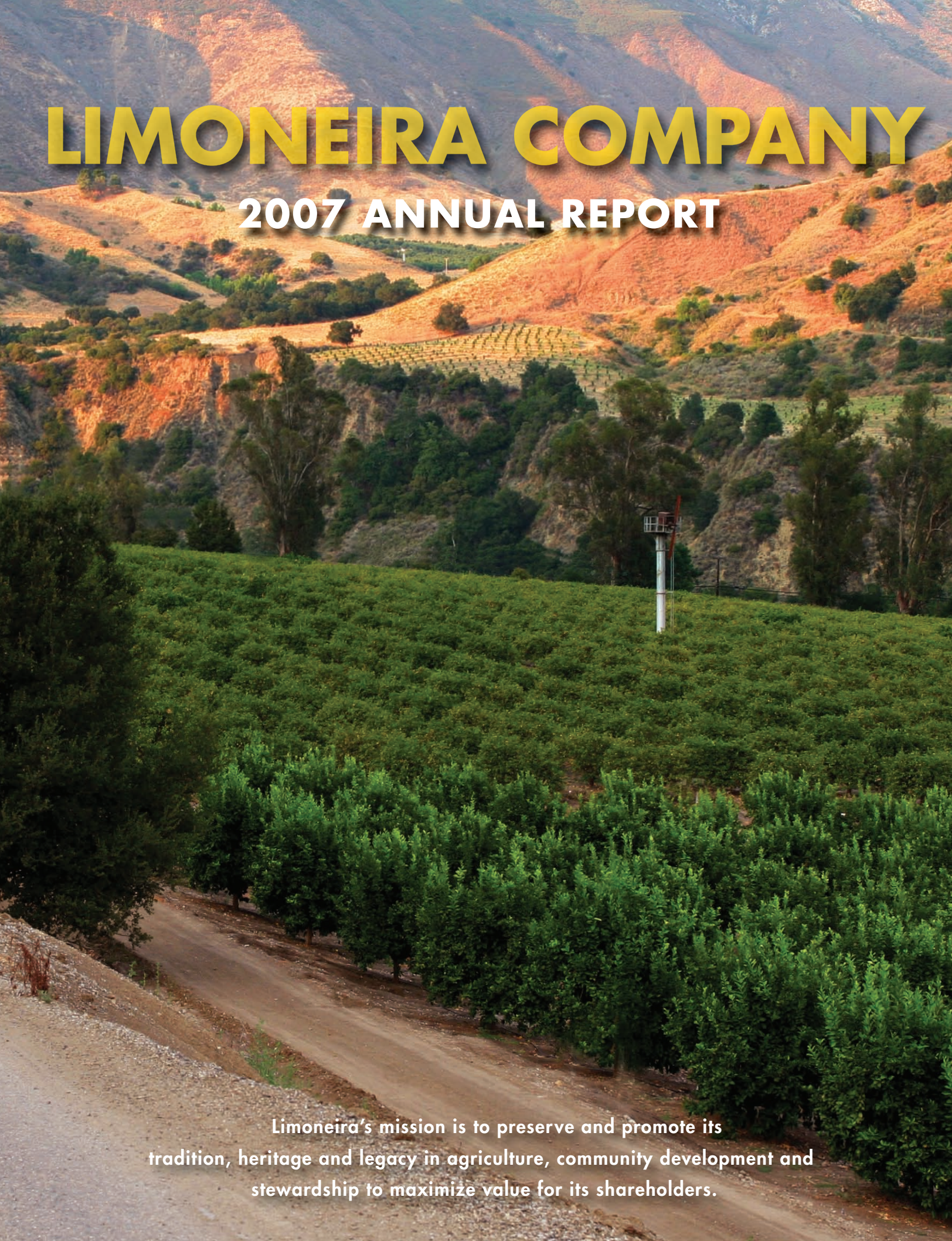


# LIMONEIRA COMPANY

## 2007 ANNUAL REPORT



Limoneira's mission is to preserve and promote its tradition, heritage and legacy in agriculture, community development and stewardship to maximize value for its shareholders.





**BOARD OF DIRECTORS**  
left to right:

- Gordon E. Kimball**
- John M. Dickenson**  
Chairman Emeritus
- Robert M. Sawyer**  
Vice Chairman
- Alan M. Teague**  
Chairman
- Allan M. Pinkerton**
- Lecil E. Cole**
- John W.H. Merriman**
- Ronald L. Michaelis**
- John W. Blanchard**  
Vice-Chairman

**MANAGEMENT** left to right:

- Greg Hamm**, Controller
- Ryan Nasalroad**, Operations Manager, Agritourism and Filming
- Eric Tovias**, Director, Information Systems
- Ely Key**, Special Projects Manager
- Rosie Castillo**, Property Manager
- John Chamberlain**, Director, Marketing
- Mario Ortega**, Harvest Manager
- Susan Jones-Ng**, Sales Manager, Lemon Operations and Orchard Fresh Gift Baskets
- Pete Dinkler**, Vice President Lemon Packing
- Kathleen Thompson**, Director, Human Resources
- Gus Gunderson**, Director, Southern Operations
- Dan Galbraith**, Director, Northern Operations
- Tomas Gonzalez**, Director, Packing and Sales-Lemon Operations



**SENIOR MANAGEMENT**  
left to right:

- Don P. Delmatoff**  
Vice President  
of Finance &  
Administration & Chief  
Financial Officer
- Alex M. Teague**  
Senior Vice President
- Harold S. Edwards**  
President & Chief  
Executive Officer

## LETTER FROM THE CHAIRMAN TO SHAREHOLDERS

Once again this year's financial results are reflective of good opportunities and a very capable management team which continues to meet our corporate mission goals.

Your Board of Directors joins me in expressing our thanks to all those who have contributed to the Company's success.

As you will note, lemon sales were our primary winner over the past few years. Management has succeeded in developing improved overall per acre production along with increased fresh utilization.

Although the January freeze took its toll, particularly with avocados, we still managed to exceed last year's results from agricultural operations.

This in turn points to our expanded agricultural and non-agricultural endeavors. The aim is to increase cash flow and new investment opportunities without unnecessary risk.

In order to recognize our Company's progress and to better align senior management's objectives with those of our shareholders, your Board was pleased to implement a stock grant program for senior management.

When we employ the word "Team" we truly mean it in every sense. The Company is fully sustainable in all phases of employee relations, community involvement and preparations for the future. The "open door" policy of idea sharing and reward has produced results. One which will help us grow, become stronger and invest in the future.

Our monthly Board of Directors meetings adhere to detailed agendas and are proactive. Staff and Board members alike are mutually informed and decisive.

Shareholders with comments or questions are welcome to contact senior staff or Board members should there be such an interest.

Respectfully submitted,



Alan M. Teague  
Chairman of the Board



## PRESIDENT'S LETTER TO THE SHAREHOLDERS

The Limoneira Company's fiscal year 2007, our one hundred and fourteenth year of operation, was truly an extraordinary year. It was a year in which the entire Limoneira team pulled together to overcome the many challenges associated with a devastating freeze and it was a year in which significant progress was achieved advancing our initiatives in agriculture, community development and stewardship. Ultimately, it was a year in which we achieved our highest operating profit ever while laying the groundwork for continued earnings growth and cash generation.

In January 2007 Limoneira endured a harsh week-long freeze that challenged our agricultural operations throughout California. The results of the freeze were severe. We lost approximately 60 percent of our 2007 avocado crop and, in some areas acres of avocado trees were killed. Both our northern and southern citrus operations sustained considerable loss of production. The Limoneira team's response to the freeze was impressive as everyone rolled up their sleeves to make the most from this challenge. While the freeze's impact on our production was negative, in some cases deadly, the ensuing opportunities that developed in the market place caused by industry-wide shortages and high sales prices allowed our team to overcome the negative impact to our production and achieve a \$15.7 million agribusiness operating profit – our highest ever. Unfortunately, the effects of the freeze will be with us for several years as our acreage recovers – especially our avocados. Fortunately, the quality and diversity of our agricultural operations, along with the fighting spirit of the Limoneira team, allowed us to persevere through this challenging event; turning adversity into advantage.

In 2007 we advanced our strategy of diversifying operations outside of productive agriculture and we achieved solid growth in all our non-agricultural businesses. Limoneira's housing and commercial real estate operations achieved operating profit growth of 15 percent over 2006 and provided consistent and predictable monthly cash flow for our Company. Operating profit from investments achieved 150 percent growth over 2006 as we successfully leveraged our balance sheet to generate earnings. In total, we achieved operating profit growth of nearly 123 percent in our non-agricultural businesses. Growth of Limoneira's non-agricultural businesses provides consistency and stability to our earnings

Limoneira made great progress on its community development projects in Santa Paula in 2007. A specific plan for the Company's East Area I project has been created and the project's environmental impact report has been issued to the public for comment. Our Company is currently in the process of finalizing a development agreement with the City of Santa Paula. City Council approval for the project is projected for early March 2008 which should allow the East Area I project to be a ballot measure during Santa Paula's general election in June 2008. We are focused on a grass roots communication campaign within the Santa Paula community and working diligently to address any concerns the project may cause. The benefits of the East Area I project for the Santa Paula community and for the Limoneira Company are profound and we are hopeful that our efforts on this project have built consensus in our community and garnered community support.

2007 was another year of active philanthropic giving by Limoneira. The Limoneira Foundation provided assistance to many worthy organizations facilitating our community development mission. We were proud to work with Santa Paula's Chamber of Commerce this year generating over \$50,000 for Santa Paula's Police and Fire Departments by hosting a gala event called *Moonlight at the Ranch*. We also are proud of our affiliation with Santa Paula's Rotary Club who hosted a Halloween *Pumpkin Patch* which raised over \$80,000 for the Rotary Club. All the pumpkins for this event were raised by Limoneira and donated to the Rotary Club for their benefit. Finally, with nearly one year of successful operation under its belt, the Santa Paula Hospital's on-going success remains of vital importance to the Santa Paula community and to Limoneira. We were pleased to be the title sponsor for a fundraising event targeting the Santa Clara Valley Wellness Foundation and the Santa Paula Hospital.

Financially, 2007 was a significant year for Limoneira. Record level operating profits allowed us to fund nearly \$2 million in investment related expenses (included in selling, general and administrative costs on the income statement) tied to our community development projects. Also, in 2007 Limoneira's Board of Directors fulfilled their objective of aligning Senior Management's interests with Limoneira's shareholders by implementing a stock grant incentive program resulting in a non-cash expense of \$3.2 million. Despite these extraordinary expenses the Company was able to generate nearly \$10 million in operating cash flows. Limoneira's balance sheet was strengthened by a \$13 million capital gain in its investment in Calavo Growers versus 2006 representing 135 percent appreciation over our initial \$10 million investment (to date unrealized). In 2007 we utilized our strong balance sheet to fund nearly \$30 million in short, medium and long-term investments complimenting our portfolio of assets with investments blending medium and long-term capital appreciation potential with short, medium and long-term cash flow potential. These investments will contribute to Limoneira's sustained earnings and cash flow growth.

## 2007 REVIEW

### 2007 Operating Profit

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>Percent</u>
Agribusiness	\$15,668,000	\$14,192,000	\$1,476,000	10%
Housing & Commercial	\$ 934,000	\$ 813,000	\$ 121,000	15%
Organic Recycling	\$ 158,000	\$ 104,000	\$ 54,000	52%
Investments	\$ 2,622,000	\$ 1,049,000	\$1,573,000	150%
Operations Expense	\$ (531,000)	\$ (501,000)	\$ (30,000)	(6%)
<b>OPERATING PROFIT</b>	<b>\$18,851,000</b>	<b>\$15,657,000</b>	<b>\$3,194,000</b>	<b>20%</b>

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

## AGRIBUSINESS OPERATIONS

### *2007 Agribusiness Operating Profit*

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>Percent</u>
Lemons	\$11,753,000	\$ 5,803,000	\$ 5,950,000	103%
Oranges	\$ 2,059,000	\$ 1,472,000	\$ 587,000	40%
Avocados	\$ 289,000	\$ 5,820,000	\$(5,531,000)	(95%)
Specialties	\$ 806,000	\$ 773,000	\$ 33,000	5%
Other	<u>\$ 761,000</u>	<u>\$ 324,000</u>	<u>\$ 437,000</u>	<u>135%</u>
<b>Total</b>	<b>\$15,668,000</b>	<b>\$14,192,000</b>	<b>\$ 1,476,000</b>	<b>10%</b>

In January 2007 an arctic mass of cold air entered California bringing sustained temperatures in the 20's and teens with it. The impact was devastating to Limoneira's avocado production. In 2006 Limoneira produced and sold 18 million pounds of avocados. Because avocados tend to be alternate bearing, our pre-freeze production forecast for 2007 was nine million pounds. As a result of the freeze, we produced and sold only four million pounds and generated an operating profit of \$289,000 versus \$5.8 million in 2006. Even though the price per pound was considerably improved in 2007 versus 2006 (\$0.73 per pound versus \$0.47 per pound) our volume loss in 2007 took its toll on our overall avocado operating profit. Lemons, on the other hand, took advantage of record level selling prices throughout the year (average F.O.B. = \$23.46 per carton) as well as dramatically improved fresh utilization versus 2006 to generate \$11.8 million - our highest lemon operating profit ever. This result represented 103 percent growth in lemon operating profit versus 2006. The teamwork exhibited by our entire lemon team throughout the year was fun to watch and the results were impressive. Similarly, operating profits from our orange production of \$2.1 million were up 40 percent versus 2006.

Limoneira has increased its agricultural leased land business to 586 acres – primarily to row crop vegetable and strawberry producers. Operating profits from our leased land business were up 35 percent versus 2006 and contributed operating profit of \$1.3 million in 2007. Growth in our agricultural land lease business has been accomplished without compromising the total production of our remaining citrus and avocado acreage. Through improved cultural practices we have increased our overall yield per acre. Growth in our agricultural land lease business has allowed us to generate more consistent earnings and cash flows without compromising our other agricultural production.

We were pleased with our \$158,000 operating profit in our organic recycling operations in 2007; representing 52 percent growth over 2006. Growth was attributable to a new organic recycling site opened in California for the processing of green waste from Los Angeles County. We see tremendous promise in the expansion of partnerships between regional waste haulers, local agricultural producers, Limoneira and Agromin. The Limoneira/Agromin experience provides comfort for agricultural producers to partner

with regional waste haulers to reap the benefits of organic recycling. In return for this comfort, Limoneira is able to garner a royalty for its services. As committed stewards of our land, our water, our environment and our community we remain bullish on organic recycling and feel it is a vital component of our efforts in sustainability.

Limoneira's agribusiness results in 2007 were gratifying despite the devastating impact of the January freeze. Our teamwork throughout the Company maximized returns per acre allowing us to achieve our best year ever agriculturally. We continue to invest back into our properties and were able to replant fifty acres of underperforming orchards in 2007. We also purchased the 100 acre Jencks Ranch contiguous to our property in Porterville, California complimenting our San Joaquin Valley orange acreage.

### **REAL ESTATE OPERATIONS**

For the past four years we have been diligently working on a large community development project for the City of Santa Paula called East Area I. Following three years of community outreach and interaction we successfully produced a specific plan for the 460 acre Teague-McKevett Ranch on the eastern border of the City. The plan calls for much needed community parks, recreational facilities, schools, commercial/light-industrial property and neighborhoods that blend consistently with the existing Santa Paula community. We have assembled a world class team of urban planners and entitlement experts to facilitate our project's development. In 2007 we opened the Limoneira Pavilion at Limoneira's Mercantile, located on the eastern border of the City, designed to communicate the specific East Area I plan as well as inform visitors of Limoneira's historic involvement in the evolution and development of the Santa Paula community. The Limoneira Pavilion has been a wonderful tool for our community outreach efforts and allowed us to tell our story more efficiently and effectively to the community.

Following months of laborious research and analysis our environmental impact team submitted our environmental impact findings and mitigation plans for the East Area I project to the City of Santa Paula for their review. These plans analyzed project impacts from traffic, water, air quality, biology, anthropology, hydrology, water run-off, and virtually all other environmental concerns. In late November 2007, the City issued a Draft Environmental Impact Report (DEIR) to the public compiling all of these environmental impact findings and mitigation plans along with the City's opinions about these impacts and mitigation plans. The DEIR was then scrutinized by the public over a 45 day public comment period ending on January 7, 2008. The Santa Paula City Council and Planning Commission will now hold a series of public review sessions for the project to review the development plans along with all comment letters received during the comment period. We are hopeful to receive project approval from both the Santa Paula Planning Commission and City Council by March 7. This will allow the East Area I project to qualify for a June general election ballot in Santa Paula. Following a successful vote, we estimate the property annexation process with the Local Agency Formation Commission (LAFCO) to take approximately one year; which means that project development could begin build-out during the first part of 2010. Given the

current downturn in the California housing industry this timing should prove to be advantageous as the housing market recovers and regains momentum.

Our farm worker housing and commercial real estate operations grew nicely in 2007. We enjoyed a year of high occupancies in our rental businesses and managed expenses within our plan. We are nearing completion of our entitlement efforts on an infill farm worker housing project that will increase our number of houses by 85 units – a 40 percent increase. We expect to begin this project in late 2008.

## **INVESTMENTS**

Growth in our 2007 investment profit was attributable to a real estate project we entered into in Santa Maria, California. In December 2006 Limoneira issued a bridge loan to an entity which purchased four residential/commercial real estate parcels in Santa Maria, California at prices below market. Each of the four parcels were at different stages of entitlement and the loan was made to allow our partner, The Templeton/Santa Barbara LLC, to advance entitlement efforts while seeking an eventual buyer for the projects. The loan yields an above-market rate of return for Limoneira and, upon repayment of the loan in 2008, allows Limoneira to participate in the project's profit. We estimate receiving profit from this project in 2009.

In 2007 Limoneira entered into partnership with Bellagio Builders in Paradise Valley, Arizona to construct two single-family luxury homes in Paradise Valley. These projects involve Limoneira financing the acquisition of land, architectural design and construction of these homes. Bellagio Builders, building at cost, will complete the construction of the homes. Upon completion and sale of these homes profits will be shared by Bellagio Builders and Limoneira. Despite the current downturn in the overall U.S. housing industry, activity in the Paradise Valley luxury home segment remains robust and sale prices remain stable. Forecasts call for sales and profits to be realized in 2009.

Limoneira made several investments in 2007 with longer-term horizons as well. We purchased a 75 percent interest in a commercial office building in Santa Paula, California next to the Teague-McKevett Building on Tenth Street. We purchased 300 acre feet of additional water rights in the Santa Paula water basin. We invested heavily in our East Area I and East Area II real estate development projects. Finally, in 2006 and 2007, we re-purchased over 35,000 shares of Limoneira common stock. Each of these investments were made with long-term, value creating, horizons and each investment strengthens the value of our Company considerably.

## **2008**

Fiscal year 2008 promises to be a milestone year for Limoneira. We anticipate receiving a successful entitlement vote for our East Area I development project which will accelerate our ability to unlock and monetize significant shareholder value. We are still formulating plans for the actual build-out of the East Area I and East Area II projects which are dynamically changing as the California real estate and housing industry changes. We remain optimistic that the actual build-out of the project will begin in early 2010. While we are getting closer to realization of these significant projects, we still



have many hurdles to clear. Our team remains committed to building consensus within the Santa Paula community in order to advance our project and our plans. Behind the scenes we are actively participating in community developing initiatives that will provide tenants for the new East Area I commercial and light-industrial buildings and residents for the new houses. The process of building the Santa Paula community doesn't stop with the development of its real estate but rather with the occupancy of its buildings and homes, the support of its educational and recreational systems and the support of its economy. We are committed to making Santa Paula a better place to live and are actively having fun doing it.

Our 2008 forecasts for our agribusiness call for an eight percent reduction in agribusiness operating profits. While lemon markets remain hot currently it is difficult for us to forecast this level of strength throughout the year so we have conservatively lowered our forecasts in lemon operating profit versus 2007. Also, while we believe that global shortages of avocados have the chance of taking market prices to near record levels this year, our production estimates hover around only four million pounds because of the lasting impacts from the 2007 freeze. Other 2008 agribusiness initiatives call for our investigation of international investment opportunities in agricultural operations that compliment our California operations. Additionally, we continue to value and nurture our relationship with our avocado marketing partner Calavo. Finally, we look forward to advancing our activities in Company sustainability including organic recycling, solar energy production and farm worker housing. It will be our goal to establish our carbon footprint base-line in 2008 and then formulate additional plans for our Company to become as close to fully sustainable as possible. We believe in this initiative. Besides being the right thing for our planet, we also feel it advances our mission as environmental stewards and provides valuable differentiation for the products and services we provide.

Our 2008 forecast for real estate calls for a seven percent increase in our housing and commercial operations. In addition to achieving successful entitlement of our East Area I real estate development project, we look forward to executing our business plan in our Santa Maria real estate project, our Paradise Valley luxury home development project, advancement of our Windfall Farms real estate project and beginning our farm worker housing infill project.

Earnings from investments are forecasted to decline 54 percent in 2008 as we collect our bridge loan associated with our Santa Maria real estate project and await profits from project sales – projected in 2009.

In total, we are forecasting an 18 percent reduction in overall 2008 operating profits driven by lower agribusiness and investment operating profits than 2007. This forecast speaks more to the extraordinary results achieved in 2007 than to the less favorable results forecasted for 2008. While opportunity to benefit from profits received from our various real estate and investment projects exist we are conservatively not forecasting the realization of these profits until 2009. Despite the forecasted decline in operating profits, we are forecasting ample earnings and cash flows to fund all our 2008 initiatives as well as sustain our quarterly and annual shareholder dividends.

## **SUMMARY**

2007 was an extraordinary year for Limoneira in which we achieved record level operating profits despite the adversity of a severe freeze. 2008 promises to be a milestone year for our Company as we advance our value-creating East Area I and East Area II community development projects. I am proud of the teamwork and spirit within the Company and feel that everyone on the Limoneira Team is actively working on their corporate objectives as well as actively participating in the development of the Santa Paula community. Personnel attrition at Limoneira remains non-existent which I believe is attributable to our collective recognition that the most important asset Limoneira has is its people. It is the employees of Limoneira that are making extraordinary things happen and our collective teamwork with our Board of Directors, our business partners and our surrounding community give me reason to be extremely optimistic about Limoneira's future.

Respectfully submitted,



Harold S. Edwards  
President & CEO

## **FORWARD-LOOKING STATEMENTS**

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



## Consolidated Balance Sheets

October 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 486,000	\$ 4,000
Accounts receivable	2,724,000	2,861,000
Note receivable (Note 7 and 16)	20,000,000	4,264,000
Inventoried cultural costs	1,178,000	995,000
Supplies	332,000	393,000
Prepaid expenses	305,000	717,000
Income taxes receivable	5,000	-
Current assets of discontinued operations	70,000	56,000
Total current assets	<u>25,100,000</u>	<u>9,290,000</u>
Property, plant and equipment:		
Land	32,280,000	31,434,000
Land improvements	11,916,000	11,399,000
Buildings	11,661,000	11,661,000
Equipment	21,285,000	20,916,000
Orchards	17,805,000	17,089,000
Construction in progress	7,930,000	5,483,000
Subtotal	<u>102,877,000</u>	<u>97,982,000</u>
Less accumulated depreciation	<u>(37,745,000)</u>	<u>(35,699,000)</u>
Total property, plant and equipment	<u>65,132,000</u>	<u>62,283,000</u>
Equity in investments (Note 5)	1,886,000	1,365,000
Investment in Calavo Growers, Inc. (Note 2)	22,910,000	9,750,000
Notes receivable (Notes 4, 7 and 13)	4,495,000	1,300,000
Other assets (Note 2)	6,549,000	1,492,000
Revolving funds and memberships	535,000	569,000
Non-current assets of discontinued operations	734,000	912,000
Total Assets	<u>\$ 127,341,000</u>	<u>\$ 86,961,000</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,198,000	\$ 2,084,000
Growers payable	1,281,000	870,000
Accrued liabilities (Notes 10 and 13)	3,885,000	1,951,000
Current portion of long-term debt (Note 8)	20,359,000	324,000
Current liabilities of discontinued operations	145,000	366,000
Total current liabilities	<u>26,868,000</u>	<u>5,595,000</u>
Long-term liabilities:		
Long-term debt (Note 8)	18,116,000	14,191,000
Pension liability (Note 11)	170,000	2,915,000
Deferred income taxes (Note 10)	17,188,000	10,821,000
Long-term liabilities of discontinued operations	-	274,000
Total long-term liabilities	<u>35,474,000</u>	<u>28,201,000</u>
Total liabilities	<u>62,342,000</u>	<u>33,796,000</u>
Commitments and contingencies		
Stockholders' equity:		
Series B Preferred Stock - \$100.00 par value (100,000 shares authorized: 30,000 shares issued and outstanding at October 31, 2007 and 2006) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock - \$.01 par value (20,000 shares authorized: -0- issued or outstanding at October 31, 2007 and 2006) (Note 4)	-	-
Common Stock - \$.01 par value (3,000,000 shares authorized: 1,113,338 and 1,106,288 shares issued and outstanding at October 31, 2007 and 2006, respectively)	11,000	11,000
Additional paid-in capital	34,757,000	31,683,000
Retained earnings	21,452,000	21,898,000
Accumulated other comprehensive income (loss) (Notes 2 and 11)	5,779,000	(3,427,000)
Total stockholders' equity	<u>64,999,000</u>	<u>53,165,000</u>
Total Liabilities and Stockholders' Equity	<u>\$ 127,341,000</u>	<u>\$ 86,961,000</u>

See notes to consolidated financial statements.

# Consolidated Statements of Operations

For the years ended October 31, 2007 and 2006

	2007	2006
Revenues:		
Ventura County Fruit Exchange lemon sales	\$ 35,345,000	\$ 29,376,000
Less: Limoneira packinghouse charges	(9,393,000)	(9,271,000)
Less: Payments to affiliated growers	(7,364,000)	(7,076,000)
Net lemon revenue	<u>18,588,000</u>	<u>13,029,000</u>
Other crops, net of outside packinghouse charges:		
Avocados	3,185,000	9,559,000
Navels	3,184,000	2,554,000
Valencias	776,000	878,000
Specialty citrus crops	1,609,000	1,571,000
Other specialty crops	652,000	330,000
Leased land	1,263,000	938,000
Mercantile	193,000	4,465,000
Housing and commercial	1,902,000	1,844,000
Interest income	2,300,000	606,000
Other income	788,000	784,000
Total Revenues	<u>34,440,000</u>	<u>36,558,000</u>
Expenses:		
Picking and hauling	4,373,000	5,917,000
Cultural costs	9,881,000	9,206,000
Mercantile	86,000	4,462,000
Housing and commercial	1,606,000	1,533,000
Selling, general and administrative (Notes 2 and 4)	10,590,000	5,796,000
Depreciation and amortization expense (Note 2)	2,267,000	2,362,000
Interest expense	2,102,000	850,000
Total Expenses	<u>30,905,000</u>	<u>30,126,000</u>
Net gain (loss) on the sale of assets	<u>(56,000)</u>	<u>120,000</u>
Income from continuing operations before income taxes and equity in earnings of investments	3,479,000	6,552,000
Income taxes (Note 10)	(1,284,000)	(2,354,000)
Equity in earnings of investments (Note 5)	357,000	217,000
Income from continuing operations	<u>2,552,000</u>	<u>4,415,000</u>
Loss from discontinued operations, net of income tax benefit of \$162,000 in 2007 and \$616,000 in 2006	<u>(245,000)</u>	<u>(929,000)</u>
Net income	2,307,000	3,486,000
Preferred dividends	(262,000)	(262,000)
Net income applicable to common stock	<u>\$ 2,045,000</u>	<u>\$ 3,224,000</u>
Earnings (loss) per common share, basic and diluted		
Earnings per common share, basic and diluted, from continuing operations	\$ 2.07	\$ 3.66
Loss per common share, basic and diluted, from discontinued operations	(0.22)	(0.82)
Earnings per common share, basic and diluted	<u>\$ 1.85</u>	<u>\$ 2.84</u>
Dividends per share - common	<u>\$ 2.25</u>	<u>\$ 2.25</u>

See notes to consolidated financial statements.



## Consolidated Statements of Changes in Stockholders' Equity

For the years ended October 31, 2007 and 2006

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at November 1, 2005	30,000	\$ 3,000,000	1,141,122	\$11,000	\$ 37,471,000	\$ 21,233,000	\$ (3,746,000)	\$ 57,969,000
Dividends - common	-	-	-	-	-	(2,559,000)	-	(2,559,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Repurchase of common stock	-	-	(34,834)	-	(5,788,000)	-	-	(5,788,000)
Comprehensive income:								
Net income	-	-	-	-	-	3,486,000	-	3,486,000
Minimum pension liability adjustment, net of tax provision of \$160,000	-	-	-	-	-	-	241,000	241,000
Unrealized holding gain of security available-for-sale, net of tax provision of \$52,000	-	-	-	-	-	-	78,000	78,000
Comprehensive income								<u>3,805,000</u>
Balance at October 31, 2006	30,000	3,000,000	1,106,288	11,000	31,683,000	21,898,000	(3,427,000)	53,165,000
Dividends - common	-	-	-	-	-	(2,491,000)	-	(2,491,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock grant expense (Note 4)	-	-	7,500	-	3,187,000	-	-	3,187,000
Repurchase of common stock	-	-	(450)	-	(113,000)	-	-	(113,000)
Comprehensive income:								
Net income	-	-	-	-	-	2,307,000	-	2,307,000
Minimum pension liability adjustment, net of tax provision of \$857,000	-	-	-	-	-	-	1,286,000	1,286,000
Unrealized holding gain of security available-for-sale, net of tax provision of \$5,239,000	-	-	-	-	-	-	7,920,000	7,920,000
Comprehensive income								<u>11,513,000</u>
Balance at October 31, 2007	30,000	\$ 3,000,000	1,113,338	\$11,000	\$ 34,757,000	\$ 21,452,000	\$ 5,779,000	\$ 64,999,000

## Consolidated Statements of Cash Flows

For the years ended October 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income from continuing operations	\$ 2,552,000	\$ 4,415,000
Adjustments to reconcile net income from continuing operations to cash provided by operating activities:		
Depreciation and amortization	2,267,000	2,362,000
Loss (gain) on disposal/sale of fixed assets	56,000	(120,000)
Write-off of intangible asset	-	20,000
Orchard write-offs	383,000	565,000
Stock grant expense	3,187,000	-
Equity in earnings of investments	(357,000)	(217,000)
Provision for deferred income taxes	271,000	458,000
Total adjustments	<u>5,807,000</u>	<u>3,068,000</u>
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable	137,000	(807,000)
(Increase) decrease in inventoried cultural costs	(183,000)	77,000
Decrease (increase) in supplies	61,000	(41,000)
Decrease in prepaid expenses	412,000	113,000
(Increase) decrease in income taxes receivable	(5,000)	863,000
(Decrease) increase in accounts payable and growers payable	(475,000)	1,009,000
Increase in accrued liabilities	1,934,000	250,000
Decrease in other long-term liabilities	(602,000)	(719,000)
Total changes in operating assets and liabilities	<u>1,279,000</u>	<u>745,000</u>
Net cash provided by operating activities	<u>9,638,000</u>	<u>8,228,000</u>
Cash flows from investing activities:		
Capital expenditures	(5,549,000)	(4,936,000)
Net proceeds from sale of assets	4,000	1,480,000
Cash distribution from Limco Del Mar, Ltd.	362,000	90,000
Investment contributions	(526,000)	-
Issuance of notes receivable	(23,195,000)	-
Collection of note receivable	4,264,000	-
(Increase) in other assets and revolving funds and memberships	(5,034,000)	(85,000)
Net cash used in investing activities	<u>(29,674,000)</u>	<u>(3,451,000)</u>
Cash flows from financing activities:		
Issuance of long-term debt	27,470,000	-
Repayments of long-term debt	(3,510,000)	(414,000)
Dividends paid-Common	(2,491,000)	(2,559,000)
Dividends paid-Preferred	(262,000)	(262,000)
Repurchase of common shares	(113,000)	(5,788,000)
Net cash provided by (used in) financing activities	<u>21,094,000</u>	<u>(9,023,000)</u>
Net increase (decrease) in cash and cash equivalents	<u>1,058,000</u>	<u>(4,246,000)</u>
Net cash used in discontinued operations	(576,000)	(1,123,000)
Cash and cash equivalents at beginning of year	<u>4,000</u>	<u>5,373,000</u>
Cash and cash equivalents at end of year	<u>\$ 486,000</u>	<u>\$ 4,000</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 2,557,000	\$ 801,000
Cash paid during the year for income taxes, net of refunds received	\$ 131,000	\$ 1,452,000
Non-cash transactions (other comprehensive income) expense:		
Minimum pension liability adjustment, net of tax benefit	\$ (1,286,000)	\$ (241,000)
Unrealized holding gain on security, net of tax benefit	\$ (7,896,000)	\$ (78,000)
Write-off of goodwill and intangible assets	\$ -	\$ 920,000

See notes to consolidated financial statements.



**Limoneira Company**  
**Notes to Consolidated Financial Statements**  
**Years Ended October 31, 2007 and 2006**

**1. Business:**

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

The Corporation markets its products primarily through Sunkist Growers, Inc., (“Sunkist”) and Calavo Growers, Inc. (“Calavo”). The financial statements represent the consolidated financial position, results of operations and cash flows of Limoneira Company and its wholly owned subsidiaries, Limoneira Land Company, Limoneira Company International Division, LLC and Limoneira Mercantile, LLC (“Mercantile”) and all variable interest entities for which the Corporation is considered the primary beneficiary (see Note 17). All significant inter-company accounts and transactions have been eliminated in consolidation.

**2. Summary of Significant Accounting Policies:**

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

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

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

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

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

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

Depreciation expense was \$2,257,000 and \$2,358,000 for 2007 and 2006, respectively and amortization expense was \$10,000 and \$4,000 for 2007 and 2006, respectively.

During 2007 and 2006 the Corporation capitalized \$2,056,000 and \$1,238,000, respectively, of costs related to a real estate development project. These costs are included in construction in progress. The project consists of a plan to develop 501 acres of land east of Santa Paula, California into residential units, commercial buildings and civic facilities.

Capitalized Interest – Capitalized interest is recorded on non-bearing orchards and significant construction in progress using the average interest rate during the year. Interest of \$367,000 and \$182,000 was capitalized during the years ended October 31, 2007 and 2006, respectively, and is included in property, plant and equipment.

Other Assets – Other assets is comprised mainly of investments in water rights, mutual water companies, certain development projects (see Note 17) and intangible assets. The investments in mutual water companies are recorded at cost. A member of the Corporation’s Board of Directors is currently a Director of a mutual water company in which the Corporation is an investor. The mutual water company provided water to the Corporation, for which the Corporation paid \$157,000 and \$103,000 in 2007 and 2006, respectively. Water payments due to the mutual water company were \$14,000 and \$-0- at October 31, 2007 and 2006, respectively. Intangible assets not subject to amortization were \$36,000 at October 31, 2007 and 2006. Intangible assets subject to amortization were \$247,000 at October 31, 2007, net of accumulated amortization of \$14,000, and \$258,000 at October 31, 2006, net of accumulated amortization of \$4,000. In 2003, the Corporation paid \$150,000 to obtain certain propagation rights (“the Patent”) for an agricultural variety. During 2005 and 2006, the Corporation incurred an additional \$72,000 in costs related to the Patent. The Patent was issued in 2007 and is being amortized over its legal life. Included in other assets at October 31, 2007 and 2006 were \$214,000 and \$222,000 respectively, of costs relating to the Patent. Also included in other assets at October 31, 2007 is the Corporation’s \$100,000 investment in the career of Charlie Kimball, a Formula 1 racing driver. Charlie Kimball is related to a member of the Corporation’s Board of Directors. Other assets at October 31 are comprised of the following:

	2007	2006
Investments in water rights and mutual water companies	\$2,558,000	\$996,000
Arizona development projects	3,370,000	-0-
Intangible assets and other	621,000	496,000
	<u>\$6,549,000</u>	<u>\$1,492,000</u>

Investment in Calavo – In June 2005, the Corporation entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Corporation purchased 1,000,000 shares, or approximately 6.9%, of Calavo’s common stock for \$10,000,000 and Calavo purchased 172,857 shares, or approximately 15.1%, of the Corporation’s common stock for \$23,450,000. Under the terms of the agreement, the Corporation received net cash consideration of \$13,450,000. In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, the Corporation has classified its investment as “available-for-sale securities”. Changes in the fair value of available-for-sale securities result in unrealized holding gains or losses. In 2007, the Corporation recorded an unrealized holding gain of \$13,160,000 to reflect an increase in the market value of Calavo common stock. In 2006, the Corporation recorded an unrealized holding gain of \$130,000 to reflect an increase in the market value of Calavo common stock. Prior to the stock purchase agreement with Calavo, the Corporation’s avocados were marketed primarily by Mission Produce, Inc. (see Note 5). Subsequent to the agreement, and currently, the Corporation’s avocados are marketed by Calavo. Sales of the Corporation’s avocados totaled \$3,185,000 and \$9,559,000 for the years ended October 31, 2007 and 2006, respectively. There was no amount receivable by the Corporation from Calavo at October 31, 2007 or 2006. Additionally, the Corporation leases office space to Calavo and received rental income of \$220,000 and \$207,000 in 2007 and 2006, respectively.

Intangible Assets – The Corporation evaluates its intangible assets annually or whenever events or changes in circumstances indicate an impairment of the assets’ value may exist. During 2006, in connection with the Corporation’s decision to exit the coffee business, the Corporation wrote-off \$900,000 of goodwill that was recorded in connection with the acquisition in December, 2005 of Movin’ Mocha, a California general partnership (see Note 9). There were no impairments of intangible assets in 2007.

Impairment of Long-Lived Assets – The Corporation evaluates long-lived assets, other than intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated undiscounted future cash flows from the use of an asset are less than the carrying value of that asset, a write-down is recorded to reduce the carrying value of the asset to its fair value. In 2007, the Corporation wrote-down the carrying value of a retail building associated with discontinued operations by \$100,000 (see Note 9). No long-lived assets were deemed to be impaired in 2006.

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

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

Revenues and Cultural Costs – Revenues pertaining to crops being harvested during the fiscal year are generally recognized in that year. Cultural costs incurred are capitalized as inventory and expensed when the related crop is harvested. The Corporation’s citrus sales made through the Ventura County Fruit Exchange in 2007 and 2006 are reported gross of packinghouse charges. Citrus and other crops packed and sold by outside packinghouses in 2007 and 2006 are reported net of packinghouse charges. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed or determinable and collectability is reasonably assured.

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

Selling, General and Administrative – Selling, general and administrative costs (“SG&A”) were \$10,590,000 and \$5,796,000 for 2007 and 2006, respectively and primarily included the following:

	<u>2007</u>	<u>2006</u>
Labor and benefits	\$2,308,000	\$2,153,000
Incentives	1,160,000	968,000
Legal and professional	834,000	432,000
Consulting and other	3,101,000	2,243,000
Stock grant	3,187,000	-0-
	<u>\$10,590,000</u>	<u>\$5,796,000</u>

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

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.

Earnings Per Share – Basic and diluted earnings per common share are computed based on the weighted average number of common shares outstanding. The Series B preferred shares are anti-dilutive.

	<u>2007</u>	<u>2006</u>
Weighted average outstanding common shares	1,107,000	1,136,000
Net income applicable to common stock	\$2,045,000	\$3,224,000
Earnings per common share, basic and diluted	\$1.85	\$2.84

Fair Value of Financial Instruments – The October 31, 2007 and 2006 carrying amounts of the Corporation’s cash and cash equivalents, accounts receivable, notes receivable, accounts payable and grower payable approximate their estimated fair values because of short maturities and/or interest rates that are comparable to those currently available to the Corporation for financial instruments with similar terms. Based on the borrowing rates currently available to the Corporation for bank loans with similar terms and average maturities, the fair value of long-term debt is approximately \$1,584,000 and \$2,128,000 less than its carrying amount as of October 31, 2007 and 2006, respectively.

Reclassifications – Certain reclassifications have been made to the 2006 consolidated financial statements to conform to the 2007 presentation.



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

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

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

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

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires company plan sponsors to display the net over- or under-funded position of a defined benefit postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of other comprehensive income in shareholders' equity. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Corporation adopted the recognition provisions of SFAS No. 158 as of the end of fiscal 2007. The adoption of SFAS No. 158 did not have a material effect on the Corporation's financial position or results of operations.

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

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the application of SFAS No. 109, *Accounting for Income Taxes*, by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise’s financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. Currently there is a proposal to delay the effective date for non-public companies. Clarification of what constitutes a public company is expected to be issued shortly. Based on the expected definition of a public company, the Corporation expects to adopt FIN 48 in fiscal 2008. The Corporation does not believe the adoption of FIN 48 will have a significant impact on its financial position and results of operations.

**3. Leases:**

During 2007, the Corporation was the lessee in three operating leases for agricultural land totaling 490 acres for purposes of expanding the Corporation’s production of citrus and avocados. One lease provides for an adjustment to rent for inflation. The Corporation also has an operating lease for pollinating equipment and for some of its packinghouse equipment. Total lease expense for 2007 and 2006 was \$377,000 and \$369,000, respectively. In addition, the Corporation has made prepayments for the lease of the pollination equipment totaling \$159,000. These prepayments are included in the consolidated assets of the Corporation at October 31, 2007 and will be expensed over the last year of the lease.

Minimum future lease payments are as follows:

2008	\$342,000
2009	240,000
2010	242,000
2011	243,000
2012	164,000
Thereafter	<u>37,000</u>
Total	<u>\$1,268,000</u>

**4. Stockholders’ Equity:**

Series B Convertible Preferred Stock:

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

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

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

Redemption: The Corporation, at the option of the Board of Directors, may redeem the Series B Stock, as a whole or in part, at any time or from time to time on or after July 1, 2017 and before June 30, 2027, at a redemption price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for redemption.

Conversion: The holders of Series B Stock shall have the right, at their option, to convert such shares into shares of Common Stock of the Corporation at any time prior to redemption. The conversion price shall initially be \$80.00 per share of Common Stock. Pursuant to the terms of the Certificate of Designation, Preferences and Rights of the Series B Stock, the conversion price shall be adjusted to reflect any dividends paid in Common Stock of the Corporation, the subdivision of the Common Stock of the Corporation into a greater number of shares of Common Stock of the Corporation or upon the advice of legal counsel.

#### Series A Junior Participating Preferred Stock:

On October 31, 2006 the Corporation authorized 20,000 shares of Series A Junior Participating Preferred Stock at \$.01 par value (the "Series A Stock"). Additionally, on October 31, 2006, the Corporation declared a dividend to be distributed on December 20, 2006 to each holder of record of the Corporation's Common Stock the right to purchase one one-hundredth of a share of Series A Stock. If a triggering event occurs, the Board of Directors has the option to allow rights holders to exercise their rights (see Note 18).

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

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

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

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

#### Stock Option Plan/Stock Grant Program:

In 2002, the Corporation adopted a stock grant program for key employees, which replaced its stock option and stock appreciation rights plan for key employees. As of October 31, 2007 and 2006, there were no stock options outstanding. There are currently 5,143 shares outstanding that are subject to repurchase by the corporation with a value of \$122,000. The Corporation applies APB Opinion No. 25 and related interpretations in accounting for its stock grant program.

In August 2007, the Corporation adopted a stock grant performance bonus program (the "Program") for senior management. In 2007, 7,500 shares of Common Stock were granted to senior management in recognition of performance in years prior to 2007. An additional 3,750 shares of Common Stock were authorized in 2007 and granted to senior management subsequent to October 31, 2007 in recognition of the achievement of certain performance goals during 2007. All shares granted under the Program were fully vested as of the date of issuance. In 2007, the Corporation recognized compensation expense of \$3,187,000 in connection with the grants. This expense is included in selling, general and administrative expense in the Consolidated Statements of Operations. A mark-to-market reduction of expenses of approximately \$79,000 was recorded in fiscal 2008 for the shares granted in fiscal 2008 but having been authorized in 2007.

Shares issued under the Program shall be subject to a right-of-first refusal by the Corporation during the first two years following issuance of such shares. The Corporation, upon request by the grantee, in its sole discretion, may repurchase from the grantee a number of shares granted that, when multiplied by the repurchase price will enable the grantee to pay the state and federal income tax liabilities associated with the compensation to the employee in connection with the grant. Alternatively, the Corporation, in its sole discretion, may make loans to the grantees in amounts sufficient to pay the income tax liabilities associated with the grants. Each loan will be evidenced by a promissory note bearing interest at the mid-term applicable federal rate then in effect, with principle and accrued interest due and payable within 24 months from the date of the note. The note will be secured by delivery to the Corporation of a share certificate having a value equal to 120% of the amount of the loan. Loans totaling \$916,000 were issued to the grantees for income tax liabilities associated with the grants. The loans have a maturity date of November 19, 2009 with an interest rate of 4.26%. These loans are included in notes receivable in the Consolidated Balance Sheets at October 31, 2007.



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

#### **5. Equity Investments:**

The Corporation has a 1.3% interest in Limco Del Mar, Ltd. (“Del Mar”) as a general partner and a 22.1% interest as a limited partner. The investment is recorded based on the equity method of accounting. During 2007 the Corporation increased its limited partner interest from 21.8% to 22.1% with the purchase of additional limited partnership units. The Corporation provided Del Mar with farm management, orchard land development and accounting services, which resulted in cash receipts of \$128,000 and \$128,000 in 2007 and 2006, respectively. The Corporation also performed contract lemon packing services for Del Mar in the amount of \$528,000 and \$352,000 in 2007 and 2006, respectively. Fruit proceeds due to Del Mar were \$306,000 and \$269,000 at October 31, 2007 and 2006, respectively. The Corporation borrowed \$500,000 from Del Mar during 2007. The interest rate on this borrowing was 5.50% and there was no amount outstanding at October 31, 2007. Additionally, the Corporation paid interest to Del Mar of \$16,000 in 2007. The Corporation borrowed \$600,000 from Del Mar during 2006. The interest rate on this borrowing was 3.00% and there was no amount outstanding as of October 31, 2006. Additionally, the Corporation paid interest to Del Mar of \$11,000 in 2006.

The Corporation owned a 21% interest in Mission Produce, Inc. (“Mission”). The investment was recorded based on the equity method of accounting. The investment allowed the Corporation to vertically integrate its avocado operations. The original cost of the Corporation’s investment exceeded its proportionate share of Mission’s net assets by \$1,002,000. The Corporation had been amortizing this excess over 15 years beginning in 1997 and stopped the amortization in 2002 upon the early adoption of SFAS No. 142. In June of 2005, the Corporation sold its investment in Mission back to Mission for \$6,576,000. The sale to Mission consisted of \$1,000,000 cash, net settlement of shares repurchased by the Corporation of \$1,312,000 and a note receivable of \$4,264,000. The Corporation realized a pre-tax gain on this sale of \$1,542,000. The note receivable, plus interest, was paid in full in June of 2007. In connection with the sale of its investment, the Corporation repurchased from Mission the 6,906 shares of the Corporation’s common stock that Mission owned for \$190 per share.

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

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

The following are condensed (unaudited) financial statements of the investees for the years ended October 31, 2007 and 2006:

2007

	<u>Del Mar</u>	<u>Vista Pointe</u>	<u>Romney</u>	<u>Total</u>
Assets	<u>\$2,781,000</u>	<u>\$12,000</u>	<u>\$652,000</u>	<u>\$3,445,000</u>
Liabilities	\$-0-	\$-0-	\$-0-	\$-0-
Equity	<u>2,781,000</u>	<u>12,000</u>	<u>652,000</u>	<u>3,445,000</u>
Total Liabilities and Equity	<u>\$2,781,000</u>	<u>\$12,000</u>	<u>\$652,000</u>	<u>\$3,445,000</u>
Revenues	<u>\$2,172,000</u>	<u>\$-0-</u>	<u>\$12,000</u>	<u>\$2,184,000</u>
Expenses	<u>648,000</u>	<u>2,000</u>	<u>7,000</u>	<u>657,000</u>
Net Income	<u>\$1,524,000</u>	<u>\$(2,000)</u>	<u>\$5,000</u>	<u>\$1,527,000</u>

2006

	<u>Del Mar</u>	<u>Vista Pointe</u>	<u>Total</u>
Assets	<u>\$2,821,000</u>	<u>\$14,000</u>	<u>\$2,835,000</u>
Liabilities	\$-0-	\$-0-	\$0
Equity	<u>2,821,000</u>	<u>14,000</u>	<u>2,835,000</u>
Total Liabilities and Equity	<u>\$2,821,000</u>	<u>\$14,000</u>	<u>\$2,835,000</u>
Revenues	<u>\$1,545,000</u>	<u>\$-0-</u>	<u>\$1,545,000</u>
Expenses	<u>606,000</u>	<u>2,000</u>	<u>608,000</u>
Net Income	<u>\$939,000</u>	<u>\$(2,000)</u>	<u>\$937,000</u>

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

	<u>Del Mar</u>	<u>Vista Pointe</u>	<u>Romney</u>	<u>Total</u>
Investment Balance 10/31/05	\$1,225,000	\$13,000	\$-0-	\$1,238,000
Equity earnings	217,000	-0-	-0-	217,000
Cash distribution	(90,000)	-0-	-0-	(90,000)
Investment Balance 10/31/06	<u>\$1,352,000</u>	<u>\$13,000</u>	<u>\$-0-</u>	<u>\$1,365,000</u>
Equity earnings	357,000	-0-	-0-	357,000
Cash distribution	(362,000)	-0-	-0-	(362,000)
Investment contributions	37,000	-0-	489,000	526,000
Investment Balance 10/31/07	<u>\$1,384,000</u>	<u>\$13,000</u>	<u>\$489,000</u>	<u>\$1,886,000</u>

## 6. Windfall Investors, LLC:

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

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

The indebtedness outstanding under the revolving line of credit is guaranteed, jointly and severally, by the Corporation and Windfall. This guarantee shall remain in effect for the entire four-year term of the revolving line of credit. Should Investors be in default at any time during that term, the Bank could declare the outstanding balance due and payable. The maximum amount of potential future payment for the Corporation and Windfall because of a default by Investors under the term of the agreement is \$8,000,000. Conditions of default include, among other things, failure to make scheduled payments, declaration of bankruptcy, material adverse change in financial condition and breach of any term or representation in the loan agreements. At October 31, 2007 and 2006, there was \$7,056,000 and \$5,264,000, respectively outstanding under the revolving line of credit that was guaranteed by the Corporation and Windfall.

Operating profits and losses earned by the Ranch operations are shared by the Corporation and Windfall 15% and 85%, respectively.

## 7. Notes Receivable:

In connection with the sale of land in 2004 (see Note 13), the Corporation recorded a note receivable at October 31, 2004 of \$4,263,000. In April of 2005, the Corporation received the \$2,963,000 current portion of this note including interest at 5.00%. The remaining \$1,300,000 will become due and payable in April 2009 at an interest rate of 7.00% and is secured by real property.

In connection with the sale of its investment in Mission in June of 2005 (see Note 5), the Corporation recorded a note receivable of \$4,264,000. This note was due and payable in June of 2007 and was secured by 355,000 shares of Mission common stock. The terms of this note required quarterly, interest-only payments at an interest rate equal to the Prime rate plus 1.00%. This note, plus interest, was paid in full in June of 2007.

In connection with the Santa Maria development project (see Note 16), the Corporation recorded a note receivable in December 2006 of \$20,000,000. The note bears interest at the Prime rate plus 2.00% with interest and principal due December 31, 2007. Subsequent to October 31, 2007, the due date was extended until March 31, 2008 (see Note 19).

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

In connection with the stock grant program (see Note 4), the Corporation recorded a note receivable of \$916,000 at October 31, 2007.



## 8. Long-Term Debt:

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

	<u>2007</u>	<u>2006</u>
Central Coast Federal Land Bank Association loan secured by property with a net book value of \$11,686,000. The interest rate is fixed for the life of the loan at 5.5%. The loan is payable in quarterly installments through November 2022.	\$7,738,000	\$8,140,000
City National Bank loan secured by property with a net book value of \$8,335,000 as of October 31, 2007. The interest rate is fixed at 6.15% for the life of the loan. Interest only is payable until 2009. Thereafter, the loan is payable in monthly installments through November 2018.	6,375,000	6,375,000
City National Bank term loan bearing interest at the London Interbank Offered Rate plus 1.50%. Interest is payable monthly and the principal is payable in full in April 2008 (see Note 19).	20,000,000	-0-
Mid-State Bank & Trust unsecured loan bearing interest at 7.00%. Interest is payable monthly and the principal is payable in full in February 2009.	1,560,000	-0-
Mid-State Bank & Trust unsecured loan bearing interest at 7.00%. Interest is payable monthly and the principal is payable in full in March 2009.	1,810,000	-0-
Central Coast Land Bank Association loan secured by property with a net book value of \$11,686,000. The interest rate is fixed for a period of five years at 6.60%, becoming variable for the remainder of the loan. The loan is payable in monthly installments through May 2032.	992,000	-0-
Sub-Total	<u>38,475,000</u>	<u>14,515,000</u>
Less Current Portion	<u>20,359,000</u>	<u>324,000</u>
Total Long-Term Debt	<u>\$18,116,000</u>	<u>\$14,191,000</u>

In October of 2001, the Corporation entered into a credit arrangement with City National Bank whereby it can borrow up to \$10,000,000 on an unsecured line of credit, which was renewed in March of 2004 and May of 2006 and increased to \$15,000,000 in March of 2007. There were no amounts outstanding at October 31, 2007 or 2006 under this arrangement. Additionally, the credit arrangement allows for an additional \$5,000,000 to be made available to the Corporation for equipment acquisition loans. Loans for equipment expenditures are payable in sixteen substantially equal quarterly installments. There were no amounts outstanding at October 31, 2007 or 2006 under this arrangement. The credit arrangement also allows for a \$20,000,000 term loan, with interest payable monthly and principal payable in full on April 30, 2008 (see Note 19). At October 31, 2007 the Corporation had \$20,000,000 outstanding under this arrangement. This credit arrangement will expire in April of 2008.

The Corporation, under the terms of this agreement, is subject to various financial covenants. At October 31, 2007, the Corporation was in compliance with all of these covenants.

Beginning in 2004, the Corporation utilizes standby letters of credit to satisfy workers' compensation insurance security deposit requirements. At October 31, 2007, these outstanding letters of credit totaled \$648,000.

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

2008	\$20,359,000
2009	3,796,000
2010	689,000
2011	731,000
2012	773,000
Thereafter	<u>12,127,000</u>
Total	<u>\$38,475,000</u>

#### 9. Discontinued Operations:

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

In October 2006, the Corporation decided, that because of continuing operational losses in its retail coffee and coffee distribution businesses, it would exit the coffee business. In connection with that decision, the Corporation has approved a plan to exit the retail coffee and coffee distribution business. Sales and operating losses for 2007 were \$1,101,000 and (\$408,000), respectively. Sales and operating losses for 2006 were \$1,223,000 and (\$1,545,000), respectively. In 2007, as a result of an arbitration agreement, the Corporation finalized the purchase of Mocha with a cash payment of \$650,000. The remaining balances due on the purchase price, plus interest, were paid in full and the retail coffee and coffee distribution business incurred a charge to income of \$75,000. During 2007, the Corporation wrote-down the carrying value of a retail building by \$100,000. In 2006, the Corporation wrote off \$900,000 of goodwill that was recorded in connection with the acquisition of Mocha. The Corporation also wrote off \$330,000 of coffee inventory and supplies in 2006. The assets and liabilities of the coffee business were comprised of the following at October 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash	\$17,000	\$(3,000)
Accounts Receivable	9,000	10,000
Supplies	23,000	21,000
Prepaid Expenses	21,000	28,000
Deferred Taxes	365,000	349,000
Fixed Assets, Net	<u>369,000</u>	<u>563,000</u>
Total Assets	<u>\$804,000</u>	<u>\$968,000</u>
Accounts Payable	\$48,000	\$102,000
Current Portion Long Term Debt	97,000	264,000
Long Term Debt	<u>-0-</u>	<u>274,000</u>
Total Liabilities	<u>\$145,000</u>	<u>\$640,000</u>

## 10. Income Taxes:

The components of the provisions for income taxes (from continuing operations) for 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Current:		
Federal	\$663,000	\$1,544,000
State	208,000	488,000
Total Current Provision	<u>871,000</u>	<u>2,032,000</u>
Deferred:		
Federal	313,000	62,000
State	100,000	260,000
Total Deferred Provision	<u>413,000</u>	<u>322,000</u>
Total Provision	<u>\$1,284,000</u>	<u>\$2,354,000</u>

The income tax provision differs from the amount which would result from the statutory federal income tax rate primarily as a result of dividend exclusions, the exclusion of some export revenue and state income taxes.

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

The components of deferred income tax assets (liabilities) at October 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Short-Term Deferred Income Tax Assets (Liabilities):		
Labor Accruals	\$(37,000)	\$86,000
Property Taxes	(192,000)	(189,000)
State Income Taxes	108,000	140,000
Prepaid Insurance	(6,000)	(22,000)
Short-Term Deferred Income Tax Assets (Liabilities):	<u>\$(127,000)</u>	<u>\$15,000</u>
Long-Term Deferred Income Tax Assets (Liabilities):		
Depreciation	\$(2,903,000)	\$(2,787,000)
Amortization	144,000	154,000
Pension	67,000	1,161,000
Other	440,000	82,000
Calavo Stock	(5,139,000)	100,000
Book and Tax Basis Difference of Acquired Assets (Primarily Land)	<u>(9,797,000)</u>	<u>(9,531,000)</u>
	<u>(17,188,000)</u>	<u>(10,821,000)</u>
Deferred Tax Asset related to loss on discontinued operations, Goodwill and asset impairment	<u>365,000</u>	<u>349,000</u>
Total Deferred Income Tax Assets (Liabilities)	<u>\$ (16,950,000)</u>	<u>\$ (10,457,000)</u>

The current deferred income tax asset is included in prepaid expenses at October 31, 2007 and the current deferred income tax liability is included in accrued liabilities at October 31, 2007. The deferred tax asset related to loss on discontinued operations is included in non-current assets of discontinued operations at October 31, 2007.

## 11. Retirement Plans:

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

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

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

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of \$1,226,000 and \$1,375,000, respectively for 2007 and 2006. Plan assets are invested in a group trust consisting primarily of stocks (domestic and international), bonds, real estate trust funds, short-term investment funds and cash. The weighted average asset allocations at October 31, 2007 and 2006, by asset category, are as follows:

Asset Category	2007	2006
Equity	60%	59%
Fixed income	38	41
Cash	2	-
Total	100%	100%

The investment policy has been established to provide a total investment return that will, over time, maintain purchasing power parity for the Plan's variable benefits and keep the Corporation's plan funding at a reasonable level. The primary asset classes utilized to attain these objectives are equity securities, fixed income securities and all other, with target allocations of 60%, 35% and 5%, respectively.

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

The net periodic pension costs for the Corporation's Defined Benefit Pension Plan for 2007 and 2006 were as follows:

	2007	2006
Service Cost	\$85,000	\$85,000
Interest Cost	814,000	790,000
Expected return on plan assets	(825,000)	(778,000)
Recognized actuarial loss	550,000	558,000
Net periodic pension cost	\$624,000	\$655,000



Following is a summary of the Plan's funded status as of October 31, 2007 and October 31, 2006:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$14,618,000	\$14,094,000
Service cost	85,000	85,000
Interest cost	814,000	790,000
Benefits paid	(830,000)	(801,000)
Actuarial (gain) loss	<u>(724,000)</u>	<u>450,000</u>
Benefit obligation at end of year	<u>\$13,963,000</u>	<u>\$14,618,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$11,703,000	\$10,059,000
Actual return on plan assets	1,694,000	1,070,000
Employer contributions	1,226,000	1,375,000
Benefits paid	<u>(830,000)</u>	<u>(801,000)</u>
Fair value of plan assets at end of year	<u>\$13,793,000</u>	<u>\$11,703,000</u>
Funded status:		
Unfunded status	<u>(\$170,000)</u>	(\$2,915,000)
Unrecognized actuarial loss		<u>5,463,000</u>
Prepaid benefit cost		<u>\$2,548,000</u>
Amounts recognized in statements of financial position:		
Accrued benefit liability	\$-0-	(\$2,915,000)
Accumulated other comprehensive income	-0-	5,463,000
Noncurrent liabilities	<u>(170,000)</u>	<u>-0-</u>
Net amount recognized in statement of financial position	<u>(\$170,000)</u>	<u>\$2,548,000</u>
Additional year-end information:		
	<u>2007</u>	<u>2006</u>
Accumulated benefit obligation	\$13,963,000	\$14,618,000
Projected benefit obligation	\$13,963,000	\$14,618,000
Fair value of plan assets	\$13,793,000	\$11,703,000
Weighted-average assumptions as of October 31, 2007 and 2006 used to determine benefit obligations		
Discount rate	6.25%	5.75%
Expected long-term return on plan assets	7.50%	7.25%
Weighted-average assumption used to determine net periodic benefit cost		
Discount rate	5.75%	5.75%
Expected long-term return on plan assets	7.25%	7.75%

The Corporation expects to contribute \$1,300,000 to the Plan in 2008. Additionally, the following benefit payments are expected to be paid as follows:

2008	\$796,000
2009	828,000
2010	849,000
2011	880,000
2012	903,000
2013-2017	<u>4,712,000</u>
Total	<u>\$8,968,000</u>

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

Additionally in 2004, the Corporation replaced its existing qualified cash or deferred compensation plan maintained under Section 401(k) of the Internal Revenue Code (“IRC”) with a new plan also maintained under Section 401(k) of the IRC. Under this new plan the Corporation, beginning in January 2005, will contribute an amount equal to 4% of an employees’ annual earnings beginning after one year of employment. Employees may elect to defer up to 100% of their annual earnings subject to IRC limits. The Corporation will make an additional “dollar for dollar” matching contribution on these deferrals up to 4% of an employee’s annual earnings. Employees are 100% vested in the Corporation’s contribution after six years of employment. Participants vest in any matching contribution at a rate of 20% per year beginning after one year of employment. During 2007 and 2006, the Corporation contributed to the new plan and recognized expense of \$424,000 and \$411,000, respectively.

#### **12. Fruit Growers Supply Cooperative:**

Limoneira Company is a member of Fruit Growers Supply (“FGS”), a cooperative. FGS sells supplies to non-members. The profits made by these transactions are allocated to all members based on carton purchases. The profits are then distributed to the members through a dividend five to seven years after they are allocated. Limoneira Company currently has been allocated \$1,197,000 for future payments, however, the allocation of profits is subject to approval by the FGS Board of Directors and members may receive amounts less than those originally allocated. The Corporation will record the amounts ultimately disbursed by FGS as dividend income when received. The Corporation recognized dividend income of \$170,000 and \$165,000 in 2007 and 2006, respectively.

#### **13. Sales of Land and Buildings:**

In October of 2004, the Corporation sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and as a result, the gain of \$161,000 was deferred. The remaining portion of the deferred gain is included in accrued liabilities at October 31, 2007 and 2006. In connection with the sale, the Corporation recorded a note receivable of \$4,263,000. Principal of \$2,963,000 and interest was paid in April 2005 and \$112,000 of the deferred gain was recognized as income at that time. The remaining principal balance and interest is payable in April 2009. Interest accrues at 7.0% on this remaining principal balance.

In May of 2006, the Corporation sold a parcel of land with a building in Oxnard, California. The sale resulted in a recognized gain in 2006 of \$278,000.

#### **14. Segment Information:**

During 2007, the Corporation operated and tracked results in three reportable operating segments; agri-business, housing and commercial operations, and interest income and investments. During 2006 and 2005, the Corporation operated and tracked results in two reportable operating segments; agri-business and retail operations. Prior to 2005, the Corporation solely operated the agri-business segment. The reportable operating segments of the Corporation are strategic business units with different products and services, distribution processes and customer bases. The agri-business segment includes farming, leased land, organic recycling and citrus packing operations. The housing and commercial segment includes Mercantile and housing and commercial operations. The interest income and investments segment includes interest income and income from various investments. The Corporation measures operating performance, including revenues and earnings before interest, taxes and depreciation, of its operating segments and allocates resources based on its evaluation. The Corporation does not allocate selling, general and administrative expense, depreciation and amortization expense, interest expense, income tax expense and assets or specifically identify them to its operating segments. Revenues from one customer of the Corporation’s agri-business segment represent \$18,588,000 of the Corporation’s consolidated revenues for 2007.

Segment information for year ended October 31, 2007:

	Agri-Business	Housing & Commercial	Interest Income & Investments	Corporate & Other	Total
Revenues	\$29,415,000	\$2,095,000	\$2,930,000	\$-0-	\$34,440,000
Operating expenses	(13,589,000)	(1,692,000)	(665,000)	(10,590,000)	(26,536,000)
Depreciation and amortization expense	-	-	-0-	(2,267,000)	(2,267,000)
Interest expense	-	-	-0-	(2,102,000)	(2,102,000)
Gain (loss) on sale of assets	-	-	-0-	(56,000)	(56,000)
Income taxes	-	-	-0-	(1,284,000)	(1,284,000)
Equity in earnings from investments	-	-	357,000	-0-	357,000
Income from continuing operations	<u>\$15,826,000</u>	<u>\$403,000</u>	<u>\$2,622,000</u>	<u>\$(16,299,000)</u>	<u>\$2,552,000</u>

**15. Purchase of Land:**

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

**16. Santa Maria Development Project:**

In December of 2006, the Corporation entered into an agreement with Templeton Santa Barbara, LLC ("Templeton") whereby the Corporation provided a \$20,000,000 loan to Templeton ("the Bridge Loan"). The Bridge Loan is included in note receivable in the Consolidated Balance Sheets of the Corporation at October 31, 2007. Templeton used these funds to purchase four residential development parcels in Santa Maria, California. The Corporation obtained the funds for the Bridge Loan through a term loan allowed under its credit arrangement with City National Bank (the "Term Loan"). The Term Loan is included in the current portion of long-term debt in the Consolidated Balance Sheet of the Corporation at October 31, 2007. At October 31, 2007 the interest rate on the Term Loan was 6.4375%. The Term Loan matures on April 30, 2008 (see Note 19). Interest on the Bridge Loan is equal to the Prime rate plus 2%. \$20,000,000 of the principal on the Bridge Loan is due and payable on March 31, 2008, with the remaining outstanding balance due on October 31, 2009 (see Note 19). Interest on the Bridge Loan at October 31, 2007 was 9.50%. In addition, the Corporation is to receive a loan fee from Templeton equal to 1% of the Bridge Loan amount. Under the terms of the agreement with Templeton the Corporation has the option to participate in the real estate development projects as a 20% equity partner or participate as a lender receiving a preferred interest rate.

**17. Arizona Development Projects:**

During 2007 the Corporation and Bellagio Builders, LLC., an Arizona limited liability company formed a limited liability company, 6037 East Donna Circle, LLC ("Donna Circle") with the sole business purpose of constructing and marketing an approximately 7,300 square foot luxury home in Paradise Valley, Arizona. In February 2007, Donna Circle obtained an unsecured, non-revolving line of credit for \$3,200,000 with Mid-State Bank (the "Line"). The Line calls for monthly interest only payments with all unpaid principal due at maturity in February 2009. The interest rate for the Line is 7%. All principal and interest under the line is guaranteed by the Corporation.

During 2007 Donna Circle used proceeds of \$1,368,000 from the Line to purchase property in Paradise Valley, Arizona for the construction of a luxury home. Additionally during 2007, Donna Circle used proceeds of \$192,000 from the Line for site preparation and architect fees in connection with the construction of the project. Costs to complete the project are estimated to be \$1,640,000. Outstanding borrowings under the Line at October 31, 2007 of \$1,560,000 are included in long-term debt in the Consolidated Balance Sheets of the Corporation. Capitalized costs of \$1,560,000 are included in other assets in the Consolidated Balance Sheets of the Corporation at October 31, 2007.

During 2007 the Corporation and Bellagio Builders, LLC, an Arizona limited liability company formed a limited liability company, 6146 East Cactus Wren Road, LLC (“Cactus Wren”) with the sole purpose of constructing and marketing an approximately 8,500 square-foot luxury home in Paradise Valley, Arizona. In March 2007 Cactus Wren obtained an unsecured, non-revolving line of credit for \$3,900,000 with Mid-State Bank (the “Line”). The Line calls for monthly, interest only payments with all unpaid principal due at maturity in March 2009. The interest rate for the Line is 7%. All principal and interest under the Line is guaranteed by the Corporation.

During 2007 Cactus Wren used proceeds of \$1,640,000 from the Line to purchase property in Paradise Valley, Arizona for the construction of a luxury home. Additionally during 2007, Cactus Wren used proceeds of \$170,000 from the Line for site preparation and architect fees in connection with the construction of the project. Costs to complete the project are estimated to be \$2,090,000. Outstanding borrowings under the Line at October 31, 2007 of \$1,810,000 are included in long-term debt in the Consolidated Balance Sheets of the Corporation. Capitalized costs of \$1,810,000 are included in other assets in the Consolidated Balance Sheets of the Corporation at October 31, 2007.

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

#### **18. Shareholder Rights Agreement:**

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

#### **19. Subsequent Events (unaudited):**

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

Also subsequent to October 31, 2007, the Corporation entered into a contract with Perpetual Power, LLC (“Perpetual”) to install a 1,000 KW Photovoltaic Generator (“the Generator”) in order to provide electrical power for the Corporation’s lemon packinghouse operations. The Corporation paid a \$150,000 deposit to Perpetual upon signing; to be reimbursed when the construction phase of the project begins. Farm Credit West will provide financing for the Generator and upon completion of the construction; Perpetual will sell the Generator to Farm Credit West. The Corporation will then sign a 10 year operating lease agreement with Farm Credit West. During the 10 year lease term, Perpetual will warrant that the Generator is free from defects in material and workmanship. At the end of the 10 year lease term, the Corporation will have an option to purchase the Generator from Farm Credit West.



## Report of Independent Auditors

The Board of Directors and Stockholders of Limoneira Company

We have audited the accompanying consolidated balance sheets of Limoneira Company (the “Company”) as of October 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limoneira Company at October 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

January 25, 2008

## Crop and Financial Comparisons

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

#### 2007 Utilization Acreage Consolidated

	Producing	Non-Bearing	Total
Lemons	1,699	133	1,832
Valencias	231	0	231
Navels	776	47	823
Avocados	1,220	113	1,333
Specialty Crops	413	73	486
Total Planted Acreage	<u>4,339</u>	<u>366</u>	<u>4,705</u>
Land Leased to Third Parties	586	0	586
Pastures and Other	0	1,938	1,938
Total Acreage	<u>4,925</u>	<u>2,304</u>	<u>7,229</u>

#### Crop Production Consolidated (in 000's)

	Field Boxes	
	2007 Actual	2008 Estimates
Lemons	1,066	1,272
Valencias	92	115
Navels	250	264
Specialty Citrus	214	260
All Varieties	1,622	1,911
Affiliated Growers' Citrus	394	329
Total Citrus	<u>2,016</u>	<u>2,240</u>
Avocados (Pounds)	<u>3,964</u>	<u>3,800</u>

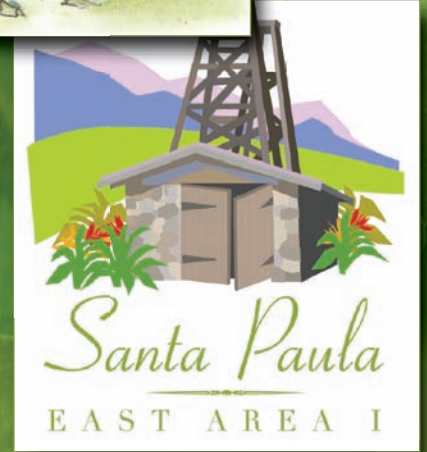
Included in the above amounts are 490 acres of land leased by Limoneira under long-term leases.

#### Results of Agricultural Operations Operating Profit

	2007	2006
Lemons	\$11,753,000	\$5,803,000
Oranges		
Valencias	193,000	486,000
Navels	1,866,000	986,000
Avocados	289,000	5,820,000
Specialty citrus crops	882,000	880,000
Pistachios and other	(76,000)	(107,000)
Other sources	761,000	324,000
Total	<u>\$15,668,000</u>	<u>\$14,192,000</u>

Santa Paula East Area I will bring significant positive benefits to Santa Paula and the Heritage Valley including vital new revenue sources for our city.

Additionally, much needed housing, jobs, infrastructure improvements and light industrial, retail and commercial opportunities are components of this well designed plan. Our community will also benefit from beautiful parks and open space.



# development



# stewardship

For the past 114 years, Limoneira has been committed to advancing community building, stewardship and agricultural production. The Company's mission serves as a foundation to secure future opportunity and success.

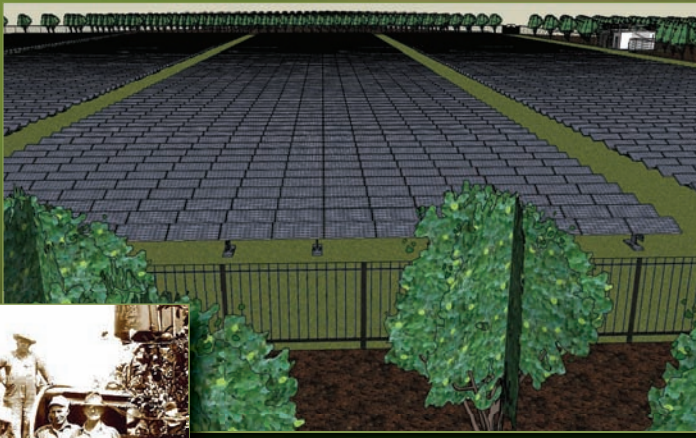


# employees

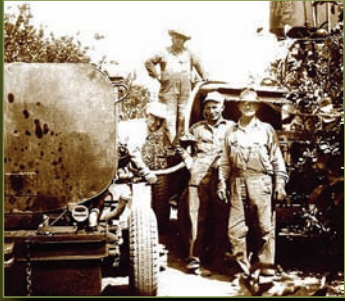
Limoneira invests in its most important asset: our employees, through excellent 401(k) programs, health and wellness programs and citizen and educational programs. Limoneira has been awarded the Family Friendly Employer Award for 5 years from 2003 to 2007.

Ma Angelica Aguirre Agapito Aguirre Rigoberto Aguirre Armando Aguirre Vidal Alamillo  
Adan Almaraz Arturo Alpuche Anselmo Alvarez Alberto Alvarez Elias Ambriz Lorenzo Arevalo  
Maria Arevalo Jose Ayala Joel Ayon Pedro Barragan Miguel Bermudez Ramon Berumen  
Victoria Berumen Eduardo Berumen Tony Berumen Judith Bosman Pedro Bravo Richard Cabral  
Santiago Calderon Trinitario Campos Samuel Campos Maria Campos Stoney Carrera Rosie Castillo  
Ubaldo Castro Gabby Cervantes John Chamberlain Jose Luis Cordoba Maria Cordoba  
Antonio Cortez Anita De La Cruz Norma De Rico Lorenzo De-La-Trinidad Don Delmatoff  
Dora Diaz Peter Dinkler Alica Dominguez Harold Edwards Ysmael Enriquez Jose Enriquez Jr.  
Jose Fernandez Ricardo Fernandez Patricia Fernandez Estela Fernandez Soledad Fernandez  
Rosa Fernandez Miguel Fernandez Jose Figueroa Ruby Figueroa James Fisher Judith Fontana  
Francisco Franco Alfonso Frausto Daniel Galbraith Agueda Galvan Juan Gamez Bertha Garcia  
Enrique Garcia Victor Garcia Manuel Garcia Sergio Garcia Pedro Garcia Esteban Garibay  
Albert Garibay Octavio Gomez Lupe Gonzales Frances Gonzales Rene Gonzalez Tomas Gonzalez  
David Goodell Austreberto Granados Helen Gregorich Jose Guerrero Leticia Guevara  
Gus Gunderson Abelardo Gutierrez Humberto Guzman Amado Guzman Graciela Guzman  
Greg Hamm Jose Hernandez Gregoria Hernandez Gerardo Hernandez Tomas Huizar  
Juan Ibarra Elvira Ibarra Joel Ibarra Carlos Ibarra Salomon Izquierdo Lidia Izquierdo  
Rosalina Jimenez Maria Jimenez Ely Key Lazaro Ladislido Michael Lamber Ismael Limon  
Rosa Lozano Rocio Macias Esther Macias Guillermo Magana Anita Magana Fernando Magana  
Manuel Magdaleno Jose Luis Manzo Esther Martinez Jose P. Martinez Jose A. Martinez  
Frances Martinez Sydney Mathis Lauro Estrada Medina Gloria Mendez Gildardo Mendez  
Nieves Meza Daniel Miller Teresa Miranda Pedro Miranda Celia Miranda Jose Mojica  
Salvador Montelongo Angel Montelongo Juan Mora Ryan Nasalroad Rogelio Navarro  
Filiberto Navarro Alexandra Nesbitt-Schwarz Janet Nesti James Nesti Susan Ng Carlos Nunez  
Esperanza Nuno Juan Ortega Rosa Ortega Mario Ortega Antonio Oseguera Cesar Osorio  
Esteban Paniagua Jorge Paz Cornelio Pena Maria Pena Heriberto Perez Abel Perez  
Angel Perez-Moreno Martha Quirarte Fidel Ramirez Maria Reyes Juana Rico Avelino Rico  
Jose Rico Elias Rico Araceli Rico Ramiro Rico Francisca Rico Bertha Rico Rigoberto Rico Sr.  
Jeanette Rivera Raul Rocha Jose G. Rodriguez Antonio Rodriguez Alejandro Rodriguez  
Rafael P. Rodriguez Antonio Rubio Raul Rubio Martin Rubio Maria Rubio Blanca Rubio  
Margarita Rubio Paula Ruby Gabriel Ruiz Deanna Rule Graciela Salazar Coleta A. Salazar  
Gabriel Salazar Maria Sandoval Dyson Schneider Gerald Sherman Alejandro Tapia  
Alex Teague Kathleen Thompson Eric Tovas Aida Urrutia Salvador Vaca Dolores Vaca Ramiro Vaca  
Rafael Vaca Jorge Vargas David Vargas Maria Vargas Blanca Vargas Etelvina Vargas  
Socorro Vasquez Eduardo Velazco Jose Veloz Virginia Villa Armando Villanueva  
Leonardo Viveros Camille Yanez Katie Zavala Jose Zizumbo Teresa Zizumbo





In an effort to further its sustainable practices, Limoneira Company has invested in a solar power development. Scheduled to be fully functional by August 2008, the 5 acre development will produce enough power to run Limoneira's Lemon Packinghouse on reusable energy.



# sustainability

Limoneira is one of the founding members of Associates Insectary, a cooperative which makes many contributions towards sustainable agriculture.



# community

Limoneira Tours arranges unique agritourism offerings which promote the beauty of our agricultural valley and the many lifestyle benefits of living in the Santa Paula community. These tours help to attract visitors to our area and contribute to our local economy.



# LIMONEIRA