, financing sources and product demand as well as other factors. Such factors could affect our results of operations, cash flows and liquidity.

## Water Resources

Our water resources include water rights, usage rights and pumping rights to the water in aquifers under, and canals that run through, the land we own. Water for our farming operations is sourced from the existing water resources associated with our land, which includes rights to water in the adjudicated Santa Paula Basin (aquifer) and the un-adjudicated Fillmore and Paso Robles Basins (aquifers). We use ground water from the San Joaquin Valley Basin and water from local water and irrigation districts in Tulare County, which is in California's San Joaquin Valley. We also use ground water from the Cadiz Valley Basin in California's San Bernardino County and surface water in Arizona from the Colorado River through the YMIDD. We use ground and surface water for our PDA and San Pablo farming operations in Chile.

California has historically experienced periods of below average precipitation. Recent precipitation has brought relief to California's drought conditions, although the last few years have been among the most severe droughts on record. Rainfall, snow levels and water content of snow pack had previously been significantly below historical averages. These conditions resulted in reduced water levels in streams, rivers, lakes, aquifers and reservoirs. The governor of California declared a drought State of Emergency in February 2014, which was lifted in April 2017. Federal officials oversee the Central Valley Project, California's largest water delivery system and 100% of the contracted amount of water was provided to San Joaquin Valley farmers in 2017 compared to 75% in 2016 and zero in 2015.

Depending on the location of our agricultural operations, we obtain our water from aquifers, water delivered by water federal, state and local water and irrigation districts and rainfall. 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 located in Ventura County, California is sourced from the existing water resources associated with our land, which includes approximately 8,600 acre feet of adjudicated water rights in Santa Paula Basin (aquifer) and the un-adjudicated Fillmore Basin.

We use a combination of ground water provided by wells and water from various local water and irrigation districts in Tulare County, California that is in the agriculturally productive San Joaquin Valley.

We use ground water provided by wells that derive water from the Cadiz Valley Basin at the Cadiz Ranch in San Bernardino, California.

Our Windfall Investors, LLC ("Windfall") property located in San Luis Obispo County, California, obtains water from wells deriving water from the Paso Robles Basin.

Our Associated Citrus Packers, Inc. ("Associated") farming operations in Yuma, Arizona sources water from the Colorado River through the YMIDD, where we have access to approximately 11,700 acre feet of Class 3 Colorado River water rights.

We use ground water provided by wells and surface water for our PDA and San Pablo farming operations in La Serena, Chile.

## Recent Developments

On November 10, 2015, we entered into a joint venture with The Lewis Group of Companies ("Lewis") for the residential development of our East Area I real estate development project. The first phase of the project broke ground to commence mass grading on November 8, 2017. Project plans include approximately 632 residential units in Phase 1. Phase 1 site improvements have begun. The joint venture is currently receiving lot deposits from national homebuilders and initial closings of lot sales are anticipated to begin in the first quarter of fiscal year 2019.

In August 2017, we entered an agreement to sell the commercial portion of our Sevilla property for approximately \$1.5 million. This transaction closed in November 2017, we received net proceeds of \$1.4 million and we recognized a gain of approximately \$10,000.

In October 2017, we entered an agreement to sell our Centennial property for approximately \$3.3 million. This transaction closed December 2017 and we received net proceeds of \$0.2 million and issued a \$3.0 million promissory note secured by the property for the balance of the purchase price. The promissory note matures in June 2018 but provides for potential extensions to December 2019. After transaction costs, the sale resulted in a gain of \$0.2 million, most of which has been deferred until repayment of the promissory note. In 2018, per the terms of the promissory note, the holder of the note made two non-refundable \$0.1 million payments to us, extending the due date to December 30, 2018.



In December 2017, we entered an agreement to sell our Terraces at Pacific Crest (“Pacific Crest”) property for \$3.5 million. After transaction costs, we expect to recognize a gain of \$40,000. To date, this transaction has not closed.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code (“IRC”). Changes include, but are not limited to, a corporate tax rate decrease from 34% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated our best estimate of the impact of the Act on our quarter-end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result of the rate reduction, we have decreased our deferred tax liability balance as of July 31, 2018 by approximately \$10.0 million.

In January 2018, the Joint Venture entered into a \$45.0 million unsecured Line of Credit Loan Agreement and Promissory Note (the “Loan”) with Bank of America, N.A. to fund early development activities. The Loan matures in January 2020, with an option to extend the maturity date until 2021, subject to certain conditions. The interest rate on the Loan is LIBOR plus 2.85%, payable monthly. The Loan contains certain customary default provisions and the Joint Venture may prepay any amounts outstanding under the Loan without penalty. In February 2018, the obligations under the Loan were guaranteed by certain principals from Lewis and by the Company.

In February 2013, we entered into an option agreement for the purchase of a 7-acre parcel adjacent to its East Area II real estate development project. We made a \$75,000 initial option payment in 2013 and four additional annual option payments of \$50,000 each from 2014 to 2017. In February 2018, we exercised our option and purchased the property for \$3.1 million, by making a cash payment of \$1.4 million and issuing a note payable for \$1.4 million. The \$0.3 million of option payments were applied to the purchase price and we incurred \$9,000 of transaction costs. The note payable is due in five years, with interest-only, monthly payments at interest rates ranging from 5% to 7%.

In June 2018, we completed the sale of 3,136,000 shares of common stock, at a price of \$22.00 per share to institutional and other investors in a registered offering under our shelf registration statement. The offering represented 18% of our outstanding common stock on an after-issued basis. Upon completion of the offering and issuance of common stock, we had 17,669,000 shares of common stock outstanding. The gross proceeds of the offering totaled \$69.0 million and after an underwriting discount of \$4.5 million and other offering expenses of \$0.4 million, the net proceeds were \$64.1 million. In June and July 2018, we used the offering proceeds to pay down debt, purchase Fruticola San Pablo S.A.'s (“San Pablo”) ranch and purchase Oxnard Lemon Associates, Ltd.'s (“Oxnard Lemon”) packinghouse, related land and certain other assets.

In July 2018, we completed the acquisition of San Pablo ranch and related assets in La Serena, Chile, for \$13.1 million. The San Pablo ranch consists of 3,317 total acres on two parcels, including 247 acres producing lemons, 61 acres producing oranges, the opportunity to immediately plant 120 acres for lemon production, as well as the potential for approximately 500 acres of avocado production.

In July 2018, we entered into an agreement to purchase Oxnard Lemon for \$25.0 million. Pursuant to the agreement, we acquired certain “hard assets” of Oxnard Lemon, including a packinghouse and related land for a purchase price of \$24.7 million on July 27, 2018. Pursuant to the agreement, the closing on the purchase and sale of the “soft assets” of Oxnard Lemon, including tradenames, trademarks and copyrights, shall take place on or prior to October 31, 2018, at which point an additional \$0.3 million in purchase price shall be paid. Additionally, the agreement provides that the sellers shall lease back the “hard assets” until October 31, 2018, pursuant to a lease agreement executed July 27, 2018.

For fiscal year 2017, we declared cash dividends to our stockholders totaling \$0.22 per common share in the aggregate amount of \$3.2 million compared to a total of \$0.20 per common share in the aggregate amount of \$2.8 million for fiscal year 2016. On June 26, 2018, we declared a cash dividend \$0.0625 per common share which was paid on July

18, 2018, in the aggregate amount of \$1.1 million to stockholders of record as of July 9, 2018. This represents a 14% increase in our dividend compared to 2017.

Late in the third quarter of fiscal year 2018, Ventura County experienced record high temperatures. We are currently assessing the affect these high temperatures may have had on our fiscal year 2019 avocado crop.

## Results of Operations

The following table shows the results of operations (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2018	2017	2018	2017
Revenues:				
Agribusiness	\$38,677	\$39,050	\$110,875	\$101,236
Rental operations	1,273	1,345	3,803	4,144
Real estate development	—	—	—	—
Total net revenues	39,950	40,395	114,678	105,380
Costs and expenses:				
Agribusiness	23,983	23,022	80,943	75,821
Rental operations	1,004	929	3,045	2,934
Real estate development	25	47	94	172
Impairments of real estate development assets	—	—	—	120
Selling, general and administrative	3,513	3,229	11,529	10,192
Total costs and expenses	28,525	27,227	95,611	89,239
Operating income:				
Agribusiness	14,694	16,028	29,932	25,415
Rental operations	269	416	758	1,210
Real estate development	(25 )	(47 )	(94 )	(292 )
Selling, general and administrative	(3,513 )	(3,229 )	(11,529 )	(10,192 )
Operating income	11,425	13,168	19,067	16,141
Other income (expense):				
Interest expense, net	(260 )	(521 )	(1,054 )	(1,372 )
Equity in earnings of investments	123	76	40	9
Other income, net	26	37	283	364
Total other expense	(111 )	(408 )	(731 )	(999 )
Income before income tax (provision) benefit	11,314	12,760	18,336	15,142
Income tax (provision) benefit	(3,114 )	(5,017 )	5,093	(5,935 )
Net income	8,200	7,743	23,429	9,207
(Income) loss attributable to noncontrolling interest	1	34	(4 )	38
Net income attributable to Limoneira Company	\$8,201	\$7,777	\$23,425	\$9,245

## Non-GAAP Financial Measures

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



Edgar Filing: Limoneira CO - Form 10-Q

	Three Months		Nine Months	
	Ended July 31, 2018	2017	Ended July 31, 2018	2017
Net income attributable to Limoneira Company	\$8,201	\$7,777	\$23,425	\$9,245
Interest expense, net	260	521	1,054	1,372
Income tax provision (benefit)	3,114	5,017	(5,093)	5,935
Depreciation and amortization	1,776	1,633	5,210	4,824
EBITDA	\$13,351	\$14,948	\$24,596	\$21,376
Impairments of real estate development assets	—	—	—	120
Adjusted EBITDA	\$13,351	\$14,948	\$24,596	\$21,496

Third Quarter of Fiscal Year 2018 Compared to the Third Quarter of Fiscal Year 2017

Revenues

Total revenue for the third quarter of fiscal year 2018 was \$40.0 million compared to \$40.4 million for the third quarter of fiscal year 2017. The 1% decrease of \$0.4 million was primarily the result of decreased agribusiness revenues, as detailed below (\$ in thousands):

	Agribusiness Revenues for the Three Months Ended July 31,			
	2018	2017	Change	
Lemons	\$30,736	\$29,995	\$741	2%
Avocados	5,643	7,490	(1,847)	(25)%
Navel and Valencia oranges	1,986	1,118	868	78%
Specialty citrus and other crops	312	447	(135)	(30)%
Agribusiness revenues	\$38,677	\$39,050	(\$373)	(1)%

**Lemons:** The increase in the third quarter of fiscal year 2018 was primarily the result of higher volume partially offset by lower prices of fresh lemons sold compared to the same period in fiscal year 2017. During the third quarters of fiscal years 2018 and 2017, fresh lemon sales were \$25.7 million and \$26.1 million, respectively, on 992,000 and 919,000 cartons of lemons sold at average per carton prices of \$25.91 and \$28.45, respectively. Additionally, lemon revenues included \$2.3 million shipping and handling, \$1.4 million lemon by-products and \$1.3 million other lemon sales in the third quarter of fiscal year 2018 compared to \$2.2 million shipping and handling, \$1.1 million lemon by-product and \$0.6 million other lemon sales during the same period in fiscal year 2017.

**Avocados:** The decrease in the third quarter of fiscal year 2018 was primarily the result of lower prices partially offset by higher volume of avocados sold compared to the same period in fiscal year 2017. During the third quarter of fiscal year 2018, 5.3 million pounds of avocados were sold at an average per pound price of \$1.06 compared to 5.0 million pounds of avocados were sold at an average per pound price of \$1.50 during the same period in fiscal year 2017. The lower prices in fiscal year 2018 are the result of higher supply in the marketplace.

**Navel and Valencia oranges:** The increase in the third quarter of fiscal year 2018 was primarily attributable to higher prices partially offset by lower volume of oranges sold compared to the same period in fiscal year 2017. In the third quarter of fiscal year 2018, 125,000 40-pound carton equivalents of oranges were sold at average per carton prices of \$15.89 compared to 313,000 40-pound carton equivalents sold at average per carton prices of \$3.57 in the third quarter of fiscal year 2017.

**Specialty citrus and other crops:** The decrease in the third quarter of fiscal year 2018 was primarily the result of lower volume partially offset by higher prices for specialty citrus sold compared to the same period in fiscal year 2017. During the third quarter of fiscal year 2018, 5,000 40-pound carton equivalents of specialty citrus were sold at an

average per carton price of \$62.40 compared to 123,000 40-pound carton equivalents sold at an average per carton price of \$3.63 during the same period in fiscal year 2017.

## Costs and Expenses

Our total costs and expenses in the third quarter of fiscal year 2018 were \$28.5 million compared to \$27.2 million in the third quarter of fiscal year 2017, for a 5% increase of \$1.3 million. This increase was primarily attributable to increases in our agribusiness and selling, general and administrative costs and expenses. Costs associated with our agribusiness include packing costs, harvest costs, growing costs, costs related to the fruit we procure and sell for third-party growers and depreciation expense. These costs are discussed further below (\$ in thousands):

	Agribusiness Costs and Expenses for the Three Months Ended July 31,			
	2018	2017	Change	
Packing costs	\$6,033	\$5,727	\$306 5%	
Harvest costs	3,609	3,168	441	14%
Growing costs	4,777	4,733	44	1%
Third-party grower costs	8,041	8,007	34	—%
Depreciation and amortization	1,523	1,387	136	10%
Agribusiness costs and expenses	\$23,983	\$23,022	\$961 4%	

**Packing costs:** Packing costs primarily consist of the costs to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. Lemon packing costs were \$5.5 million and \$5.1 million in the third quarter of fiscal years 2018 and 2017, respectively. During the third quarter of fiscal year 2018, we packed and sold 992,000 cartons of lemons at average per carton costs of \$5.58 compared to 919,000 cartons of lemons sold at average per carton costs of \$5.58 during the same period in fiscal year 2017. Additionally, packing costs included \$0.5 million of shipping costs in the third quarter of fiscal years 2018 compared to \$0.3 million in the third quarter of fiscal year 2017. Further, in the third quarter of fiscal year 2017, we incurred \$0.3 million of packing service charges from an independent packinghouse to have a portion of our oranges and specialty citrus packed in Limoneira branded cartons.

**Harvest costs:** The increase in the third quarter of fiscal year 2018 is primarily attributable to increased volume of lemons and avocados harvested.

**Growing costs:** Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. Growing costs in the third quarter of fiscal year 2018 were similar to the third quarter of fiscal year 2017 and reflect farm management decisions based on weather, harvest timing and crop conditions.

**Third-party grower costs:** We sell fruit that we grow and fruit that we procure from other growers. The cost of procuring fruit from other growers is referred to as third-party grower costs. The increase in the third quarter of fiscal year 2018 is primarily attributable to higher volume partially offset by lower price of third-party grower fruit sold. Of the 992,000 and 919,000 cartons of lemons packed and sold during the third quarter of fiscal years 2018 and 2017, respectively, 374,000 (38%) and 342,000 (37%) were procured from third-party growers at average per carton prices of \$21.33 and \$23.32, respectively.

• Depreciation expense for the third quarter of fiscal year 2018 was approximately \$0.1 million higher than the third quarter of fiscal year 2017 primarily due to an increase in assets placed into service.

Selling, general and administrative costs and expenses were \$3.5 million in the three months ended July 31, 2018 compared to \$3.2 million in the three months ended July 31, 2017. The \$0.3 million increase is primarily attributable to increased lemon selling expenses due to an increase in personnel, increased legal and consulting fees for our

strategic initiatives and increased incentive compensation as a result of projected improved operating results as of July 31, 2018 compared to July 31, 2017.

Other Income (Expense)

Other expense, net for the three months ended July 31, 2018 is comprised primarily of \$0.3 million of net interest expense and \$0.1 million of equity in earnings of investments. Other expense, net for the three months ended July 31, 2017 is comprised primarily of \$0.5 million of net interest expense and \$0.1 million of equity in earnings of investments. The \$0.3 million decrease in expense was primarily due to a decrease in net interest expense in the third quarter of fiscal year 2018 compared to the same period in fiscal year 2017.



Interest is capitalized on real estate development projects and significant construction in progress using the weighted average interest rate during the fiscal year. We capitalized \$0.7 million and \$0.6 million of interest in the third quarter of fiscal years 2018 and 2017, respectively. Interest capitalization is discontinued when a project is substantially complete. Under the equity method of accounting used for our Limoneira/Lewis Joint Venture, interest capitalization will cease upon the commencement of lot sales.

#### Income Taxes

We recorded an estimated income tax provision of \$3.1 million in the third quarter of fiscal year 2018 on pre-tax income of \$11.3 million compared to an estimated income tax provision of \$5.0 million in the third quarter of fiscal year 2017 on pre-tax income of \$12.8 million. Our projected annual effective blended tax rate for fiscal year 2018 is approximately 27.5%.

#### Net (Income) Loss Attributable to Noncontrolling Interest

Net (income) loss attributable to noncontrolling interest represents 10% of the net (income) loss of PDA.

#### Nine Months Ended July 31, 2018 Compared to the Nine Months Ended July 31, 2017

#### Revenues

Total revenue for the nine months ended July 31, 2018 was \$114.7 million compared to \$105.4 million for the nine months ended July 31, 2017. The 9% increase of \$9.3 million was primarily the result of increased agribusiness revenues, as detailed below (\$ in thousands):

	Agribusiness Revenues for the Nine Months Ended July 31,			
	2018	2017	Change	
Lemons	\$92,114	\$82,154	\$9,960	12%
Avocados	6,578	9,519	(2,941)	(31)%
Navel and Valencia oranges	8,552	6,539	2,013	31%
Specialty citrus and other crops	3,631	3,024	607	20%
Agribusiness revenues	\$110,875	\$101,236	\$9,639	10%

- Lemons: The increase in the nine months of fiscal year 2018 was primarily the result of higher prices and volume of fresh lemons sold compared to the same period in fiscal year 2017. During the nine months of fiscal years 2018 and 2017, fresh lemon sales were \$76.8 million and \$67.8 million, respectively, on 3,061,000 and 2,786,000 cartons of lemons sold at average per carton prices of \$25.09 and \$24.33, respectively. Additionally, lemon revenues included \$8.1 million shipping and handling, \$4.1 million lemon by-products and \$3.1 million other lemon sales in the first nine months of fiscal year 2018 compared to \$7.6 million shipping and handling, \$4.6 million lemon by-product and \$2.2 million other lemon sales during the same period in fiscal year 2017.

Avocados: The decrease in the nine months of fiscal years 2018 was primarily the result of lower prices of avocados sold compared to the same period in fiscal year 2017. In the nine months of fiscal year 2018, 6.3 million pounds of avocados were sold at an average per pound price of \$1.04 compared to 6.3 million pounds sold at an average per pound price of \$1.51. The lower prices in fiscal year 2018 are the result of higher supply in the marketplace.

Navel and Valencia oranges: The increase in the nine months of fiscal year 2018 was primarily attributable to higher prices partially offset by lower volume of oranges sold compared to the same period in fiscal year 2017. In the nine months of fiscal year 2018, 700,000 40-pound carton equivalents of oranges were sold at average per carton prices of

\$12.22 compared to 889,000 40-pound carton equivalents sold at average per carton prices of \$7.36 in the nine months of fiscal year 2017.

Specialty citrus and other crops: The increase in the nine months of fiscal year 2018 was primarily the result of higher prices partially offset by lower volume of specialty citrus sold compared to the same period in fiscal year 2017.

During the nine months of fiscal year 2018, 281,000 40-pound carton equivalents of specialty citrus were sold at an average per carton price of \$12.92 compared to 359,000 40-pound carton equivalents sold at an average per carton price of \$8.42 during the same period in fiscal year 2017.

## Costs and Expenses

Our total costs and expenses in the nine months ended July 31, 2018 were \$95.6 million compared to \$89.2 million in the nine months ended July 31, 2017, for an 7% increase of \$6.4 million. This increase was primarily attributable to increases in our agribusiness and selling, general and administrative costs and expenses. Costs associated with our agribusiness include packing costs, harvest costs, growing costs, costs related to the fruit we procure and sell for third-party growers and depreciation expense. These costs are discussed further below (\$ in thousands):

	Agribusiness Costs and Expenses for the Nine Months Ended July 31,			
	2018	2017	Change	
Packing costs	\$18,927	\$19,629	\$(702)	(4)%
Harvest costs	11,710	11,845	(135)	(1)%
Growing costs	17,472	16,679	793	5%
Third-party grower costs	28,368	23,575	4,793	20%
Depreciation and amortization	4,466	4,093	373	9%
Agribusiness costs and expenses	\$80,943	\$75,821	\$5,122	7%

**Packing costs:** Packing costs primarily consist of the costs to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. Lemon packing costs were \$17.5 million and \$16.3 million in the nine months of fiscal years 2018 and 2017, respectively. During the nine months of fiscal year 2018, we packed and sold 3,061,000 cartons of lemons at average per carton costs of \$5.73 compared to 2,786,000 cartons of lemons sold at average per carton costs of \$5.87 during the same period in fiscal year 2017. Additionally, packing costs included \$1.4 million of shipping costs in the nine months of fiscal years 2018 compared to \$1.1 million in the nine months of fiscal year 2017. Further, in the nine months of fiscal year 2017, we incurred \$2.2 million of packing service charges from an independent packinghouse to have a portion of our oranges and specialty citrus packed in Limoneira branded cartons.

**Harvest costs:** The decrease in the first nine months of fiscal year 2018 is primarily attributable to decreased volume of Navel and specialty citrus harvested partially offset by increased volume of lemons harvested.

**Growing costs:** Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. The increase in the nine months of fiscal year 2018 is primarily due to net increased costs of \$0.7 million for cultivation, pruning and irrigation compared to the same period in fiscal year 2017. These net increases reflect farm management decisions based on weather, harvest timing and crop conditions.

**Third-party grower costs:** We sell fruit that we grow and fruit that we procure from other growers. The cost of procuring fruit from other growers is referred to as third-party grower costs. The increase in the nine months of fiscal year 2018 is primarily attributable to higher price and volume of third-party grower fruit sold. Of the 3,061,000 and 2,786,000 cartons of lemons packed and sold during the nine months of fiscal years 2018 and 2017, respectively, 1,350,000 (44%) and 1,177,000 (42%) were procured from third-party growers at average per carton prices of \$20.96 and \$19.92, respectively.

**Depreciation expense** for the nine months of fiscal year 2018 was approximately \$0.4 million higher than the nine months of fiscal year 2017 primarily due to an increase in assets placed into service.

Selling, general and administrative costs and expenses were \$11.5 million in the nine months ended July 31, 2018 compared to \$10.2 million in nine months ended July 31, 2017. The \$1.3 million increase is primarily attributable to increased lemon selling expenses due to an increase in personnel, increased legal and consulting fees for our strategic initiatives and increased incentive compensation as a result of projected improved operating results as of July 31, 2018 compared to July 31, 2017.

Other Income (Expense)

Other expense, net for the nine months ended July 31, 2018 is comprised primarily of \$1.1 million of net interest expense partially offset by \$0.3 million of dividend income received from Calavo Growers, Inc. ("Calavo"). Other expense, net for the nine months ended July 31, 2017 is comprised primarily of \$1.4 million of net interest expense offset by \$0.3 million of dividend income received from Calavo. The \$0.3 million decrease in expense was primarily due to a decrease in net interest expense in the nine months ended July 31, 2018 compared to the same period in fiscal year 2017.

Interest is capitalized on real estate development projects and significant construction in progress using the weighted average interest rate during the fiscal year. We capitalized \$1.6 million and \$1.4 million of interest in the nine months ended July 31, 2018 and 2017, respectively. Interest capitalization is discontinued when a project is substantially complete. Under the equity method of accounting used for our Limoneira/Lewis Joint Venture, interest capitalization will cease upon the commencement of lot sales.

#### Income Taxes

We recorded an estimated income tax benefit of \$5.1 million in the nine months ended July 31, 2018 on pre-tax income of \$18.3 million compared to an estimated income tax provision of \$5.9 million in the nine months ended July 31, 2017 on pre-tax income of \$15.1 million. The discrete driver of the significant increase in estimated income tax benefit in the nine months ended July 31, 2018 compared to the same period in fiscal year 2017 is the approximately \$10.0 million decrease in deferred tax liabilities related to the change in the federal tax rate from the Tax Cuts and Jobs Act of 2017 from 34% to 21%. Our projected annual effective blended tax rate for fiscal year 2018 is approximately 27.5%.

#### Net (Income) Loss Attributable to Noncontrolling Interest

Net (income) loss attributable to noncontrolling interest represents 10% of the net (income) loss of PDA.

#### Segment Results of Operations

We operate in six reportable operating segments; fresh lemons, lemon packing, avocados, other agribusiness, rental operations and real estate development. Our reportable operating segments are strategic business units with different products and services, distribution processes and customer bases. We evaluate the performance of our operating segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluations related to current market conditions, market opportunities and available resources. See Note 24 - Segment Information of the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information regarding our operating segments.

#### Three Months Ended July 31, 2018 Compared to the Three Months Ended July 31, 2017

The following table shows the segment results of operations for the three months ended July 31, 2018 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocados	Other Agribusiness	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues from external customers	\$28,457	\$2,279	\$ —	\$ 5,643	\$ 2,298	\$ 38,677	\$ 1,273	\$ —	\$ —	\$39,950
Intersegment revenue	—	6,340	(6,340)	—	—	—	—	—	—	—
Total net revenues	28,457	8,619	(6,340)	5,643	2,298	38,677	1,273	—	—	39,950
Costs and expenses	18,872	6,033	(6,340)	1,829	2,066	22,460	810	25	3,454	26,749
Depreciation and amortization	—	—	—	—	—	1,523	194	—	59	1,776
Operating income	\$9,585	\$2,586	\$ —	\$ 3,814	\$ 232	\$ 14,694	\$ 269	\$ (25 )	\$ (3,513 )	\$11,425

The following table shows the segment results of operations for the three months ended July 31, 2017 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocados	Other Agribusiness	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
--	--------------	---------------	--------------	----------------	--------------------	--------------------	-------------------	-------------------------	---------------------	-------

Edgar Filing: Limoneira CO - Form 10-Q

Revenues from external customers	\$27,837	\$2,158	\$ —	\$ 7,490	\$ 1,565	\$ 39,050	\$ 1,345	\$ —	\$—	\$40,395
Intersegment revenue	—	5,731	(5,731)	—	—	—	—	—	—	—
Total net revenues	27,837	7,889	(5,731)	7,490	1,565	39,050	1,345	—	—	40,395
Costs and expenses	17,861	5,451	(5,731)	1,705	2,349	21,635	738	47	3,174	25,594
Depreciation and amortization	—	—	—	—	—	1,387	191	—	55	1,633
Operating income	\$9,976	\$ 2,438	\$ —	\$ 5,785	\$ (784 )	\$ 16,028	\$ 416	\$ (47 )	\$ (3,229 )	\$13,168

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

#### Fresh Lemons

For the third quarter of fiscal year 2018, our fresh lemons segment revenue was \$28.5 million compared to \$27.8 million for the third quarter of fiscal year 2017; a 2% increase of \$0.6 million, primarily due to higher volume of fresh lemons sold.

Costs and expenses associated with our fresh lemons segment include harvest costs, growing costs and costs of fruit we procure from third-party growers. For the third quarter of fiscal year 2018, our fresh lemons costs and expenses were \$18.9 million compared to \$17.9 million for the third quarter of fiscal year 2017. The 6% increase of \$1.0 million primarily consisted of the following:

• Harvest costs for the third quarter of fiscal year 2018 were \$0.3 million higher than the third quarter of fiscal year 2017.

• Growing costs for the third quarter of fiscal year 2018 were \$0.1 million higher to the third quarter of fiscal year 2017.

• Third-party grower costs for the third quarter of fiscal year 2018 were similar to the third quarter of fiscal year 2017.

• Intersegment costs and expenses for the third quarter of fiscal year 2018 were \$0.6 million higher than the third quarter of fiscal year 2017.

#### Lemon Packing

Lemon packing segment revenue is comprised of intersegment packing revenue and shipping and handling revenue. For the third quarter of fiscal years 2018 and 2017, our lemon packing segment revenues were \$8.6 million and \$7.9 million, respectively.

Costs and expenses associated with our lemon packing segment consist of the cost to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. For the third quarter of fiscal years 2018 and 2017, our lemon packing costs and expenses were \$6.0 million and \$5.5 million, respectively.

For the third quarter of fiscal years 2018 and 2017, lemon packing segment operating income per carton sold was \$2.61 and \$2.65, respectively.

In the third quarter of fiscal years 2018 and 2017, the lemon packing segment included \$6.3 million and \$5.7 million, respectively, of intersegment revenues that were charged to the fresh lemons segment to pack lemons for sale. Such intersegment revenues and expenses are eliminated in our consolidated financial statements.

#### Avocados

For the third quarter of fiscal year 2018, our avocado segment revenue was \$5.6 million compared to \$7.5 million for the third quarter of fiscal year 2017.

Costs associated with our avocados segment include harvest and growing costs. For the third quarters of fiscal years 2018 and 2017, our avocados segment costs and expenses were \$1.8 million and \$1.7 million, respectively, and primarily consisted of the following:

Avocado harvest costs for the third quarter of fiscal year 2018 were similar to the third quarter of fiscal year 2017.

Growing costs for the third quarter of fiscal year 2018 were \$0.1 million higher than the third quarter of fiscal year 2017.

#### Other Agribusiness

For the third quarter of fiscal year 2018 our other agribusiness segment revenue was \$2.3 million compared to \$1.6 million for the third quarter of fiscal year 2017. The 47% increase of \$0.7 million primarily consisted of the following:

Navel and Valencia orange revenues for the third quarter of fiscal year 2018 were \$0.9 million higher than the third quarter of fiscal year 2017.

Specialty citrus and other crop revenues for the third quarter of fiscal year 2018 were \$0.1 million lower than the third quarter of fiscal year 2017.



Costs associated with our other agribusiness segment include orange and specialty citrus packing service charges, harvest costs and growing costs. For the third quarter of fiscal year 2018, our other agribusiness costs and expenses were \$2.1 million compared to \$2.3 million for the third quarter of fiscal year 2017. The 12% decrease of \$0.3 million primarily consisted of the following:

Orange and specialty citrus packing service charges for the third quarter of fiscal year 2018 were zero compared to \$0.3 million in the third quarter of fiscal year 2017. In fiscal year 2017, we contracted with an independent packinghouse to pack a portion of our oranges and specialty citrus in Limoneira branded cartons.

Harvest costs for the third quarter of fiscal year 2018 were \$0.1 million higher than the third quarter of fiscal year 2017.

Growing costs for the third quarter of fiscal year 2018 were \$0.1 million lower than the third quarter of fiscal year 2017.

Total agribusiness depreciation and amortization expenses for the third quarter of fiscal year 2018 were \$0.1 million higher than the third quarter of fiscal year 2017.

#### Rental Operations

For the third quarter of fiscal years 2018 and 2017, our rental operations segment had revenues of \$1.3 million.

Costs and expenses in our rental operations segment for the third quarter of fiscal year 2018 were \$0.1 million higher than the third quarter of fiscal year 2017. Depreciation expense was similar quarter to quarter at approximately \$0.2 million.

#### Real Estate Development

For the third quarter of fiscal years 2018 and 2017, our real estate development segment revenues were zero.

Costs and expenses in our real estate development segment for the third quarter of fiscal year 2018 were similar to the third quarter of fiscal year 2017.

#### Selling, General and Administrative Expenses

Selling, general and administrative costs and expenses include selling, general and administrative costs and other costs not allocated to the operating segments. Selling, general and administrative costs and expenses for the third quarter of fiscal year 2018 were \$0.3 million higher than the third quarter of fiscal year 2017. Depreciation expense was similar quarter to quarter at approximately \$0.1 million.

Edgar Filing: Limoneira CO - Form 10-Q

Nine Months Ended July 31, 2018 Compared to the Nine Months Ended July 31, 2017

The following table shows the segment results of operations for the nine months ended July 31, 2018 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocado	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues from external customers	\$83,994	\$8,120	\$ —	\$ 6,578	\$ 12,183	\$ 3,803	\$ —	\$ —	\$ 114,678
Intersegment revenue	—	18,416	(18,416)	—	—	—	—	—	—
Total net revenues	83,994	26,536	(18,416)	6,578	12,183	3,803	—	—	114,678
Costs and expenses	64,363	18,927	(18,416)	63,408	8,195	2,461	94	11,369	90,401
Depreciation and amortization	—	—	—	—	—	4,466	584	160	5,210
Operating income	\$ 19,631	\$ 7,609	\$ —	\$ 3,170	\$ 3,988	\$ 758	\$ (94 )	\$ (11,529)	\$ 19,067

The following table shows the segment results of operations for the nine months ended July 31, 2017 (in thousands):

	Fresh Lemons	Lemon Packing	Eliminations	Other Avocado	Total Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total	
Revenues from external customers	\$74,551	\$7,603	\$ —	\$ 9,519	\$ 9,563	\$ 4,144	\$ —	\$ —	\$ 105,380	
Intersegment revenue	—	16,677	(16,677)	—	—	—	—	—	—	
Total net revenues	74,551	24,280	(16,677)	9,519	9,563	4,144	—	—	105,380	
Costs and expenses	57,435	17,422	(16,677)	73,215	10,333	2,367	292	10,028	84,415	
Depreciation and amortization	—	—	—	—	—	4,093	567	164	4,824	
Operating income	\$ 17,116	\$ 6,858	\$ —	\$ 6,304	\$ (770 )	\$ 25,415	\$ 1,210	\$ (292 )	\$ (10,192)	\$ 16,141

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

#### Fresh Lemons

For the nine months ended July 31, 2018, our fresh lemons segment revenue was \$84.0 million compared to \$74.6 million for the nine months ended July 31, 2017; representing a 13% increase of \$9.4 million, primarily due to higher prices and volume of fresh lemons sold.

Costs and expenses associated with our fresh lemons segment include harvest costs, growing costs and costs of fruit we procure from third-party growers. For the nine months ended July 31, 2018, our fresh lemons costs and expenses were \$64.4 million compared to \$57.4 million for the nine months ended July 31, 2017. The 12% increase of \$6.9 million primarily consisted of the following:

- Harvest costs for the nine months ended July 31, 2018 were \$0.1 million higher than the nine months ended July 31, 2017.

- Growing costs for the nine months ended July 31, 2018 were \$0.3 million higher than the nine months ended July 31, 2017.

- Third-party grower costs for the nine months ended July 31, 2018 were \$4.8 million higher than the nine months ended July 31, 2017.

Intersegment costs and expenses for the nine months ended July 31, 2018 were \$1.7 million higher than the nine months ended July 31, 2017

#### Lemon Packing

Lemon packing segment revenue is comprised of intersegment packing revenue and shipping and handling revenue. For the nine months ended July 31, 2018 and 2017, our lemon packing segment revenues were \$26.5 million and \$24.3 million, respectively.

Costs and expenses associated with our lemon packing segment consist of the cost to pack lemons for sale such as labor and benefits, cardboard cartons, fruit treatments, packing and shipping supplies and facility operating costs. For the nine months ended July 31, 2018 and 2017, our lemon packing costs and expenses were \$18.9 million and \$17.4 million, respectively.

For the nine months ended July 31, 2018 and 2017, lemon packing segment operating income per carton sold was \$2.49 and \$2.46, respectively.

In the nine months ended July 31, 2018 and 2017, the lemon packing segment included \$18.4 million and \$16.7 million, respectively, of intersegment revenues that were charged to the fresh lemons segment to pack lemons for sale. Such intersegment revenues and expenses are eliminated in our consolidated financial statements.

#### Avocados

For the nine months ended July 31, 2018, our avocado segment revenue was \$6.6 million compared to \$9.5 million for the nine months ended July 31, 2017.

Costs associated with our avocados segment include harvest and growing costs. For the nine months ended July 31, 2018 and 2017, our avocados segment costs and expenses were \$3.4 million and \$3.2 million, respectively, primarily consisted of the following:

• Avocado harvest costs for the nine months ended July 31, 2018 were similar to the nine months ended July 31, 2017.

• Growing costs for the nine months ended July 31, 2018 were \$0.2 million higher than the nine months ended July 31, 2017.

#### Other Agribusiness

For the nine months ended July 31, 2018 our other agribusiness segment revenue was \$12.2 million compared to \$9.6 million for the nine months ended July 31, 2017. The 27% increase of \$2.6 million primarily consisted of the following:

• Navel and Valencia orange revenues for the nine months ended July 31, 2018 were \$2.0 million higher than the nine months ended July 31, 2017.

• Specialty citrus and other crop revenues for the nine months ended July 31, 2018 were \$0.6 million higher than nine months ended July 31, 2017.

Costs associated with our other agribusiness segment include orange and specialty citrus packing service charges, harvest costs and growing costs. For the nine months ended July 31, 2018, our other agribusiness costs and expenses were \$8.2 million compared to \$10.3 million for the nine months ended July 31, 2017. The 21% decrease of \$2.1 million primarily consisted of the following:

• Orange and specialty citrus packing service charges for the nine months ended July 31, 2018 were zero compared to \$2.2 million in the nine months ended July 31, 2017. In fiscal year 2017, we contracted with an independent packinghouse to pack a portion of our oranges and specialty citrus in Limoneira branded cartons.

• Harvest costs for the nine months ended July 31, 2018 were \$0.2 million lower than the nine months ended July 31, 2017.

• Growing costs for the nine months ended July 31, 2018 were \$0.3 million higher than the nine months ended July 31, 2017.

Total agribusiness depreciation and amortization expenses for the nine months ended July 31, 2018 were \$0.4 million higher than the nine months ended July 31, 2017.

### Rental Operations

For the nine months ended July 31, 2018 and 2017, our rental operations segment had revenues of \$3.8 million and \$4.1 million, respectively.

Costs and expenses in our rental operations segment for the nine months ended July 31, 2018 were \$0.1 million higher than the nine months ended July 31, 2017. Depreciation expense was similar quarter to quarter at approximately \$0.6 million.

### Real Estate Development

For the nine months ended July 31, 2018 and 2017, our real estate development segment revenues were zero.

Costs and expenses in our real estate development segment for the nine months ended July 31, 2018 were \$0.2 million lower than the nine months ended July 31, 2017.

#### Selling, General and Administrative Expenses

Selling, general and administrative costs and expenses include selling, general and administrative costs and other costs not allocated to the operating segments. Selling, general and administrative costs and expenses for the nine months ended July 31, 2018 were \$1.3 million higher than the nine months ended July 31, 2017. Depreciation expense was similar quarter to quarter at approximately \$0.2 million.

#### Seasonal Operations

Historically, our agribusiness operations have been seasonal in nature with quarterly revenue fluctuating depending on the timing and the variety of crops being harvested. Cultural costs in our agribusiness tend to be higher in the first and second quarters and lower in the third and fourth quarters because of the timing of expensing cultural costs in the current year that were inventoried in the prior year. Our harvest costs generally increase in the second quarter and peak in the third quarter coinciding with the increasing production and revenue. Due to this seasonality and to avoid the inference that interim results are indicative of the estimated results for a full fiscal year, we present supplemental information for 12-month periods ended at the interim date for the current and preceding years.

## Results of Operations for the Trailing Twelve Months Ended July 31, 2018 and 2017

The following table shows the unaudited results of operations (in thousands):

	Trailing twelve months ended July 31,	
	2018	2017
Revenues:		
Agribusiness	\$ 125,508	\$ 119,423
Rental operations	5,099	5,474
Real estate development	—	17
Total revenues	130,607	124,914
Costs and expenses:		
Agribusiness	96,284	91,564
Rental operations	4,043	3,840
Real estate development	207	473
Selling, general and administrative	15,284	13,783
Total costs and expenses	115,818	109,660
Operating income	14,789	15,254
Other (expense) income:		
Interest expense, net	(1,460 )	(1,745 )
Equity in earnings of investments	80	437
Gain on sale of conservation easement	—	995
Other (expense) income, net	411	399
Total other (expense) income	(969 )	86
Income before income tax benefit (provision)	13,820	15,340
Income tax benefit (provision)	6,951	(6,114 )
Net income	20,771	9,226
Loss attributable to noncontrolling interest	4	38
Net income attributable to Limoneira Company	\$ 20,775	\$ 9,264

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

Total revenues increased \$5.7 million in the twelve months ended July 31, 2018 compared to the twelve months ended July 31, 2017 primarily due to increased agribusiness revenues, particularly increased lemon sales.

Total costs and expenses increased \$6.2 million in the twelve months ended July 31, 2018 compared to the twelve months ended July 31, 2017 primarily due to increases in our agribusiness and selling, general and administrative costs and expenses. The increase in agribusiness costs is associated with increased agribusiness production and the increase in selling, general and administrative expenses is primarily attributable to increased personnel and higher salaries, benefits and incentive compensation.

Total other income decreased \$1.1 million in the twelve months ended July 31, 2018 compared to the twelve months ended July 31, 2017 primarily due to \$0.3 million decrease in net interest expense, \$0.4 million decrease in equity in earnings of investments and \$1.0 million decrease in gain on the sale of a conservation easement.

Income tax benefit increased \$13.1 million in the twelve months ended July 31, 2018 compared to the twelve months ended July 31, 2017 primarily due to the approximately \$10.0 million decrease in deferred tax liabilities related to the change in the federal corporate tax rate from the Tax Cuts and Jobs Act of 2017.





## Liquidity and Capital Resources

### Overview

Our Company's liquidity and capital position fluctuates during the year depending on seasonal production cycles, weather events and demand for our products. Typically, our second and third quarters tend to generate greater operating income than our first and fourth quarters due to the volume of fruit harvested.

To meet working capital demand and investment requirements of our agribusiness and real estate development segments and to supplement operating cash flows, we utilize our revolving credit facility to fund agricultural inputs and farm management practices until sufficient returns from crops allow us to repay amounts borrowed. Raw materials needed to propagate the various crops grown by us consist primarily of fertilizer, herbicides, insecticides, fuel and water, all of which are readily available from local sources.

### Cash Flows from Operating Activities

For the nine months ended July 31, 2018, net cash provided by operating activities was \$23.2 million compared to net cash provided by operating activities of \$20.1 million for the nine months ended July 31, 2017. The significant components of our Company's cash flows provided by operating activities as included in the unaudited consolidated statements of cash flows are as follows:

Net income for the nine months ended July 31, 2018 was \$23.4 million compared to net income of \$9.2 million for the nine months ended July 31, 2017. The increase in net income of \$14.2 million in the nine months ended July 31, 2018 compared to the same period in fiscal year 2017 was primarily attributable to an increase in operating income of \$2.9 million and an increase in income tax benefit of \$11.0 million.

Depreciation and amortization expenses increased \$0.4 million in the nine months ended July 31, 2018 compared to the same period in fiscal year 2017 primarily due to the acquisition of PDA in February 2017 and an increase in assets placed into service.

Loss on disposals of assets was \$0.2 million in both nine months ended July 31, 2018 and 2017, respectively, primarily the result of expenses incurred from orchard disposals related to the December 2017 Southern California wildfires and our ongoing orchard redevelopment plans.

Stock compensation expense was \$1.2 million and \$1.1 million in the nine months ended July 31, 2018 and 2017, respectively, and was comprised primarily of vesting and expense recognition of the 2015, 2016, 2017 and 2018 grants to management under our stock-based compensation plan plus non-employee directors' stock-based compensation.

Accounts receivable, net balance at July 31, 2018 was \$15.0 million compared to \$11.0 million at October 31, 2017, resulting in a corresponding decrease in operating cash flows of \$4.0 million in the nine months ended July 31, 2018. Accounts receivable, net balance at July 31, 2017 was \$10.7 million compared to \$9.3 million at October 31, 2016, resulting in a corresponding decrease in operating cash flows of \$1.3 million. The \$4.0 million decrease in operating cash flows in the nine months ended July 31, 2018 compared to the \$1.3 million decrease in operating cash flows during same period in fiscal year 2017 was primarily due to fluctuations in price and volume related to agribusiness revenues.

Cultural costs used \$0.2 million of operating cash flows in the nine months ended July 31, 2018 compared to providing \$0.9 million of operating cash flows during the same period in fiscal year 2017. This decrease in operating cash flows cash was primarily due to increased cultural costs at our Ducor, Windfall Farms, PDA and Cadiz ranches

in the nine months ended July 31, 2018 compared to the same period in fiscal year 2017.

Income taxes receivable balance was \$0.3 million at July 31, 2018 compared to \$0.6 million at October 31, 2017, resulting in a corresponding increase in cash of \$0.3 million. Income taxes receivable balance at July 31, 2017 was zero compared to \$2.8 million at October 31, 2016, resulting in a corresponding increase in operating cash flows of \$2.8 million for the nine months ended July 31, 2017.

Accounts payable and growers payable provided \$3.9 million and \$0.5 million of operating cash flows in the nine months ended July 31, 2018 and 2017, respectively. The \$3.9 million of cash provided in the nine months ended July 31, 2018 was primarily the result of \$0.5 million increase in accounts payable, \$3.8 million increase in growers payable offset by \$0.3 million of capital expenditures accrued but not paid at period end. The \$0.5 million of cash provided in the nine months ended July 31, 2017 was primarily the result of \$1.1 million decrease in accounts payable, \$2.0 million increase in growers payable and \$0.3 million of capital expenditures accrued but not paid at period end.

Accrued liabilities used \$0.3 million of operating cash flows in the nine months ended July 31, 2018 compared to providing \$2.0 million of operating cash flows during the same period in fiscal year 2017. The operating cash used in the nine months ended July 31, 2018 was primarily due to payments for incentive compensation and property taxes offset by accrued lemon supplier expenses. The \$2.0 million of operating cash flows provided in the nine months ended July 31, 2017 were primarily comprised of accrued income taxes partially offset by payments for incentive compensation, property taxes and lemon suppliers.

Other long-term liabilities operating cash flows in the nine months ended July 31, 2018 represented \$0.5 million of non-cash pension expense offset by \$0.5 million of pension contributions for the period. Other long-term liabilities operating cash flows in the nine months ended July 31, 2017 represented \$0.7 million of non-cash pension expense offset by \$0.6 million of pension contributions.

#### Cash Flows from Investing Activities

For the nine months ended July 31, 2018, net cash used in investing activities was \$50.9 million compared to net cash used in investing activities of \$23.1 million during the same period in fiscal year 2017. Net cash used in investing activities was primarily comprised of capital expenditures, asset sales and investments.

Capital expenditures were \$9.0 million in the nine months ended July 31, 2018, comprised of \$7.9 million for property, plant and equipment primarily related to orchard and vineyard development and \$1.1 million for real estate development projects. Additionally, in the nine months ended July 31, 2018, we purchased San Pablo for \$13.1 million, Oxnard Lemon for \$25.0 million and a real estate development parcel for \$1.4 million. Further, we contributed \$3.5 million to the Joint Venture for the development of our East Area I real estate development project and received combined net proceeds of \$1.5 million from the sale of the commercial portion of Sevilla and the sale of Centennial.

Capital expenditures were \$9.6 million in the nine months ended July 31, 2017, comprised of \$8.8 million for property, plant and equipment primarily related to orchard and vineyard development and \$0.8 million for real estate development projects. Additionally, in the nine months ended July 31, 2017, we purchased PDA for \$5.7 million and contributed \$7.5 million to our Joint Venture for the development of our East Area I real estate development project.

#### Cash Flows from Financing Activities

For the nine months ended July 31, 2018, net cash provided by financing activities was \$27.6 million compared to net cash provided by financing activities of \$4.8 million during the same period in fiscal year 2017.

The \$27.6 million of cash provided by financing activities during the nine months ended July 31, 2018 was primarily comprised of net repayments of long-term debt in the amount \$32.8 million and net proceeds from our public offering on common stock in the amount of \$64.1 million partially offset by common and preferred dividends, in aggregate, of \$3.3 million. The \$4.8 million of net cash provided by financing activities in the nine months ended July 31, 2017 was primarily comprised of net borrowings of long-term debt in the amount of \$8.0 million partially offset by common and preferred dividends, in aggregate, of \$2.8 million.

#### Transactions Affecting Liquidity and Capital Resources

On June 20, 2017, we entered into a Master Loan Agreement (the "Loan Agreement") with Farm Credit West, FLCA ("Farm Credit West") which includes a Revolving Credit Supplement and a Non-Revolving Credit Supplement (the "Supplements"). Proceeds from the Supplements were used to pay down all the remaining outstanding indebtedness under the revolving credit facility we had with Rabobank, N.A. On January 29, 2018 we amended the Revolving

Credit Supplement to increase the borrowing capacity from \$60.0 million to \$75.0 million. The Supplements provide aggregate borrowing capacity of \$115.0 million, comprised of \$75.0 million under the Revolving Credit Supplement and \$40.0 million under the Non-Revolving Credit Supplement. In May 2018, we locked the interest rate on the Non-Revolving Credit Supplement at 4.77%, effective July 1, 2018.

The interest rate for any amount outstanding under the Supplements is based on the one-month London Interbank Offered Rate (“LIBOR”) rate plus an applicable margin, which is subject to adjustment on a monthly basis. The applicable margin ranges from 1.60% to 2.35% depending on the ratio of current assets plus the remaining available commitment divided by current liabilities. On July 1, 2018, and on each one-year anniversary thereafter, we have the option to convert the interest rate in use under each Supplement from the preceding LIBOR-based calculation to a variable interest rate, or the reverse, as applicable. Any amounts outstanding under the Supplements are due and payable in full on July 1, 2022.

All indebtedness under the Loan Agreement, including any indebtedness under the Supplements, is secured by a first lien on certain of our agricultural properties in Tulare and Ventura counties in California and certain of our building fixtures and improvements and investments in mutual water companies associated with the pledged agricultural properties. The Loan Agreement includes customary default provisions that provide that should an event of default occur, Farm Credit West, at its option, may declare all or any portion of the indebtedness under the Loan Agreement to be immediately due and payable without demand, notice of non-payment, protest or prior recourse to collateral, and terminate or suspend our right to draw or request funds on any loan or line of credit.

The Loan Agreement 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 of our business. We are also subject to a covenant that we will maintain a debt service coverage ratio greater than 1.25:1.0 measured annually at October 31, with which we were in compliance at October 31, 2017.

We finance our working capital and other liquidity requirements primarily through cash from operations and our Farm Credit West Credit Facility. In addition, we have the Farm Credit West Term Loans, the Wells Fargo term loan, the Banco de Chile term loan and a note payable to the sellers of a land parcel. Additional information regarding the Farm Credit West Credit Facility, the Farm Credit West Term Loans, the Wells Fargo Term Loan, the Banco de Chile term loan and the note payable can be found in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

We believe that the cash flows from operations and available borrowing capacity from our existing credit facilities will be sufficient to satisfy our capital expenditures, debt service, working capital needs and other contractual obligations for the remainder of fiscal year 2018. In addition, we have the ability to control a portion of our investing cash flows to the extent necessary based on our liquidity demands.

#### Farm Credit West Credit Facility

As of July 31, 2018, our outstanding borrowings under the Farm Credit West Credit Facility were \$43.8 million and we had \$71.2 million of availability. The Farm Credit West Credit Facility currently bears interest at a variable rate equal to the one-month LIBOR plus 1.85%. The interest rate resets on the first of each month and was 3.95% at July 31, 2018. Any amounts prepaid under the Non-Revolving Credit Supplement are subject to a fee to 0.50% of such amounts prepaid. The line of credit provides for maximum borrowings of \$115.0 million and the borrowing capacity based on collateral value was \$115.0 million at July 31, 2018.

We have the option of fixing the interest rate under the Farm Credit West Credit Facility on any portion of outstanding borrowings using interest rate swaps. Effective July 2013, we fixed the interest rate at 4.30% utilizing an interest rate swap on \$40.0 million of the Rabobank Credit Facility. In connection with the paydown of the Rabobank debt noted above, on June 20, 2017 we entered into a novation agreement with Rabobank International, Utrecht and CoBank, ACB ("CoBank"). The agreement provided for the prior interest rate swap agreement with Rabobank to be in place with CoBank. Additional information regarding the interest rate swap can be found in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. This swap expired June 30, 2018.

#### Farm Credit West Term Loans

As of July 31, 2018, we had an aggregate of approximately \$20.0 million outstanding under Farm Credit West Term Loans, which are further discussed here:

-

Term Loan Maturing November 2022. As of July 31, 2018, we had \$2.7 million outstanding under the Farm Credit West Term Loan that matures in November 2022. This term loan bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% and is payable in quarterly installments through November 2022. The interest rate resets monthly and was 4.45% at July 31, 2018. This term loan is secured by certain of our agricultural properties.

Term Loan Maturing October 2035. As of July 31, 2018, Windfall had \$1.1 million outstanding under the Farm Credit West Term Loan that matures in October 2035. This term loan bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% and is payable in monthly installments through October 2035. The interest rate resets monthly and was 4.45% at July 31, 2018. This term loan is secured by the Windfall Farms property.

Term Loan Maturing March 2036. As of July 31, 2018, we had \$9.3 million outstanding under the Farm Credit West Term Loan that matures in March 2036. This loan bears interest at a fixed rate of 4.70% and is payable in monthly installments through March 2036. This term loan is secured by certain of our agricultural properties.

Term Loan Maturing March 2036. As of July 31, 2018, we had \$6.9 million outstanding under the Farm Credit West Term Loan that matures in March 2036. This loan bears interest at a fixed rate of 3.62% until March 2021, becoming variable for the remainder of the loan at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25%. This term loan is payable in monthly installments through March 2036 and is secured by certain of our agricultural properties.

The Farm Credit West Term Loans contain various conditions, covenants and requirements with which our Company and Windfall must comply. In addition, our Company and Windfall are subject to limitations on, among other things, selling, abandoning or ceasing business operations; merging or consolidating with a third party; disposing of a substantial portion of assets by sale, transfer, gifts or lease except for inventory sales in the ordinary course of business; obtaining credit or loans from other lenders other than trade credit customary in the business; becoming a guarantor or surety on or otherwise liable for the debts or obligations of a third party; and mortgaging, pledging, leasing for over a year, or otherwise making or allowing the filing of a lien on any collateral.

#### Wells Fargo Term Loan

As of July 31, 2018, we had \$6.7 million outstanding under the Wells Fargo term loan. This term loan bears interest at a fixed rate of 3.58% and is payable in monthly installments through January 2023. The loan is secured by certain equipment associated with our new lemon packing facilities. The loan contains affirmative and restrictive covenants including, among other customary covenants, financial reporting requirements, requirements to maintain and repair any collateral, restrictions on the sale of assets, restrictions on the use of proceeds, prohibitions on the incurrence of additional debt and restrictions on the purchase or sale of major assets. We are also subject to a covenant that our Company will maintain a debt service coverage ratio, as defined in the loan agreement, of less than 1.25 to 1.0 measured annually at October 31, with which we were in compliance at October 31, 2017.

#### Banco de Chile Term Loan

Through the acquisition of PDA in February 2017, we assumed a \$1.7 million term loan with Banco de Chile that matures in January 2025. This term loan bears interest at a fixed rate of 6.48% and is payable in eight annual installments beginning January 2018. This loan is unsecured and contains certain pre-payment limitations.

#### Note Payable

In February 2018, we exercised an option to purchase a 7-acre parcel adjacent to our East Area II real estate development project. In connection with this purchase, we issued a note payable for \$1.4 million promissory note secured by first deed of trust, payable to the sellers. The note is due in five years, with interest-only, monthly payments at interest rates ranging from 5.0% to 7.0% and was 5.0% at July 31, 2018.

#### Public Offering of Common Stock

In June 2018, we completed the sale of an aggregate of 3,136,362 shares of our common stock, at a price of \$22.00 per share, to a limited number of institutional and other investors in a registered offering under the shelf registration statement. The offering represented 18% of our outstanding common stock on an after-issued basis as of June 25, 2018. Upon completion of the offering and issuance of common stock, we had 17,669,314 shares of common stock outstanding. The net proceeds from the sale of shares, after deducting underwriting discounts and our estimated

expenses related to the offering, were approximately \$64.1 million. In June and July 2018, we used the offering proceeds to pay down debt, purchase San Pablo ranch and purchase Oxnard Lemon's packinghouse, related land and certain other assets.

#### Interest Rate Swap

From time to time we enter into interest rate swap agreements to manage the risks and costs associated with our financing activities. Additional information regarding interest rate swaps that we have entered into historically can be found in the notes to the unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Our debt bears interest at fixed and variable rates, ranging from 3.58% to 6.48% at July 31, 2018.



### Contractual Obligations

In January 2018, the Joint Venture entered into a \$45.0 million unsecured Line of Credit Loan Agreement and Promissory Note (the "Loan") with Bank of America, N.A. to fund early development activities. The Loan matures in January 2020, with an option to extend the maturity date until 2021, subject to certain conditions. The interest rate on the Loan is LIBOR plus 2.85%, payable monthly. The Loan contains certain customary default provisions and the Joint Venture may prepay any amounts outstanding under the Loan without penalty. In February 2018, the obligations under the Loan were guaranteed by certain principals from Lewis and by the Company. The Joint Venture recorded an \$18.6 million outstanding loan balance at July 31, 2018 related to this loan.

We believe that the cash flows from our agribusiness and rental operations business segments as well as available borrowing capacity from our existing credit facilities will be sufficient to satisfy our future capital expenditure, debt service, working capital and other contractual obligations for the remainder of fiscal year 2018. In addition, we have the ability to control the timing of a portion of our investing cash flows to the extent necessary based on our liquidity demands.

### Fixed Rate and Variable Rate Debt

Details of amounts included in long-term debt can be found above and in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

### Preferred Stock Dividends

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., we issued 30,000 shares of Series B Convertible Preferred Stock at \$100 par value (the "Series B Stock"), of which 14,790 shares are currently outstanding. The holders of the Series B Stock are entitled to receive cumulative cash dividends at an annual rate of 8.75% of par value. Such dividends are payable quarterly on the first day of January, April, July and October in each year commencing July 1, 1997 and total \$0.1 million annually.

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

### Defined Benefit Pension Plan

We have a noncontributory, defined benefit, single employer pension plan (the "Plan"), which provides retirement benefits for all eligible employees of the Company. Effective June 2004, the Company froze the Plan and no additional benefits accrued to participants subsequent to that date. We may make discretionary contributions to the Plan and we may be required to make contributions to adhere to applicable regulatory funding provisions, based in part on the Plan's asset valuations and underlying actuarial assumptions. We made funding contributions of \$0.7 million, \$0.5 million and \$0.4 million in fiscal years 2017, 2016 and 2015, respectively and we plan to contribute approximately \$0.6 million to the Plan in fiscal year 2018.

### Operating Lease Obligations

We have numerous operating lease commitments with remaining terms ranging from less than one year to ten years. In fiscal year 2008, we installed a one mega-watt photovoltaic solar array on one of our agricultural properties located

in Ventura County that produces a significant portion of the power to run our lemon packinghouse. The construction of this array was financed by Farm Credit Leasing and we have a long-term lease with Farm Credit Leasing for this array. Annual payments for this lease are \$0.5 million, and at the end of fiscal year 2018 we have an option to purchase the array for \$1.1 million. In fiscal year 2009, we entered into a similar transaction with Farm Credit Leasing for a second photovoltaic array at one of our agricultural properties located in the San Joaquin Valley to supply a significant portion of the power to operate four deep water well pumps located our property. Annual lease payments for this facility range from \$0.3 million to \$0.8 million, and at the beginning of fiscal year 2019 we have the option to purchase the array for \$1.3 million.

We lease approximately 80 acres of lemons in Lindsay, California at a base rent of \$500 per acre plus 50% of the operating profit of the leased acreage as defined in the lease. The lease expires December 2021 and includes four five-year renewal options. Estimated aggregate lease expense is approximately \$0.1 million per year.

On July 1, 2013, we entered into a lease agreement with Cadiz, Inc. (“Cadiz”) to develop new lemon orchards on Cadiz’s agricultural property in eastern San Bernardino County, California (the “Cadiz Ranch”). Under the terms of the lease agreement, we have the right to lease and plant up to 1,280 acres of lemons over the next five years at the Cadiz Ranch operations in the Cadiz Valley and have leased 320 acres initially, subject to a mutually agreed upon planting schedule. The lease agreement provides options to plant up to 960 additional acres (320 acres in Option 1 and 640 acres in Option 2) by 2019. The annual rental payment includes a base rent of \$200 per planted acre and a lease payment equal to 20% of net cash flow from the harvested crops grown on Cadiz property. Pursuant to the terms of the lease agreement, the annual rental payment will not exceed a total of \$1,200 per acre. We incurred approximately \$0.1 million of lease expense in fiscal years 2017, 2016 and 2015, respectively.

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

We lease machinery and equipment for our packing operations and other land for our agricultural operations under leases with annual lease commitments that are individually immaterial.

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

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

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

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

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

Limoneira and the Joint Venture also entered into a Retained Property Development Agreement on the Transaction Date (the "Retained Property Agreement"). Under the terms of the Retained Property Agreement, the Joint Venture will transfer certain contributed East Area I property, which is entitled for commercial development, back to Limoneira (the "Retained Property") and arrange for the design and construction of certain improvements to the Retained Property, subject to certain reimbursements by Limoneira. In August 2018, the Retained Property was transferred back to Limoneira.

We expect to receive approximately \$100.0 million from the Joint Venture over the estimated 7 to 10-year life of the project including \$20.0 million received on the consummation of the Joint Venture. The Joint Venture partners will share in capital contributions to fund project costs until project loan proceeds and or revenues are sufficient to fund the project. These funding requirements are currently estimated to total \$10.0 to \$15.0 million for each Joint Venture partner in the first two to three years of the project and we funded \$3.5 million in the first quarter of fiscal year 2018 and \$7.5 million in fiscal year 2017.

In January 2018, the Joint Venture entered into a \$45.0 million unsecured Line of Credit Loan Agreement and Promissory Note (the "Loan") with Bank of America, N.A. to fund early development activities. The Loan matures in January 2020, with an option to extend

the maturity date until 2021, subject to certain conditions. The interest rate on the Loan is LIBOR plus 2.85%, payable monthly. The Loan contains certain customary default provisions and the Joint Venture may prepay any amounts outstanding under the Loan without penalty. In February 2018, the obligations under the Loan were guaranteed by certain principals from Lewis and by the Company. The Joint Venture recorded an \$18.6 million outstanding loan balance at July 31, 2018 related to this loan.

#### Off-Balance Sheet Arrangements

As discussed above and in Note 7 – Real Estate Development and Note 8 – Equity Investments in the Notes to Consolidated Financial Statements included in our fiscal year 2017 Annual Report on Form 10-K, we have investments in joint ventures and partnerships that are accounted for using the equity method of accounting.

#### Recent Accounting Pronouncements

Please see Note 2 – Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for information concerning recent accounting pronouncements.

#### Critical Accounting Policies and Estimates

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

**Foreign Currency Translation** - PDA and San Pablo's functional currency is the Chilean Peso. Their balance sheets are translated to U.S. dollars at exchange rates in effect at the balance sheet dates and their income statements are translated at average exchange rates during the reporting period. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income.

**Revenue Recognition** - As a general policy, revenue and related costs are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) selling price is fixed or determinable and (iv) collectability is reasonably assured. We record a sales allowance in the period revenue is recognized as a provision for estimated customer discounts and concessions.

**Agribusiness Revenue** - Revenue from lemon sales is generally recognized FOB shipping point when the customer takes possession of the fruit from our packinghouse. Revenue from the sales of certain of our agricultural products is recorded based on estimated proceeds provided by certain of our sales and marketing partners (Calavo and other third-party packinghouses) due to the time between when the product is delivered by us and the closing of the pools for such fruits at the end of each month. Calavo and other third-party packinghouses are agricultural cooperatives or function in a similar manner as an agricultural cooperative. As such, we apply specific authoritative agriculture revenue recognition guidance related to transactions between patrons and agriculture marketing cooperatives to record revenue at time of delivery to the packinghouses relating to fruits that are in pools that have not yet closed at month end if (i) the related fruits have been delivered to and accepted by Calavo and other third-party packinghouses (i.e., title has transferred to Calavo and other third-party packinghouses) and (ii) sales price information has been provided by Calavo and other third-party packinghouses (based on the marketplace activity for the related fruit) to estimate with reasonable certainty the final selling price for the fruit upon the closing of the pools. Historically, the revenue that is

recorded based on the sales price information provided to us by Calavo and other third-party packinghouses at the time of delivery have not materially differed from the actual amounts that are paid after the monthly pools are closed. We also earn commissions on certain brokered fruit sales, which totaled \$324,000, \$263,000 and \$114,000 in fiscal years 2017, 2016 and 2015, respectively.

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

Our arrangements with third-party packinghouses are such that we are the producer and supplier of the product and the third-party packinghouses are our customers. The revenues we recognize related to the fruits sold to the third-party packinghouses are based on

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

Revenue from crop insurance proceeds is recorded when the amount of and the right to receive the payment can be reasonably determined. We recorded agribusiness revenues from crop insurance proceeds of \$74,000, \$83,000 and \$9,000 in fiscal years 2017, 2016 and 2015, respectively.

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

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

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

Real Estate Development Costs - We capitalize the planning, entitlement, construction and development costs associated with our various real estate projects. Costs that are not capitalized, which include property maintenance and repairs, general and administrative and marketing expenses, are expensed as incurred. A real estate development project is considered substantially complete upon the cessation of construction and development activities. Once a project is substantially completed, future costs are expensed as incurred.

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.

Business Combinations and Asset Acquisitions – Business combinations are accounted for under the acquisition method in accordance with ASC 805, Business Combinations. The acquisition method requires identifiable assets acquired and liabilities assumed and any noncontrolling interest in the business acquired be recognized and measured at fair value on the acquisition date, which is the date that the acquirer obtains control of the acquired business. The amount by which the fair value of consideration transferred as the purchase price exceeds the net fair value of assets acquired and liabilities assumed is recorded as goodwill. Acquisitions that do not meet the definition of a business under the ASC are accounted for as asset acquisitions. Asset acquisitions are accounted for by allocating the cost of the acquisition to the individual assets acquired and liabilities assumed on a relative fair value basis. Goodwill is not recognized in an asset acquisition with any consideration in excess of net assets acquired allocated to acquired assets on a relative fair value basis. Transaction costs are expensed in a business combination and are considered a component of the cost of the acquisition in an asset acquisition.



**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.

**Defined Benefit Retirement Plan** As discussed in the notes to our consolidated financial statements, we sponsor a defined benefit retirement plan that was frozen in June 2004, and no future benefits accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715, Compensation - Retirement Benefits, provides guidance as to, among other things, future estimated pension expense, pension liability and minimum funding requirements. This information is provided to us by third-party actuarial consultants. In developing this data, certain estimates and assumptions are used, including among other things, discount rate, long-term rate of return and mortality tables. During 2017, the Society of Actuaries ("SOA") released a new mortality improvement scale table, referred to as MP-2017, which is believed to better reflect mortality improvements and is to be used in calculating defined benefit pension obligations. In addition, during fiscal year 2017, the assumed discount rate to measure the pension obligation remained unchanged at 3.6%. The Company used the latest mortality tables released by the SOA through October 31, 2017 to measure its pension obligation as of October 31, 2017 and combined with the assumed discount rate and other demographic assumptions, its pension obligation decreased by approximately \$1.8 million as of October 31, 2017 with a corresponding increase in other comprehensive income recognized net of tax. Further changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in the disclosures discussed in the section entitled "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 as filed with the Securities and Exchange Commission (the "SEC") on January 8, 2018.

### Item 4. Controls and Procedures

**Disclosure Controls and Procedures.** As of July 31, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

**Changes in Internal Control over Financial Reporting.** There have been no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

**Acquisition of San Pablo and Oxnard Lemon.** We will exclude San Pablo's and Oxnard Lemon's operations from our management's report on internal control over financial reporting as we continue to evaluate its internal controls. This exclusion is in accordance with the general guidance issued by the Staff of the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the first year of consolidation.

PART II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors

There have been no material changes in the disclosures discussed in the section entitled “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, as filed with the SEC on January 8, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit  
Number Exhibit

- 3.1 Restated Certificate of Incorporation of Limoneira Company, dated July 5, 1990 (Incorporated by reference to exhibit 3.1 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.2 Certificate of Merger of Limoneira Company and The Samuel Edwards Associates into Limoneira Company, dated October 31, 1990 (Incorporated by reference to exhibit 3.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.3 Certificate of Merger of McKeveitt Corporation into Limoneira Company dated December 31, 1994 (Incorporated by reference to exhibit 3.3 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.4 Agreement of Merger Between Ronald Michaelis Ranches, Inc. and Limoneira Company, dated June 24, 1997 (Incorporated by reference to exhibit 3.6 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.5 Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated April 22, 2003 (Incorporated by reference to exhibit 3.7 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.6 Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated March 24, 2010 (Incorporated by reference to exhibit 3.9 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 3.7 Certificate of Amendment of Certification of Incorporation of Limoneira Company, dated March 29, 2017 (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed March 31, 2017 (File No. 001-34755))
- 3.8 Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.10 to the Company's Annual Report on Form 10-K, filed January 14, 2013 (File No. 001-34755))
- 3.8.1 Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed September 25, 2013 (File No. 001-34755))
- 3.8.2 Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed December 18, 2014 (File No. 001-34755))
- 3.8.3 Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form, 8-K, filed January 25, 2017 (File No. 001-34755))
- 3.8.4 Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K, filed July 26, 2017 (File No. 001-34755))
- 4.1 Specimen Certificate representing shares of Common Stock, par value \$0.01 per share (Incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))

- 4.2 Rights Agreement dated December 20, 2006 between Limoneira Company and The Bank of New York, as Rights Agent (Incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))
- 4.3 Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.4 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))

Exhibit Number	Exhibit
4.4	<u>Amended Certificate of Designation, Preferences and Rights of \$8.75 Voting Preferred Stock, \$100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.5 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))</u>
4.5	<u>Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, \$.01 Par Value, of Limoneira Company, dated November 21, 2006 (Incorporated by reference to exhibit 3.8 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010 (File No. 000-53885))</u>
4.6	<u>Certificate of Designation, Preferences and Rights of 4% Voting Preferred Stock, \$100.00 Par Value, Series B-2 of Limoneira Company, dated March 20, 2014 (Incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed March 24, 2014 (File No. 001-34755))</u>
10.1	<u>Asset Purchase Agreement, dated July 24, 2018, by and between Limoneira Company and Oxnard Lemon Associates, Ltd. (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 26, 2018 (File No. 001-34755))</u>
31.1*	<u>Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)</u>
31.2*	<u>Certification of the Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)</u>
32.1*	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2*	<u>Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
	*Filed herewith

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the

Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

LIMONEIRA COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIMONEIRA COMPANY

September 10, 2018 By: /s/ HAROLD S. EDWARDS

Harold S. Edwards  
Director, President and Chief Executive Officer  
(Principal Executive Officer)

September 10, 2018 By: /s/ MARK PALAMOUNTAIN

Mark Palamountain  
Chief Financial Officer,  
Treasurer and Corporate Secretary  
(Principal Financial and Accounting Officer)