CHESAPEAKE ENERGY CORP
Form 10-Q
August 09, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2011

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File No. 1-13726

Chesapeake Energy Corporation

(Exact name of registrant as specified in its charter)

Oklahoma	**73-1395733**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 North Western Avenue **Oklahoma City, Oklahoma**	**73118**
(Address of principal executive offices)	(Zip Code)

(405) 848-8000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [X]   Accelerated filer [ ]   Non-accelerated filer [ ]   Smaller reporting company [ ]

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

As of August 3, 2011, there were 660,841,196 shares of our common stock, $0.01 par value, outstanding.

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

PART I.

Financial Information

		Page
Item 1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010	1
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010	2
	Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2011 and 2010	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010	4
	Condensed Consolidated Statements of Stockholders Equity for the Six Months Ended June 30, 2011 and 2010	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	46
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	68
Item 4.	Controls and Procedures	74

PART II.

Other Information

Item 1.	Legal Proceedings	75
Item 1A.	Risk Factors	76
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	76
Item 3.	Defaults Upon Senior Securities	76
Item 4.	(Removed and Reserved)	76
Item 5.	Other Information	76
Item 6.	Exhibits	77

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2011	December 31, 2010
	($ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 109	$ 102
Accounts receivable	2,708	1,974
Short-term derivative instruments	169	947
Deferred income tax asset	15	139
Other current assets	125	104
Total Current Assets	3,126	3,266
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full-cost accounting:		
Evaluated natural gas and oil properties	38,318	38,952
Unevaluated properties	14,941	14,469
Natural gas gathering systems and treating plants	1,452	1,545
Other property and equipment	4,461	3,726
Total Property and Equipment, at Cost	59,172	58,692
Less: accumulated depreciation, depletion and amortization	(27,120)	(26,314)
Total Property and Equipment, Net	32,052	32,378
OTHER ASSETS:		
Investments	1,105	1,208
Long-term derivative instruments	7	
Other long-term assets	366	327
Total Other Assets	1,478	1,535
TOTAL ASSETS	$ 36,656	$ 37,179
CURRENT LIABILITIES:		
Accounts payable	$ 2,600	$ 2,069
Short-term derivative instruments	133	15
Accrued interest	180	191
Other current liabilities	2,815	2,215
Total Current Liabilities	5,728	4,490
LONG-TERM LIABILITIES:		
Long-term debt, net	10,047	12,640

Deferred income tax liabilities	2,482	2,384
Long-term derivative instruments	2,138	1,693
Asset retirement obligations	305	301
Other long-term liabilities	473	407
Total Long-Term Liabilities	15,445	17,425
CONTINGENCIES AND COMMITMENTS (Note 3)		
STOCKHOLDERS EQUITY:		
Preferred Stock, $0.01 par value, 20,000,000 shares authorized: 7,254,515 shares issued and outstanding	3,065	3,065
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 659,107,987 and 655,251,275 shares issued	7	7
Paid-in capital	12,125	12,194
Retained earnings	411	190
Accumulated other comprehensive income (loss), net of tax of $61 million and $102 million	(99)	(168)
Less: treasury stock, at cost; 1,282,300 and 1,221,299 common shares	(26)	(24)
Total Stockholders Equity	15,483	15,264
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 36,656	$ 37,179

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

1

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	($ in millions, except per share data)			
REVENUES:				
Natural gas and oil sales	$ 1,792	$ 1,161	$ 2,286	$ 3,059
Marketing, gathering and compression sales	1,404	793	2,421	1,637
Service operations revenue	122	58	223	114
Total Revenues	3,318	2,012	4,930	4,810
OPERATING COSTS:				
Production expenses	262	213	500	421
Production taxes	46	37	91	85
General and administrative expenses	130	106	259	215
Marketing, gathering and compression expenses	1,366	763	2,352	1,578
Service operations expense	92	53	169	102
Natural gas and oil depreciation, depletion and amortization	366	340	724	647
Depreciation and amortization of other assets	63	53	131	103
(Gains) losses on sales of other property and equipment	4		(1)	
Other impairments	4		4	
Total Operating Costs	2,333	1,565	4,229	3,151
INCOME FROM OPERATIONS	985	447	701	1,659
OTHER INCOME (EXPENSE):				
Interest (expense) income	(25)	16	(33)	(9)
Earnings from equity investees	47	27	72	39
Losses on purchases or exchanges of debt	(174)	(69)	(176)	(71)
Other income (expense)	2	(7)	5	(4)
Total Other Income (Expense)	(150)	(33)	(132)	(45)
INCOME BEFORE INCOME TAXES	835	414	569	1,614

INCOME TAX EXPENSE:				
Current income taxes	6	5	12	5
Deferred income taxes	319	154	210	616
Total Income Tax Expense	325	159	222	621
NET INCOME	510	255	347	993
Preferred stock dividends	(43)	(20)	(85)	(25)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 467	$ 235	$ 262	$ 968
EARNINGS PER COMMON SHARE:				
Basic	$ 0.74	$ 0.37	$ 0.41	$ 1.54
Diluted	$ 0.68	$ 0.37	$ 0.41	$ 1.49
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.0875	$ 0.075	$ 0.1625	$ 0.15
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):				
Basic	635	631	635	630
Diluted	751	635	645	665

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

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	($ in millions)			
Net income	$ 510	$ 255	$ 347	$ 993
Other comprehensive income, net of income tax:				
Change in fair value of derivative instruments, net of income taxes of $87 million, ($38) million, $89 million and $114 million	141	(62)	146	187
Reclassification of gain on settled contracts, net of income taxes of ($11) million, ($82) million, ($39) million and ($135) million	(18)	(134)	(64)	(221)
Ineffective portion of derivatives qualifying for cash flow hedge accounting, net of income taxes of ($3) million, $7 million, ($7) million and $9 million	(5)	11	(11)	15
Unrealized gain (loss) on marketable securities, net of income taxes of ($3) million, ($3) million, ($1) million and ($5) million	(5)	(5)	(2)	(8)
Comprehensive income	$ 623	$ 65	$ 416	$ 966

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

3

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2011	2010
	($ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 347	$ 993
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	855	750
Deferred income tax expense	210	616
Unrealized losses on derivatives	1,087	5
Stock-based compensation	79	67
Accretion of discount on contingent convertible notes		38
(Gains) losses on equity investments	(23)	35
Losses on purchases or exchanges of debt	33	39
Other		21
Change in assets and liabilities	(495)	414
Cash provided by operating activities	2,093	2,978
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of natural gas and oil properties	(3,395)	(2,331)
Acquisitions of proved and unproved properties	(2,529)	(2,855)
Proceeds from divestitures of proved and unproved properties	6,173	1,933
Additions to other property and equipment	(863)	(679)
Proceeds from sales of other assets	526	306
Proceeds from (additions to) investments	212	(109)
Acquisition of drilling company	(339)	
Other	(25)	3
Cash used in investing activities	(240)	(3,732)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facilities borrowings	8,343	7,044
Payments on credit facilities borrowings	(10,235)	(7,415)
Proceeds from issuance of senior notes, net of offering costs	977	
Proceeds from issuance of preferred stock, net of offering costs		2,562
Cash paid to purchase debt	(2,032)	(1,334)
Cash paid for common stock dividends	(95)	(95)
Cash paid for preferred stock dividends	(86)	(11)
Cash received on financing derivatives	882	271
Net increase in outstanding payments in excess of cash balance	448	47
Other	(48)	(21)

Cash provided by (used in) financing activities		(1,846)		1,048
Net increase in cash and cash equivalents		7		294
Cash and cash equivalents, beginning of period		102		307
Cash and cash equivalents, end of period	$	109	$	601

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
	($ in millions)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION OF NET CASH PAYMENTS (REFUNDS) FOR:		
Interest, net of capitalized interest	$	$ 57
Income taxes, net of refunds received	$ (25)	$ (291)

SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:

As of June 30, 2011 and 2010, dividends payable on our common and preferred stock were $99 million and $90 million, respectively.

For the six months ended June 30, 2011 and 2010, natural gas and oil properties were adjusted by $92 million and $64 million, respectively, as a result of an increase in accrued costs.

For the six months ended June 30, 2011 and 2010, other property and equipment were adjusted by $37 million and $2 million, respectively, as a result of an increase in accrued costs.

As of June 30, 2011 and 2010, we had recorded $206 million and $178 million, respectively, as a result of various accrued liabilities related to the purchase of proved and unproved properties and other assets.

During the six months ended June 30, 2010, holders of our 2.25% Contingent Convertible Senior Notes due 2038 exchanged approximately $11 million in aggregate principal amount for an aggregate of 298,500 shares of our common stock in privately negotiated exchanges.

On May 3, 2010, we converted all 5,000 shares of our outstanding 5.00% Cumulative Convertible Preferred Stock (Series 2005) into 20,774 shares of common stock pursuant to the company s mandatory conversion rights.

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

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	($ in millions)	
PREFERRED STOCK:		
Balance, beginning of period	$ 3,065	$ 466
Issuance of 0 and 1,500,000 shares of 5.75% preferred stock		1,500
Issuance of 0 and 1,100,000 shares of 5.75% preferred stock (series A)		1,100
Exchange of 0 and 5,000 shares of 5% preferred stock (series 2005) for common stock		(1)
Balance, end of period	3,065	3,065
COMMON STOCK:		
Balance, beginning of period	7	6
Exchange of convertible notes for 0 and 298,500 shares of common stock		
Exchange of preferred stock for 0 and 20,774 shares of common stock		
Stock-based compensation		1
Balance, end of period	7	7
PAID-IN CAPITAL:		
Balance, beginning of period	12,194	12,146
Stock-based compensation	114	116
Purchase of contingent convertible notes	(123)	
Exchange of convertible notes for 0 and 298,500 shares of common stock		8
Exchange of 0 and 5,000 shares of preferred stock for common stock		1
Exercise of stock options	1	2
Offering expenses		(38)
Tax benefit from stock-based compensation	2	
Dividends on common stock	(48)	(95)
Dividends on preferred stock	(15)	(44)
Balance, end of period	12,125	12,096
RETAINED EARNINGS (DEFICIT):		
Balance, beginning of period	190	(1,261)
Net income	347	993
Cumulative effect of accounting change, net of income taxes of $89 million		(142)
Dividends on common stock	(56)	
Dividends on preferred stock	(70)	

Balance, end of period	411	(410)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance, beginning of period	(168)	102
Hedging activity	71	(19)
Investment activity	(2)	(8)
Balance, end of period	(99)	75
TREASURY STOCK COMMON:		
Balance, beginning of period	(24)	(15)
Purchase of 134,300 and 123,579 shares for company benefit plans	(4)	(3)
Release of 73,299 and 6,818 shares for company benefit plans	2	
Balance, end of period	(26)	(18)
NONCONTROLLING INTEREST:		
Balance, beginning of period		897
Deconsolidation of investment in Chesapeake Midstream Partners		(897)
Balance, end of period		
TOTAL STOCKHOLDERS EQUITY	$ 15,483	$ 14,815

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

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Chesapeake Energy Corporation (Chesapeake or the company) and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission (SEC). Chesapeake s annual report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K) includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. The accompanying condensed consolidated financial statements of Chesapeake include the accounts of our direct and indirect wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The results for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year. This Form 10-Q relates to the three and six months ended June 30, 2011 (the Current Quarter and the Current Period , respectively) and the three and six months ended June 30, 2010 (the Prior Quarter and the Prior Period , respectively).

Cumulative Effect of Accounting Change

Effective January 1, 2010, in accordance with new authoritative guidance for variable interest entities, we ceased consolidating our 50/50 midstream joint venture with Global Infrastructure Partners within our financial statements and began to account for the joint venture under the equity method (see Note 9). Adoption of this new guidance resulted in an after-tax cumulative effect charge to retained earnings of $142 million, which is reflected in our condensed consolidated statement of equity for the Prior Period. This charge reflects the difference between the carrying value of our initial investment in the joint venture, which was recorded at carryover basis as an entity under common control, and the fair value of our equity in the joint venture as of the formation date.

Critical Accounting Policies

We consider accounting policies related to hedging, natural gas and oil properties and income taxes to be critical policies. These policies are summarized in Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Form 10-K.

2. Derivative and Hedging Activities

Natural Gas and Oil Derivatives

Our results of operations and cash flows are impacted by changes in market prices for natural gas and oil. To mitigate a portion of the exposure to adverse market changes, we have entered into various derivative instruments. These instruments allow us to predict with greater certainty the effective natural gas and oil prices to be received for our hedged production. Although derivatives often fail to achieve 100% effectiveness for accounting purposes, we believe our derivative instruments continue to be highly effective in achieving our risk management objectives. As of June 30, 2011 and December 31, 2010, our natural gas and oil derivative instruments consisted of the following types of instruments:

Swaps: Chesapeake receives a fixed price and pays a floating market price to the counterparty for the hedged commodity.

Call Options: Chesapeake sells call options in exchange for a premium from the counterparty. At the time of settlement, if the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty such excess and if the market price settles below

the fixed price of the call option, no payment is due from either party.

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Put Options: Chesapeake receives a premium from the counterparty in exchange for the sale of a put option. At the time of settlement, if the market price falls below the fixed price of the put option, Chesapeake pays the counterparty such shortfall, and if the market price settles above the fixed price of the put option, no payment is due from either party.

Knockout Swaps: Chesapeake receives a fixed price and pays a floating market price. The fixed price received by Chesapeake includes a premium in exchange for the possibility to reduce the counterparty s exposure to zero, in any given month, if the floating market price is lower than a certain pre-determined knockout price.

Basis Protection Swaps: These instruments are arrangements that guarantee a price differential to NYMEX for natural gas from a specified delivery point. For non-Appalachian Basin basis protection swaps, which typically have negative differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. For Appalachian Basin basis protection swaps, which typically have positive differentials to NYMEX, Chesapeake receives a payment from the counterparty if the price differential is less than the stated terms of the contract and pays the counterparty if the price differential is greater than the stated terms of the contract.

All of our derivative instruments are net settled based on the difference between the fixed-price payment and the floating-price payment, resulting in a net amount due to or from the counterparty.

The estimated fair values of our natural gas and oil derivative instruments as of June 30, 2011 and December 31, 2010 are provided below. The associated carrying values of these instruments are equal to the estimated fair values.

	June 30, 2011		December 31, 2010	
	Volume	Fair Value ($ in millions)	Volume	Fair Value ($ in millions)
Natural gas (bbtu):				
Fixed-price swaps	512,718	$ 346	1,035,134	$ 1,307
Call options	1,525,383	(769)	1,477,742	(701)
Put options	(33,120)	(35)	(51,220)	(59)
Basis protection swaps	130,684	(50)	173,691	(55)
Total natural gas	2,135,665	(508)	2,635,347	492
Oil (mbbl):				
Fixed-price swaps	2,202	4	4,385	(31)
Call options	77,489	(1,552)	64,226	(1,129)
Fixed-price knockout swaps	1,284	10	1,827	19
Total oil	80,975	(1,538)	70,438	(1,141)
		$ (2,046)		$ (649)

Total estimated fair value

Pursuant to accounting guidance for derivatives and hedging, certain derivatives qualify for designation as cash flow hedges. Following this guidance, changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in accumulated other comprehensive income until the hedged item is recognized in earnings as the physical transactions being hedged occur. Any change in fair value resulting from ineffectiveness is currently recognized in natural gas and oil sales. Changes in the fair value of non-qualifying derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are reported currently in the condensed consolidated statements of operations within natural gas and oil sales.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The components of natural gas and oil sales for the Current Quarter, the Current Period, the Prior Quarter and the Prior Period are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	($ in millions)			
Natural gas and oil sales	$ 1,278	$ 984	$ 2,465	$ 2,169
Gains (losses) on natural gas and oil derivatives	506	195	(197)	914
Gains (losses) on ineffectiveness of cash flow hedges	8	(18)	18	(24)
Total natural gas and oil sales	$ 1,792	$ 1,161	$ 2,286	$ 3,059

Based upon the market prices at June 30, 2011, we expect to transfer approximately $75 million (net of income taxes) of gain included in accumulated other comprehensive income to net income (loss) during the next 12 months in the related month of production. All derivatives as of June 30, 2011 are expected to mature by December 31, 2022.

We have a multi-counterparty secured hedging facility with 17 counterparties that have committed to provide approximately 6.5 tcfe of hedging capacity for commodity price derivatives and 6.5 tcfe for basis derivatives with an aggregate mark-to-market capacity of $17.3 billion under the terms of the facility. As of June 30, 2011, we had hedged under the facility 2.5 tcfe of our future production with price derivatives and 0.1 tcfe with basis derivatives. The multi-counterparty facility allows us to enter into cash-settled natural gas, oil and natural gas liquids price and basis hedges with the counterparties. Our obligations under the multi-counterparty facility are secured by proved reserves, the value of which must cover the fair value of the transactions outstanding under the facility by at least 1.65 times, and guarantees by certain subsidiaries that also guarantee our corporate revolving bank credit facility and indentures. The counterparties obligations under the facility must be secured by cash or short-term U.S. Treasury instruments to the extent that any mark-to-market amounts they owe to Chesapeake exceed defined thresholds. The maximum volume-based hedging capacity under the facility is governed by the expected production of the pledged reserve collateral, and volume-based hedging limits are applied separately to price and basis hedges. In addition, there are volume-based sub-limits for natural gas, oil and natural gas liquids hedges. Chesapeake has significant flexibility with regard to releases and/or substitutions of pledged reserves, provided that certain collateral coverage and other requirements are met. The facility does not have a maturity date. Counterparties to the agreement have the right to cease entering into hedges with the company on a prospective basis as long as obligations associated with any existing transactions in the facility continue to be satisfied in accordance with the terms of the agreement.

Interest Rate Derivatives

To mitigate a portion of our exposure to volatility in interest rates related to our senior notes and bank credit facilities, we enter into interest rate derivatives. As of June 30, 2011 and December 31, 2010, our interest rate derivative instruments consisted of the following types of instruments:

Swaps: Chesapeake enters into fixed-to-floating interest rate swaps (we receive a fixed interest rate and pay a floating market rate) to mitigate our exposure to changes in the fair value of our senior notes. We enter into floating-to-fixed interest rate swaps (we receive a floating market rate and pay a fixed interest rate) to manage our interest rate exposure related to our bank credit facilities borrowings.

Call Options: Occasionally we sell call options for a premium when we think it is more likely that the option will expire unexercised. The option allows the counterparty to terminate a pre-determined open swap on a specific date.

Swaptions: Occasionally we sell an option to a counterparty for a premium which allows the counterparty to enter into a pre-determined swap with us on a specific date.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The notional amount of debt hedged and the estimated fair value of our interest rate derivatives outstanding as of June 30, 2011 and December 31, 2010 are provided below.

	June 30, 2011		December 31, 2010	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	($ in millions)			
Interest rate:				
Swaps	$ 1,600	$ (48)	$ 1,900	$ (54)
Call options			250	(2)
Swaptions	450	(8)	500	(13)
Total	$ 2,050	$ (56)	$ 2,650	$ (69)

For interest rate derivative instruments designated as fair value hedges, the fair values of the hedges are recorded on the condensed consolidated balance sheets as assets or liabilities, with corresponding offsetting adjustments to the debt s carrying value. Our qualifying interest rate swaps are considered 100% effective and therefore no ineffectiveness was recorded for the periods presented above. Changes in the fair value of non-qualifying interest rate derivatives that occur prior to their maturity (i.e., temporary fluctuations in value) are currently reported in the condensed consolidated statements of operations within interest expense.

Gains or losses from interest rate derivative transactions are reflected as adjustments to interest expense in the condensed consolidated statements of operations. The components of interest expense for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	($ in millions)			
Interest expense on senior notes	$ 164	$ 190	$ 342	$ 383
Interest expense on credit facilities	10	12	31	24
(Gains) losses on interest rate derivatives	19	(51)	18	(81)
Amortization of loan discount and other	8	12	23	23
Capitalized interest	(176)	(179)	(381)	(340)
Total interest expense (income)	$ 25	$ (16)	$ 33	$ 9

We have terminated certain fair value hedges related to senior notes. Gains and losses related to these terminated hedges will be amortized as an adjustment to interest expense over the remaining term of the related senior notes. Over the next ten years, we will recognize $30 million in gains related to such transactions.

Foreign Currency Derivatives

In December 2006, we issued 600 million of 6.25% Euro-denominated Senior Notes due 2017. Concurrent with the issuance of the euro-denominated senior notes, we entered into cross currency swaps to mitigate our exposure to fluctuations in the euro relative to the dollar over the term of the notes. In May 2011, we purchased and subsequently retired 256 million in aggregate principal amount of these senior notes following a tender offer, and we simultaneously unwound the cross currency swaps for the same principal amount. As a result, we reclassified a loss of $38 million from accumulated other comprehensive income to the condensed consolidated statement of operations, $20 million of which related to the unwound notional amount and was included in losses on purchases or exchanges of debt, and $18 million of which related to future interest associated with the unwound principal and was included in interest expense. Under the terms of the remaining cross currency swaps, on each semi-annual interest payment date, the counterparties pay Chesapeake 11 million and Chesapeake pays the counterparties $17 million, which yields an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay Chesapeake 344 million and Chesapeake will pay the counterparties $459 million.

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The terms of the cross currency swaps were based on the dollar/euro exchange rate on the issuance date of $1.3325 to 1.00. Through the cross currency swaps, we have eliminated any potential variability in Chesapeake s expected cash flows related to changes in foreign exchange rates and therefore the swaps qualify as cash flow hedges. The fair values of the cross currency swaps are recorded on the condensed consolidated balance sheet as an asset of $7 million at June 30, 2011. The euro-denominated debt in long-term debt has been adjusted to $500 million at June 30, 2011 using an exchange rate of $1.4523 to 1.00.

Additional Disclosures Regarding Derivative Instruments and Hedging Activities

In accordance with accounting guidance for derivatives and hedging, to the extent that a legal right of set-off exists, Chesapeake nets the value of its derivative arrangements with the same counterparty in the accompanying condensed consolidated balance sheets. Derivative instruments reflected as current in the condensed consolidated balance sheets represent the estimated fair value of derivatives scheduled to settle over the next twelve months based on market prices/rates as of the respective balance sheet dates. The derivative settlement amounts are not due until the month in which the related underlying hedged transaction occurs. Cash settlements of our derivative instruments are generally classified as operating cash flows unless the derivative contains a significant financing element at contract inception, in which case these cash settlements are classified as financing cash flows in the accompanying condensed consolidated statements of cash flows.

The following table presents the fair value and location of each classification of derivative instrument as disclosed in the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 on a gross basis without regard to same-counterparty netting:

		Fair Value	
	Balance Sheet Location	**June 30, 2011**	**December 31, 2010**
		($ in millions)	
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Commodity contracts	Short-term derivative instruments	$ 168	$ 307
Commodity contracts	Long-term derivative instruments	1	12
Foreign currency contracts	Long-term derivative instruments	7	
Total		176	319
Derivatives not designated as hedging instruments:			
Commodity contracts	Short-term derivative instruments	198	921
Commodity contracts	Long-term derivative instruments	101	229
Total		299	1,150
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Commodity contracts	Short-term derivative instruments	(17)	(59)
Interest rate contracts	Long-term derivative instruments	(11)	(25)
Foreign currency contracts	Long-term derivative instruments		(43)
Total		(28)	(127)

Derivatives not designated as hedging instruments:			
Commodity contracts	Short-term derivative instruments	(306)	(222)
Commodity contracts	Long-term derivative instruments	(2,191)	(1,837)
Interest rate contracts	Short-term derivative instruments	(8)	(15)
Interest rate contracts	Long-term derivative instruments	(37)	(29)
Total		(2,542)	(2,103)
Total derivative instruments		$ (2,095)	$ (761)

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A consolidated summary of the effect of derivative instruments on the condensed consolidated statements of operations for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period is provided below, separating fair value, cash flow and non-qualifying derivatives.

Fair Value Hedges

The following table presents the gain (loss) recognized in the condensed consolidated statement of operations for instruments designated as fair value derivatives:

Fair Value Derivatives	Location of Gain (Loss)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest rate contracts	Interest expense[(a)]	$ 5	$ 5	$ 11	$ 13

(a) Interest expense on items hedged during the Current Quarter, the Prior Quarter, the Current Period and the Prior Period was $9 million, $5 million, $21 million and $15 million, respectively, which is included in interest expense on the condensed consolidated statements of operations.

Cash Flow Hedges

The following table presents the pre-tax gain (loss) recognized in, and reclassified from, accumulated other comprehensive income (AOCI) related to instruments designated as cash flow derivatives:

Cash Flow Derivatives	Location of Gain (Loss)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Gain (Loss) Recognized in AOCI (Effective Portion)					
Commodity contracts	AOCI	$ 234	$ (41)	$ 250	$ 364
Foreign currency contracts	AOCI	(14)	(41)	(33)	(39)
		$ 220	$ (82)	$ 217	$ 325
Gain (Loss) Reclassified from AOCI (Effective Portion)					
Commodity contracts	Natural gas and oil sales	$ 67	$ 216	$ 141	$ 356
Foreign currency contracts	Interest expense	(18)		(18)	
Foreign currency contracts	Loss on purchase of debt	(20)		(20)	
		$ 29	$ 216	$ 103	$ 356

Gain (Loss) Recognized in Income					
Commodity contracts					
Ineffective portion	Natural gas and oil sales	$ 8	$ (18)	$ 18	$ (24)
Amount initially excluded from effectiveness testing	Natural gas and oil sales		36	22	72
		$ 8	$ 18	$ 40	$ 48

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Non-Qualifying Derivatives

The following table presents the gain (loss) recognized in the condensed consolidated statement of operations for instruments not qualifying as cash flow or fair value derivatives:

		Three Months Ended June 30,		Six Months Ended June 30,	
Derivative Contracts	**Location of Gain (Loss)**	**2011**	**2010**	**2011**	**2010**
Commodity contracts	Natural gas and oil sales	$ 439	$ (57)	$ (360)	$ 486
Interest rate contracts	Interest expense	(6)	46	(11)	68
	Total	$ 433	$ (11)	$ (371)	$ 554

Credit Risk

Derivative instruments that enable us to hedge a portion of our exposure to natural gas and oil prices and interest rate volatility expose us to credit risk from our counterparties. To mitigate this risk, we enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers, and we attempt to limit our exposure to non-performance by any single counterparty. On June 30, 2011, our commodity and interest rate derivative instruments were spread among 14 counterparties. Additionally, our multi-counterparty secured hedging facility described above included 11 of our counterparties which are required to secure their natural gas and oil derivative obligations in excess of defined thresholds. We use this facility for all of our commodity derivatives.

3. Contingencies and Commitments

Litigation

On February 25, 2009, a putative class action was filed in the U.S. District Court for the Southern District of New York against the company and certain of its officers and directors along with certain underwriters of the company s July 2008 common stock offering. Following the appointment of a lead plaintiff and counsel, the plaintiff filed an amended complaint on September 11, 2009 alleging that the registration statement for the offering contained material misstatements and omissions and seeking damages under Sections 11, 12 and 15 of the Securities Act of 1933 of an unspecified amount and rescission. The action was transferred to the U.S. District Court for the Western District of Oklahoma on October 13, 2009. The defendants motion to dismiss was denied on September 2, 2010. A derivative action was also filed in the District Court of Oklahoma County, Oklahoma on March 10, 2009 against the company s directors and certain of its officers alleging breaches of fiduciary duties relating to the disclosure matters alleged in the securities case. The derivative action is stayed pursuant to stipulation. We are currently unable to assess the probability of loss or estimate a range of potential loss associated with the securities class action case, which is at an early stage.

Chesapeake is also involved in various other lawsuits and disputes incidental to its business operations, including commercial disputes, personal injury claims, claims for underpayment of royalties, property damage claims and contract actions. With regard to the latter, various mineral or leasehold owners have filed lawsuits against us seeking specific performance to require us to acquire their natural gas and oil interests and pay acreage bonus payments, damages based on breach of contract and/or, in certain cases, punitive damages based on alleged fraud. The company has successfully defended a number of these cases in various courts, has settled others and believes that it has substantial defenses to the claims made in those pending at the trial court and on appeal.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The company records an associated liability when a loss is probable and the amount is reasonably estimable. Based on management s current assessment, we are of the opinion that no pending or threatened lawsuit or dispute incidental to its business operations is likely to have a material adverse effect on the company s consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from management s estimates.

Environmental Risk

Due to the nature of the natural gas and oil business, Chesapeake and its subsidiaries are exposed to environmental risks. Chesapeake has implemented various policies and procedures to reduce and mitigate such environmental risks. Chesapeake conducts periodic reviews, on a company-wide basis, to identify changes in our environmental risk profile. These reviews evaluate whether there is a contingent liability, its amount, and the likelihood that the liability will be incurred. The amount of any potential liability is determined by considering, among other matters, incremental direct costs of any likely remediation and the proportionate cost of employees who are expected to devote a significant amount of time directly to any possible remediation effort. We manage our exposure to environmental liabilities on properties to be acquired by identifying existing problems and assessing the potential liability. Depending on the extent of an identified environmental problem, Chesapeake may exclude a property from the acquisition, require the seller to remediate the property to our satisfaction, or agree to assume liability for the remediation of the property. Chesapeake has historically not experienced any significant environmental liability and is not aware of any potential material environmental issues or claims at June 30, 2011. There is, however, pending against us an enforcement action related to compliance with Clean Water Act permitting requirements in West Virginia, as well as an investigation by the Pennsylvania Department of Environmental Protection of a recent well control incident. While these actions may result in monetary sanctions, we do not expect that they will have a material adverse effect on our operations.

Rig Leases

In a series of transactions since 2006, our drilling subsidiaries have sold 93 drilling rigs and related equipment for $802 million and entered into a master lease agreement under which we agreed to lease the rigs from the buyer for initial terms of five to ten years. The lease obligations are guaranteed by Chesapeake and certain of its subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss is amortized to service operations expense over the lease term. Under the leases, we can exercise an early purchase option or we can purchase the rigs at the expiration of the lease for the fair market value at the time. In addition, in most cases we have the option to renew the lease for negotiated new terms at the expiration of the lease. Commitments related to rig lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of June 30, 2011, the minimum aggregate undiscounted future rig lease payments were approximately $506 million.

Compressor Leases

Through various transactions since 2007, our compression subsidiary has sold 2,234 compressors, a significant portion of its compressor fleet, for $517 million and entered into a master lease agreement. The term of the agreement varies by buyer ranging from four to ten years. The lease obligations are guaranteed by Chesapeake and certain of its subsidiaries. These transactions were recorded as sales and operating leasebacks and any related gain or loss is amortized to marketing, gathering and compression expenses over the lease term. Under the leases, we can exercise an early purchase option or we can purchase the compressors at the expiration of the lease for the fair market value at the time. In addition, in most cases we have the option to renew the lease for negotiated new terms at the expiration of the lease. Commitments related to compressor lease payments are not recorded in the accompanying condensed consolidated balance sheets. As of June 30, 2011, the minimum aggregate undiscounted future compressor lease payments were approximately $391 million.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Gathering, Processing and Transportation Agreements

We have contractual commitments with midstream service companies and pipeline carriers for future gathering, processing and transportation of natural gas and liquids from certain of our production. We have entered into these agreements to move our production to market. Working interest owners who are selling with us under our marketing agreements will reimburse us for some of these costs. While we expect to have sufficient production to fully utilize the committed capacity, we can pursue a release of any unused capacity to others, thus potentially reducing our future commitment.

The aggregate undiscounted commitments under our gathering, processing and transportation agreements, excluding any reimbursement from working interest owners, are presented below:

	June 30, 2011 ($ in millions)
2011	$ 440
2012	1,017
2013	1,153
2014	1,150
2015	1,195
2015 - 2099	6,767
Total	$ 11,722

Drilling Contracts

Currently, Chesapeake has contracts with various drilling contractors to lease approximately 55 rigs with terms ranging from four months to three years. These commitments are not recorded in the accompanying condensed consolidated balance sheets. As of June 30, 2011, the aggregate undiscounted minimum future drilling rig commitment was approximately $450 million.

Natural Gas and Oil Purchase Obligations

Our marketing segment regularly commits to purchase natural gas from other owners in our properties and such commitments typically are short-term in nature. We have also committed to purchase any natural gas and oil associated with certain volumetric production payment transactions. The purchase commitments are based on market prices at the time of production, and the purchased natural gas and oil is resold.

Net Acreage Maintenance Commitments

Under the terms of our joint venture agreements with our partners (Statoil, Total and CNOOC), we are required to extend, renew or replace certain expiring joint leasehold, at our cost, to ensure that the net acreage is maintained in certain designated areas for certain designated time periods.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Net Income Per Share

Accounting guidance for earnings per share (EPS) requires presentation of basic and diluted earnings per share on the face of the statements of operations for all entities with complex capital structures as well as a reconciliation of the numerator and denominator of the basic and diluted EPS computations.

For the Current Quarter and the Prior Period, all outstanding securities that were convertible into common stock were included in the calculation of diluted EPS. For the Prior Quarter and the Current Period, the following securities and associated adjustments to net income, consisting of dividends on our cumulative convertible preferred stock, were not included in the calculation of diluted EPS, as the effect was antidilutive.

	Net Income Adjustments ($ in millions)	Shares (in millions)
Three Months Ended June 30, 2010:		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$ 6	16
5.75% cumulative convertible preferred stock (series A)	$ 8	19
5.00% cumulative convertible preferred stock (series 2005B)	$ 3	5
4.50% cumulative convertible preferred stock	$ 3	6
Six Months Ended June 30, 2011:		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$ 43	56
5.75% cumulative convertible preferred stock (series A)	$ 31	39
5.00% cumulative convertible preferred stock (series 2005B)	$ 5	5
4.50% cumulative convertible preferred stock	$ 6	6

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A reconciliation of basic EPS and diluted EPS for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period is as follows:

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
	(in millions, except per share data)		
Three Months Ended June 30, 2011:			
Basic EPS	$ 467	635	$ 0.74
Effect of Dilutive Securities:			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 5.75% cumulative convertible preferred stock	21	56	
Common shares assumed issued for 5.75% cumulative convertible preferred stock (series A)	16	39	
Common shares assumed issued for 5.00% cumulative convertible preferred stock (series 2005B)	3	5	
Common shares assumed issued for 4.50% cumulative convertible preferred stock	3	6	
Unvested restricted stock		9	
Outstanding stock options		1	
Diluted EPS	$ 510	751	$ 0.68
Three Months Ended June 30, 2010:			
Basic EPS	$ 235	631	$ 0.37
Effect of Dilutive Securities:			
Unvested restricted stock		3	
Outstanding stock options		1	
Diluted EPS	$ 235	635	$ 0.37

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
	(in millions, except per share data)		
Six Months Ended June 30, 2011:			
Basic EPS	$ 262	635	$ 0.41
Effect of Dilutive Securities:			
Unvested restricted stock		9	
Outstanding stock options		1	
Diluted EPS	$ 262	645	$ 0.41
Six Months Ended June 30, 2010:			
Basic EPS	$ 968	630	$ 1.54
Effect of Dilutive Securities:			
Assumed conversion as of the beginning of the period of preferred shares outstanding during the period:			
Common shares assumed issued for 5.75% cumulative convertible preferred stock	6	8	
Common shares assumed issued for 5.75% cumulative convertible preferred stock (series A)	8	10	
Common shares assumed issued for 5.00% cumulative convertible preferred stock (series 2005B)	5	6	
Common shares assumed issued for 4.50% cumulative convertible preferred stock	6	6	
Unvested restricted stock		4	
Outstanding stock options		1	
Diluted EPS	$ 993	665	$ 1.49

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Stockholders Equity, Restricted Stock and Stock Options

Common Stock

The following is a summary of the changes in our common shares outstanding for the six months ended June 30, 2011 and 2010:

	2011	2010
	(in thousands)	
Shares outstanding at January 1	655,251	648,549
Restricted stock issuances (net of forfeitures)	3,543	2,812
Stock option exercises	314	316
Convertible note exchanges		299
Preferred stock conversions/exchanges		21
Shares outstanding at June 30	659,108	651,997

In the Prior Period, we privately exchanged approximately $11 million in aggregate principal amount of our 2.25% Contingent Convertible Senior Notes due 2038 for an aggregate of 298,500 shares of our common stock valued at approximately $9 million. The difference between the allocated debt value of the notes that were exchanged and the fair value of the common stock issued resulted in a $2 million loss (including a nominal amount of deferred charges associated with the exchanges).

Preferred Stock

The following reflects our preferred shares outstanding for the six months ended June 30, 2011 and 2010:

	5.75%	5.75% (A)	4.50%	5.00% (2005B)	5.00% (2005)
			(in thousands)		
Shares outstanding at January 1, 2011 and June 30, 2011	1,500	1,100	2,559	2,096	
Shares outstanding at January 1, 2010			2,559	2,096	5
Preferred stock issuances	1,500	1,100			
Conversion of preferred into common stock					(5)
Shares outstanding at June 30, 2010	1,500	1,100	2,559	2,096	

On May 17, 2010, we issued 600,000 shares of 5.75% Cumulative Convertible Non-Voting Preferred Stock, par value $0.01 per share and liquidation preference $1,000 per share, in a private placement for net proceeds of approximately $594 million. We issued an additional 900,000 shares of 5.75% Cumulative Convertible Non-Voting Preferred Stock on June 18, 2010, upon the exercise of the purchasers option to place the additional shares, for net proceeds of approximately $877 million.

On May 17, 2010, we issued 1,100,000 shares of 5.75% Cumulative Convertible Non-Voting Preferred Stock (Series A), par value $0.01 per share and liquidation preference $1,000 per share, in a private placement for net proceeds of approximately $1.091 billion.

On May 3, 2010, we converted all 5,000 shares of our outstanding 5.00% Cumulative Convertible Preferred Stock (Series 2005) into 20,774 shares of common stock pursuant to the company s mandatory conversion rights.

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Dividends

Dividends declared on our common stock and preferred stock are reflected as adjustments to retained earnings to the extent a surplus of retained earnings will exist after giving effect to the dividends. To the extent retained earnings are insufficient to fund the distributions, such payments constitute a return of contributed capital rather than earnings and are accounted for as a reduction to paid-in capital.

Dividends on our outstanding preferred stock are payable quarterly. We may pay dividends on our 5% Cumulative Convertible Preferred Stock (Series 2005B) and our 4.50% Cumulative Convertible Preferred Stock in cash, common stock or a combination thereof, at our option. Dividends on both series of our 5.75% Cumulative Convertible Non-Voting Preferred Stock are payable only in cash.

Stock-Based Compensation

Chesapeake s stock-based compensation programs consist of restricted stock and stock options issued to employees and non-employee directors. We recognize in our financial statements the cost of employee services received in exchange for awards of equity instruments based on the fair value at the date of the grant. To the extent compensation cost relates to employees directly involved in natural gas and oil acquisition, exploration and development activities, such amounts are capitalized to natural gas and oil properties. Amounts not capitalized to natural gas and oil properties are recognized as general and administrative expenses, production expenses, marketing, gathering and compression expenses or service operations expense. We recorded the following stock-based compensation during the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	($ in millions)			
Natural gas and oil properties	$ 29	$ 28	$ 60	$ 66
General and administrative expenses	23	21	47	42
Production expenses	9	9	18	18
Marketing, gathering and compression expenses	4	4	9	Navel and Valencia orange revenue in fiscal year 2012 was $0.3 million higher than fiscal year 2011.

· Specialty citrus and other crop revenue for fiscal year 2012 was $0.3 million higher than fiscal year 2011.

Costs associated with our agribusiness segment include packing costs, harvest costs, growing costs, costs related to the lemons we procure from third-party growers and depreciation expense. For fiscal year 2012, our agribusiness costs and expenses were $47.3 million compared to $35.2 million for fiscal year 2011. The 34% increase of $12.1 million primarily consists of the following:

- Packing costs for fiscal year 2012 were $2.2 million higher than fiscal year 2011.
- Harvest costs for fiscal year 2012 were $0.9 million lower than fiscal year 2011.
- Growing costs for fiscal year 2012 were $1.4 million higher than fiscal year 2011.
- Third-party grower costs for fiscal year 2012 were $7.6 million higher than fiscal year 2011.
- Depreciation expense was similar year to year.

Rental Operations

Our rental operations revenue for fiscal year 2012 was $4.0 million compared to $3.9 million in fiscal year 2011 resulting in an increase of $0.1 million. Revenues for all three areas of this segment (residential and commercial rentals, leased land and organic recycling) were similar year to year.

Costs and expenses in our rental operations segment for fiscal year 2012 were $0.2 million higher than fiscal year 2011 due to increased repairs and maintenance costs for our residential rental facilities. Depreciation expense was similar year to year.

Real Estate Development

Our real estate development segment revenue for fiscal year 2012 was $2.2 million lower than fiscal year 2011.

Costs and expenses in our real estate development segment for fiscal year 2012 were $3.7 million lower than fiscal year 2011.

Corporate and Other

Corporate costs and expenses include selling, general and administrative expenses and other costs not allocated to the operating segments. Corporate and other costs for fiscal year 2012 were $1.2 million higher than fiscal year 2011. Depreciation expense was similar year to year.

45

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2013. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with the audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. As with any agribusiness enterprise, our agribusiness operations are highly seasonal in nature. The harvest and sale of our lemons, avocados, oranges and specialty citrus and other crops occurs in all quarters, but is generally more concentrated during the second and third quarters.

(in thousands, except per common share amounts)	Three Months Ended 2013			
Statement of Operations Data:	Oct. 31,	July 31,	Apr. 30,	Jan. 31,
Revenues	$14,287	$29,929	$23,286	$17,382
Costs and expenses	15,900	19,972	20,900	22,714
Operating income (loss)	(1,613)	9,957	2,386	(5,332)
Other income (loss), net	13	289	3,352	538
Income (loss) before (provision) benefit for income taxes and equity earnings (losses) of investments	(1,600)	10,246	5,738	(4,794)
Income tax (provision) benefit	309	(3,772)	(1,427)	1,655
Equity earnings (losses) of investments	207	133	(1,806)	17
Net income (loss)	$(1,084)	$6,607	$2,505	$(3,122)
Net income (loss) per common share:				
Basic	$(0.08)	$0.49	$0.19	$(0.28)
Diluted	$(0.08)	$0.49	$0.19	$(0.28)
Number of shares used in per common share computations:				
Basic	13,663	13,308	12,789	11,220
Diluted	13,663	13,308	12,789	11,220

(in thousands, except per common share amounts)	Three Months Ended 2012			
Statement of Operations Data:	Oct. 31,	July 31,	Apr. 30,	Jan. 31,
Revenues	$14,795	$24,700	$16,096	$10,237
Costs and expenses	14,337	16,994	14,964	14,977
Operating income (loss)	458	7,706	1,132	(4,740)
Other income (loss), net	(26)	56	15	354
Income (loss) before (provision) benefit for income taxes and equity earnings (losses) of investments	432	7,762	1,147	(4,386)
Income tax (provision) benefit	(477)	(2,696)	(385)	1,580

Equity earnings (losses) of investments	186	15	(25)	(3)
Net income (loss)	$141	$5,081	$737	$(2,809)
Net income (loss) per common share:				
Basic	$0.01	$0.45	$0.06	$(0.26)
Diluted	$0.01	$0.45	$0.06	$(0.26)
Number of shares used in per common share computations:				
Basic	11,203	11,198	11,201	11,205
Diluted	11,203	11,198	11,201	11,205

46

The following information compares our fourth quarter ended October 31, 2013 to the fourth quarter ended October 31, 2012. Information concerning comparisons of our first, second and third quarters can be found in our quarterly reports on Form 10-Q.

- Total revenues decreased $0.5 million in the three months ended October 31, 2013 compared to the three months ended October 31, 2012 primarily due to decreased avocado and Valencia orange revenues of $2.1 million and $0.4 million, respectively. This decrease was partially offset by increased lemon, specialty citrus and other crops and real estate development revenues of $1.0 million, $0.7 million and $0.2 million, respectively.

- Total costs and expenses increased $1.6 million in the three months ended October 31, 2013 compared to the three months ended October 31, 2012 primarily due to increases in agribusiness costs associated with agricultural production, including costs related to growing and harvesting activities at Associated since its acquisition in September 2013.

- Income tax provision decreased $0.8 million in the three months ended October 31, 2013 compared to the three months ended October 31, 2012 primarily due to the decrease in pre-tax income of $2.0 million.

Liquidity and Capital Resources

Overview

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

Cash Flows from Operating Activities

For the fiscal years ended October 31, 2013, 2012 and 2011, net cash provided by operating activities was $5.3 million, $6.3 million and $6.0 million, respectively. The significant components of our cash flows provided by operating activities are as follows:

- Net income was $4.9 million, $3.2 million and $1.6 million for fiscal years 2013, 2012 and 2011, respectively. The increase of $1.7 million in fiscal year 2013 compared to fiscal year 2012 was primarily attributable to an increase in operating income of $0.8 million, an increase in other income of $3.8 million, an increase in income tax provision of $1.2 million and an increase in equity in losses of investments of $1.6 million. The increase of $1.6 million in fiscal year 2012 as compared to fiscal year 2011 was primarily attributable to an increase in operating income of $3.6 million, a decrease in other income of $0.8 million and an increase in income tax provision of $1.3 million.

- Depreciation and amortization was $2.4 million, $2.1 million and $2.2 million for fiscal years 2013, 2012 and 2011, respectively. The increase in fiscal year 2013 compared to fiscal year 2012 was primarily the result of our acquisition of Associated in September 2013. Depreciation and amortization for fiscal years 2012 and 2011 remained stable primarily because the balance of depreciable assets did not change significantly.

- In fiscal year 2013, we sold 165,000 shares of common stock in Calavo Growers, Inc. which resulted in a gain of $3.1 million. No such transaction occurred in fiscal years 2012 or 2011.

- Non-cash impairments of real estate development assets were $0.1 million, zero and $1.2 million for fiscal years 2013, 2012 and 2011, respectively.

- Non-cash stock compensation expense was $0.8 million, $0.9 million and $0.8 million for fiscal years 2013, 2012 and 2011, respectively, which is primarily comprised of vesting of 2010 and 2012 grants to management under our stock grant performance bonus program and the directors stock incentive compensation.

- The $1.4 million equity in losses of investments for fiscal year 2013 is primarily comprised of a $1.8 million loss from sale of the HM East Ridge property, partially offset by $0.3 million of earnings from our investment in Limco Del Mar, Ltd.

47

- Non-cash interest income from derivative instruments was $0.7 million of income for fiscal years 2013 and 2012 and $0.5 million of expense for fiscal year 2011. The income (expense) is due to a change in accounting for our interest rate swap agreements. In fiscal year 2009, the swap agreements qualified for hedge accounting and as such, the changes in the related fair value liability were included in other comprehensive income. In April 2010, we extended the due dates for certain of the swap agreements and combined the swap agreements into one agreement. This transaction disqualified them for hedge accounting and accordingly, required the change in the related fair value liability to be included in earnings.

- Accounts and notes receivable used $2.2 million of operating cash flows in fiscal year 2013 compared to using $1.7 million of operating cash flows in fiscal year 2012. This decrease was primarily the result of a $2.1 million increase in accounts and notes receivable during fiscal year 2013 compared to a $1.8 million increase in accounts and notes receivable in fiscal year 2012. Accounts and notes receivable used $1.7 million of operating cash flows in fiscal year 2012 compared to providing $0.2 million of operating cash flows in fiscal year 2011. This decrease was primarily the result of a $1.8 million increase in accounts and notes receivable in fiscal year 2012 compared to a $0.8 million decrease in accounts and notes receivable in fiscal year 2011. This difference was primarily the result of increased agribusiness revenues in the fourth quarter of fiscal year 2012 compared to fiscal year 2011.

- Cultural costs provided $0.7 million of operating cash flows in fiscal year 2013 compared to using $1.3 million of operating cash flows in fiscal year 2012, primarily due to the Sheldon Ranch. We did not share in the citrus crop revenue in our fiscal year ended October 31, 2012; therefore, the cultural costs incurred in fiscal year 2012 were capitalized until the citrus crops were harvested in fiscal year 2013. We capitalized $1.0 million of cultural costs related to the Sheldon Ranch in fiscal year 2012.

- Income taxes receivable balance at October 31, 2013 was zero compared to $0.7 million at October 31, 2012, resulting in a corresponding increase in operating cash flows of $0.7 million for fiscal year 2013. Income taxes receivable balance at October 31, 2012 was $0.7 million compared to $1.3 million at October 31, 2011, resulting in a corresponding increase in operating cash flows of $0.6 million for fiscal year 2012. Income taxes receivable balance was $1.3 million at October 31, 2011 compared to $1.2 million at October 31, 2010, resulting in a corresponding decrease in operating cash flows of $0.1 million for fiscal year 2011.

- Accounts payable and growers payable provided $0.1 million, $1.8 million and $0.3 million of cash from operating activities in fiscal years 2013, 2012 and 2011, respectively. The $0.1 million of cash provided in fiscal year 2013 was primarily the result of a $1.3 million increase in accounts payable and growers payable partially offset by $0.5 million of capital expenditures accrued but not paid at year-end. The $1.8 million of cash provided in fiscal year 2012 was primarily the result of a $2.1 million increase in accounts payable and growers payable partially offset by $0.2 million of capital expenditures accrued but not paid at year-end. The $0.3 million of cash provided in fiscal year 2011 was primarily the result of a $0.8 million increase in accounts payable and growers payable partially offset by $0.2 million of capital expenditures accrued but not paid at year-end. The increases in accounts payable and growers payable in fiscal years 2013, 2012 and 2011 were primarily due to higher operating expenses, resulting in corresponding higher levels of payables at year-end.

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Accrued liabilities provided (used) operating cash flows of $2.0 million, $1.3 million and ($0.6) million for fiscal years 2013, 2012 and 2011, respectively. The $2.0 million of cash from operating activities in fiscal year 2013 is primarily the result of a $0.4 million increase in accrued compensation and $1.7 million of accrued income taxes payable compared to fiscal year 2012. The $1.3 million of cash provided by operating activities in fiscal year 2012 is primarily the result of accrued bonuses of $1.0 million and Sheldon Ranch accrued lease expenses of $0.5 million at October 31, 2012. There were no such accruals at October 31, 2011.

- Other long-term liabilities used operating cash flows of $0.3 million in fiscal year 2013 and represented $1.3 million of pension contributions offset by non-cash pension expense of $1.0 million. The $0.5 million of operating cash flows provided in fiscal year 2012 represented $1.3 million of pension contributions offset by non-cash pension expense of $0.8 million. The $0.6 million of operating cash flows provided in fiscal year 2011 represented $0.9 million of non-cash pension expense offset by a $0.3 million pension contribution.

48

Cash Flows from Investing Activities

For the years ended October 31, 2013, 2012, and 2011, net cash used in investing activities was $11.3 million, $11.3 million and $1.5 million, respectively and is primarily comprised of capital expenditures, business acquisitions and sales of assets.

- Capital expenditures were $21.8 million for fiscal year 2013, comprised of $5.5 million for property, plant and equipment, $4.8 million for real estate development projects, $0.4 million for an agriculture property acquisition and $11.1 million for business acquisitions. These investment activities were partially offset by $4.8 million net proceeds from sale of stock in Calavo Growers, Inc. and $5.7 million of net proceeds from sale of HM East Ridge, LLC property.

- Capital expenditures were $11.1 million for fiscal year 2012, comprised of $3.9 million for property, plant and equipment, $4.6 million for real estate development projects, $1.8 million for agriculture property acquisitions and $0.8 million for a business acquisition.

- Capital expenditures were $12.9 million for fiscal year 2011, comprised of $1.9 million for property, plant and equipment, $4.5 million for real estate development projects and $6.5 million for the purchase of Rancho Refugio/Caldwell Ranch. These capital expenditures were partially offset by $9.3 million of net proceeds from the sale of Ranch Refugio/Caldwell Ranch and $2.1 million of net proceeds from the sale of Donna Circle.

Cash Flows from Financing Activities

For the years ended October 31, 2013, 2012 and 2011, net cash provided by (used in) financial activities was $6.2 million, $4.9 million, and ($4.8) million, respectively.

The $6.1 million of cash provided by financing activities for fiscal year 2013 was comprised primarily of net repayments of long-term debt in the amount of $27.5 million and net proceeds from our public offering of common stock in the amount of $35.9 million. Additionally, we paid common and preferred dividends of $2.2 million in fiscal year 2013. The $4.9 million of cash provided by financing activities in fiscal year 2012 is comprised primarily of net borrowings of long-term debt in the amount of $6.7 million partially offset by common and preferred dividend paid of $1.7 million. The $4.7 million of cash used in financing activities in fiscal year 2011 is comprised primarily of net repayments of long-term debt in the amount of $3.1 million and common and preferred dividends paid of $1.7 million.

49

Transactions Affecting Liquidity and Capital Resources

We finance our working capital and other liquidity requirements primarily through cash from operations and our Rabobank Credit Facility. In addition, we have the Farm Credit West Term Loans and the Farm Credit West Line of Credit. Additional information regarding the Rabobank Credit Facility, the Farm Credit West Term Loans and the Farm Credit West Line of Credit can be found in Note 13 to the consolidated financial statements included in this Annual Report.

We believe that the cash flows from operations and available borrowing capacity from our existing credit facilities will be sufficient to satisfy our capital expenditures, debt service, working capital needs and other contractual obligations for fiscal 2014. In addition, we have the ability to control a portion of our investing cash flows to the extent necessary based on our liquidity demands.

Rabobank Credit Facility

As of October 31, 2013, our outstanding borrowings under the Rabobank Credit Facility were $54.4 million and we had $34.6 million of availability. The Rabobank Credit Facility currently bears interest at a variable rate equal to the one month LIBOR plus 1.80%. The interest rate resets on the first of each month and was 1.98% at October 31, 2013. We have the ability to prepay any amounts outstanding under the Rabobank Credit Facility without penalty. In November 2011, we entered into a Second Amendment to Amended and Restated Line of Credit Agreement in order to (i) increase the revolving line of credit from $80 million to the lesser of $100 million or 60% of the appraised value of any real estate pledged as collateral, which was $89,000,000 at October 31, 2013, (ii) amend the interest rate such that the line of credit bears interest at a rate equal to LIBOR plus 1.80%, and (iii) extend the maturity date from June 30, 2013 to June 30, 2018.

We have the option of fixing the interest rate under the Rabobank Credit Facility on any portion of outstanding borrowings using interest rate swaps. In November 2011, we entered into a forward interest rate swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on $40.0 million of outstanding borrowings under the Rabobank Credit Facility beginning July 2013 until June 2018. This interest rate swap qualifies as a cash flow hedge and is accounted for as a hedge under the short-cut method. Therefore, the fair value liability of $2.2 million is included in other long-term liabilities and related accumulated other comprehensive loss at October 31, 2013. Additional information regarding the interest rate swap can be found in Note 14 to the consolidated financial statements included in this Annual Report.

The Rabobank Credit Facility is secured by certain of our agricultural properties and a portion of the equity interest in the San Cayetano Mutual Water Company, and subjects us to affirmative and restrictive covenants including, among

other customary covenants, financial reporting requirements, requirements to maintain and repair any collateral, restrictions on the sale of assets, restrictions on the use of proceeds, prohibitions on the incurrence of additional debt and restrictions on the purchase or sale of major assets. We also are subject to a covenant that we will maintain a debt service coverage ratio, as defined in the Rabobank Credit Facility, of less than 1.25 to 1.0 measured annually at October 31, with which we were in compliance at October 31, 2013.

Farm Credit West Term Loans and Non-Revolving Credit Facility

As of October 31, 2013, we had an aggregate of $7.7 million outstanding under the Farm Credit West Term Loans and Farm Credit West Line of Credit. The following provides further discussion on the term loans and non-revolving credit facility:

- *Term Loan Maturing November 2022.* As of October 31, 2013, we had $5.3 million outstanding under the Farm Credit West term loan that matures in November 2022. This term loan bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% and is payable in quarterly installments through November 2022. The interest rate resets monthly and was 2.75% at October 31, 2013. This term loan is secured by certain of our agricultural properties.

- *Term Loan Maturing May 2032.* In February 2013, this term loan was paid in full with the net proceeds from our common stock offering. See "- Public Offering of Common Stock."

- *Term Loan Maturing October 2035.* As of October 31, 2013, our wholly owned subsidiary, Windfall Investors, LLC, had $2.0 million outstanding under the Farm Credit West Term Loan that matures in October 2035. Effective November 2011, we entered into an agreement with Farm Credit West fixing the interest rate at 3.65% for three years after which time the rate becomes variable at a rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% until the loan matures. This term loan is secured by the Windfall Farms property.

- *Farm Credit West Line of Credit Maturing May 2018.* As of October 31, 2013, we had $0.5 million outstanding under the Farm Credit West Line of Credit that matures in May 2018. The line of credit bears interest at a variable rate equal to an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25% with interest payable on a monthly basis. The interest rate resets monthly and was 2.75% at October 31, 2013. This line of credit is secured by certain of our agricultural properties.

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

Public Offering of Common Stock

During February 2013, we completed the sale of 2,070,000 shares of common stock, at a price of $18.50 per share, to institutional and other investors in a registered offering under our shelf registration statement. The offering represented 16% of our outstanding common stock on an after-issued basis. Upon completion of the offering and issuance of common stock, we had 13,307,085 shares of common stock outstanding. The gross proceeds of the offering totaled $38,295,000 and after an underwriting discount of $2,106,000 and other offering expenses of $292,000, the net proceeds were $35,897,000. During February 2013, we used the net offering proceeds to repay long-term debt.

Interest Rate Swaps

We enter into interest rate swap agreements to manage the risks and costs associated with our financing activities. At October 31, 2013, we had an interest rate swap agreement which locks in the interest rate on $40.0 million of our $62.1 million in debt at 4.30% until June 2018.

On April 29, 2010 we cancelled two interest rate swaps with notional amounts of $10.0 million each and amended the interest rate swap form a notional amount of $22.0 million to a notional amount of $42.0 million. The interest rate swaps previously qualified as cash flow hedges and the fair value adjustments to the swap agreements were deferred and included in accumulated other comprehensive income (loss). As a result of the re-negotiated terms, the remaining interest rate swap no longer qualified for hedge accounting and accordingly, fair value adjustments from April 30, 2010 are included in interest income (expense). This swap expired June 30, 2013.

In November 2011, we entered into a forward interest swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on $40.0 million of our outstanding borrowings under the Rabobank Credit Facility beginning on July 1, 2013 until June 30, 2018. This interest rate swap qualifies as a cash flow hedge and is accounted for as a hedge under the short-cut method. Therefore, the fair value adjustments to the underlying debt are deferred and included in accumulated other comprehensive loss and the liability is being recorded in other long-term liabilities in the Company’s consolidated balance sheet at October 31, 2013. Additional information regarding the interest rate swaps can be found in Note 14 to the consolidated financial statements included elsewhere in this Annual Report.

Of the remaining $22.1 million in debt, $20.1 million bears interest at a variable rate, which was 2.75% or less at October 31, 2013 and $2.0 million bear’s interest at a fixed rate of 3.65% which becomes variable in November 2014.

Real Estate Development Activities and Related Capital Resources

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

Trend Information

Agribusiness

The worldwide fresh produce industry has historically enjoyed consistent underlying demand and favorable growth dynamics. In recent years, the market for fresh produce has increased faster than the rate of population growth, supported by ongoing trends including greater consumer demand for healthy, fresh and convenient foods, increased retailer square footage devoted to fresh produce, and greater emphasis on fresh produce as a differentiating factor in attracting customers. Health-conscious consumers are driving much of the growth in demand for fresh produce. Over the past several decades, the benefits of natural, preservative-free foods have become an increasingly significant element of the public dialogue on health and nutrition. As a result, consumption of fresh fruit and vegetables has markedly increased. According to the USDA, Americans consumed an additional 37 pounds of fresh fruit and vegetables per capita in 2008 than they did in 1988.

The USDA reports that per capita fresh lemon consumption was 3.5 pounds in 2011 and since 2000 has averaged 3.0 pounds per capita versus 2.7 pounds in the 1990s. Approximately 64% of the California crop has gone into the fresh market during the past decade. The fresh market is significantly more profitable than the processed market and the amount of production sold in the fresh market is referred to as fresh utilization. Our fresh utilization has historically been comparable to the California industry average and we expect that our fresh utilization will increase due to increased flexibility to sell lemons directly to food service wholesale and retail customers and increased customer interaction resulting from our direct lemon sales strategy.

52

According to the USDA, the U.S. per capita consumption of avocados has increased in recent years from 2.3 pounds per capita in 2000 to 4.1 pounds per capita in 2011. Initial USDA estimates place consumption at a record 4.6 pounds per capita in 2012. A growing Hispanic population, an increasing awareness of healthier foods and the acceptance of mono-unsaturated fats has helped to spur demand for avocados. California is the largest U.S. producer of avocados and the 2010 crop of 550 million pounds was the second largest in the last ten years and fourth largest in California avocado production history. According to the California Avocado Commission the 2013 - 2014 crop will produce approximately 325 million pounds. This is a decrease of approximately 180 million pounds or 35% from the 2012 - 2013 crop.

Navel oranges comprise most of California’s orange crop, accounting for approximately 75% over the past three growing seasons. Valencia oranges account for a vast majority of the remainder of California’s orange crop. While California produces approximately 25% of the nation’s oranges, its crop accounts for approximately 80% of those going to the fresh market. The share of California’s crop going to fresh market, as opposed to the processed market (i.e. juices, oils and essences) varies by season, depending on the quality of the crop.

Real Estate Development

According to most accounts, the residential real estate market continues to be weak following the well-known economic downturn in recent years. Persistent high unemployment is expected to keep home sales at historically low levels in terms of volume and price. We have incurred impairment charges on certain of our real estate development projects over the last three years and future impairment is possible. Due to these factors, we anticipate maintaining a cautious and patient perspective with respect to our real estate development activities. However, interest rates are also at historically low levels, which provide a favorable buying opportunity for potential home buyers. Additionally, we believe that our real estate development properties have certain unique characteristics and are located in desirable locations, in particular East Area I, and as economic or real estate market conditions improve or other factors arise, we will take advantage of such opportunities to develop our properties.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table presents our contractual obligations at October 31, 2013 for which cash flows are fixed and determinable:

	Payments due by Period				
	Total	< 1 year	1-3 years	3-5 years	5+ years
Fixed rate debt (principal)	$56,378,000	$63,000	$155,000	$54,522,000	$1,638,000

Variable rate debt (principal)	5,754,000	506,000	1,055,000	1,606,000	2,587,000
Operating lease obligations	12,868,000	1,740,000	3,418,000	3,431,000	4,279,000
Total contractual obligations	$75,000,000	$2,309,000	$4,628,000	$59,559,000	$8,504,000
Interest payments on fixed and variable rate debt	$13,152,000	$2,516,000	$4,987,000	$4,889,000	$760,000

We believe that the cash flows from our agribusiness and rental operations segments as well as available borrowing capacity from our existing credit facilities will be sufficient to satisfy our future capital expenditure, debt service, working capital and other contractual obligations for fiscal year 2014. In addition, we have the ability to control a portion of our investing cash flows to the extent necessary based on our liquidity demands.

Fixed Rate and Variable Rate Debt

Details of amounts included in long-term debt can be found above and in the accompanying notes to the consolidated financial statements included elsewhere in this Annual Report. The table above assumes that long-term debt is held to maturity.

Interest Payments on Fixed and Variable Debt

The above table assumes that our fixed rate and long term debt is held to maturity and the interest rates on our variable rate debt remains unchanged for the remaining life of the debt from those in effect at October 31, 2013.

Preferred Stock Dividends

In 1997, in connection with the acquisition of Ronald Michaelis Ranches, Inc., we issued 30,000 shares of Series B Convertible Preferred Stock at $100 par value (the "Series B Stock"). The holders of the Series B Stock are entitled to receive cumulative cash dividends at an annual rate of 8.75% of par value. Such dividends are payable quarterly on the first day of January, April, July and October in each year commencing July 1, 1997 and totaled $0.3 million in each of the fiscal years 2013, 2012 and 2011.

Defined Benefit Pension Plan

We have a noncontributory, defined benefit, single employer pension plan (the "Plan"), which provides retirement benefits for all eligible employees of the Company. Effective June 2004, the Company froze the Plan and no additional benefits accrued to participants subsequent to that date. We may make discretionary contributions to the Plan and we may be required to make contributions to adhere to applicable regulatory funding provisions, based in part on the Plan's asset valuations and underlying actuarial assumptions. We made funding contributions of $1,252,000 and $1,275,000 for fiscal years 2013 and 2012, respectively and we expect to contribute approximately $500,000 to the Plan in fiscal year 2014.

Operating Lease Obligations

We have numerous operating lease commitments with remaining terms ranging from less than one year to ten years. We have installed a one mega-watt photovoltaic solar array on one of our agricultural properties located in Ventura County that produces a significant amount of the power to run our lemon packinghouse. The construction of this array was financed by Farm Credit Leasing and we have a long-term lease with Farm Credit Leasing for this array. Annual payments for this lease are $0.5 million, and at the end of ten years we have an option to purchase the array for $1.1 million. We entered into a similar transaction with Farm Credit Leasing for a second photovoltaic array at one of our agricultural properties located in the San Joaquin Valley to supply a significant amount of the power to operate four deep-water well pumps located on our property. Annual lease payments for this facility range from $0.3 million to $0.8 million, and at the end of ten years we have the option to purchase the array for $1.3 million. Additionally, we have agreements with an electricity utility through the California Solar Initiative which entitle us to receive rebates for energy produced by our solar arrays. These rebates, which reduce our agribusiness costs and expenses, are scheduled to expire in fiscal year 2014, were $1.0 million, $1.0 million and $0.9 million in fiscal years 2013, 2012, and 2011, respectively, and have averaged approximately $1.0 million per year since the inception of the leases.

In January 2012, we entered into six operating leases for the Sheldon Ranch. Each of the leases is for ten-year terms and provides for four five-year renewal options with an aggregate base rent of approximately $500,000 per year. The leases also contain profit share arrangements with the landowners as additional rent on each of the properties and a provision for the potential purchase of the properties by us in the future. In accordance with the terms of the leases, we did not share in the citrus crop revenue in fiscal year 2012. We incurred $724,000 and $456,000 of net lease expense in fiscal years 2013 and 2012, respectively.

On July 1, 2013, we entered into a Lease Agreement with Cadiz, Inc. (“Cadiz”) to develop new lemon orchards on Cadiz’s agricultural property in eastern San Bernardino County, California (the “Cadiz Ranch”). Under the terms of the Lease Agreement, we have the right to lease and plant up to 1,280 acres of lemons over the next five years at the Cadiz Ranch operations in the Cadiz Valley and have leased 320 acres initially, subject to a mutually agreed upon planting schedule. The Lease Agreement provides options to plant up to 960 additional acres (320 acres in Option 1 and 640 acres in Option 2) by 2018. The annual rental payment will include a base rent of $200 per planted acre and a lease payment equal to 20% of net cash flow from the harvested crops grown on Cadiz property. Pursuant to the terms of the Lease Agreement, the annual rental payment will not exceed a total of $1,200 per acre.

We lease pollination equipment under a lease renewed through fiscal year 2022 with annual payments of $0.3 million. We also lease machinery and equipment for our packing operations and other land for our agricultural operations under leases with annual lease commitments that are individually immaterial.

Capital Expenditures

In December 2013 we entered into a construction contract that includes design and construction services for the expansion of the Company’s lemon packing facilities. The project is expected to increase the capacity and efficiency of our packing facilities. The contract is subject to a guaranteed maximum price of approximately $9,300,000, which may be revised based on design modifications and finalization of construction costs. The project is expected to commence in March 2014 and be substantially complete in the spring of 2015.

Significant Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of accounts receivable, cultural costs, long-lived assets including real estate development assets and property, plant and equipment, income taxes, retirement benefits, valuation of derivative instruments and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

Management has discussed the development and selection of significant accounting estimates with the Audit Committee of the Board of Directors of the Company and the Audit Committee has reviewed our disclosure relating to significant accounting estimates in this Annual Report.

We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Accounts Receivable – We grant credit in the course of our operations to cooperatives, companies and lessees of our facilities. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. We provide allowances on our receivables as required based on accounts receivable aging and other factors.

Cultural Costs - Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. Harvest costs are comprised of labor and equipment expenses incurred to harvest and deliver crops to the packinghouses.

Lemons, oranges, specialty citrus and other crops such as pistachio nuts, cherries and olives are grown in our San Joaquin Valley orchards. These crops have distinct growing periods and distinct harvest and selling periods, each of which lasts approximately four to six months. During the growing period, cultural costs are capitalized as they are associated with benefiting and preparing the crops for the harvest and selling period. During the harvest and selling period, harvest costs and cultural costs are expensed when incurred and capitalized cultural costs are amortized as components of agribusiness costs and expenses.

We grow lemons and avocados in our Ventura County orchards. Due to climate, growing conditions and the types of crops grown, the Ventura County orchards may be harvested and sold on a more year round basis. Accordingly, we do not capitalize cultural costs associated with our Ventura County orchards and therefore such costs, as well as harvest costs associated with the Ventura County orchards, are expensed to operations when incurred as components of agribusiness costs and expenses.

Most cultural costs, including amortization of capitalized cultural costs, and harvest costs are associated with and charged to specific crops. Certain other costs, such as property taxes, indirect labor including farm supervision and management and irrigation that benefit multiple crops are allocated to crops on a per acre basis.

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

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.

55

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

Retirement Benefits – We have a defined benefit pension plan that, effective June 2004, was frozen to new participants and no additional benefits accrue to participants subsequent to that date. The accounting and reporting for the plan requires assumptions and estimates regarding fair value and estimated return of plan assets and estimated benefit obligations.

Critical Accounting Policies

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

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

Agribusiness revenue - Revenue from lemon sales is generally recognized FOB shipping point when the customer takes possession of the fruit from our packing house. Revenue from the sales of certain of our agricultural products is recorded based on estimated proceeds provided by certain of our sales and marketing partners (Calavo and other third-party packinghouses) due to the time between when the product is delivered by us and the closing of the pools for such fruits at the end of each month. Calavo and other third-party packinghouses are agricultural cooperatives or function in a similar manner as an agricultural cooperative. As such, we apply specific authoritative agriculture

revenue recognition guidance related to transactions between patrons and agriculture marketing cooperatives to record revenue at time of delivery to the packinghouses relating to fruits that are in pools that have not yet closed at month end if (i) the related fruits have been delivered to and accepted by Calavo and other third-party packinghouses (i.e. title has transferred to Calavo and other third-party packinghouses) and (ii) sales price information has been provided by Calavo and other third-party packinghouses (based on the marketplace activity for the related fruit) to estimate with reasonable certainty the final selling price for the fruit upon the closing of the pools. Historically, the revenue that is recorded based on the sales price information provided to us by Calavo and other third-party packinghouses at the time of delivery have not materially differed from the actual amounts that are paid after the monthly pools are closed.

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

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

Revenue from crop insurance proceeds is recorded when the amount of and the right to receive the payment can be reasonably determined. We recorded agribusiness revenues from crop insurance proceeds of $36,000 related to cherries in fiscal year 2013 and $64,000 and $551,000 related to avocados in fiscal years 2012 and 2011, respectively.

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

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

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

Real estate development costs - We capitalize the planning, entitlement, construction and development costs associated with our various real estate projects. Costs that are not capitalized, which include property maintenance and repairs, general and administrative and marketing expenses, are expensed as incurred. A real estate development project is considered substantially complete upon the cessation of construction and development activities. Once a project is substantially completed, future costs are expensed as incurred. For fiscal year 2013, we capitalized approximately $5.6 million of costs related to our real estate projects and expensed approximately $1.4 million of costs.

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

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

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

Impairment of long-lived assets - We evaluate our long-lived assets including our real estate development projects for impairment when events or changes in circumstances indicate the carrying value of these assets may not be recoverable. As a result of the economic downturn, in recent years we recorded impairment charges of $0.1 million, zero and $1.2 million in fiscal years 2013, 2012 and 2011, respectively. These charges were based on independent, third-party appraisals provided to us and were developed using various facts, assumption and estimates. Future changes in these facts, assumptions and estimates could result in additional charges.

Defined benefit retirement plan - As discussed in Note 17 to our consolidated financial statements, we sponsor a defined benefit retirement plan that was frozen in June 2004, and no future benefits accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715 provides guidance as to, among other things, future estimated pension expense, minimum pension liability and future minimum funding requirements. This information is provided to us by third-party actuarial consultants. In developing this data, certain estimates and assumptions are used, including among other things, discount rate, long-term rates of return and mortality tables. Changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

Recent Accounting Pronouncements

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

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

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220), to defer the effective date for those aspects of ASU 2011-05 relating to the presentation of reclassification adjustments out of accumulated other comprehensive income.

In February 2013, the FASB issued ASC update No. 2013-02, “Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (ASC 2013-02). The objective of this update requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, a company is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments in this update are effective for fiscal years and interim periods within those years beginning after December 15, 2012. The adoption of this update will only impact the presentation of the Company’s consolidated financial statements and will have no impact on the reported results of operations.

FASB ASC 2012-02, Intangibles-Goodwill and Other (Topic 350)

In July 2012, the FASB issued ASC update No. 2012-02, “Intangibles-Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment” (ASC 2012-02). Under the amendments in this update, a company has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-live intangible asset is impaired as a basis for determining whether it is necessary to perform the qualitative impairment test in accordance with Topic 350. The more likely than not threshold is defined as having a likely-hood of more that 50 percent. If after assessing the qualitative factors, a company determines it does not meet the more likely than not threshold, a company is required to perform the quantitative impairment test by calculating the fair value of an indefinite-lived intangible asset and comparing the fair value with the carrying amount of the asset. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). The adoption of this update had no impact on the reported results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Borrowings under each of the Rabobank Credit Facility, Farm Credit West Term Loans and the Farm Credit West Line of Credit are or will be subject to variable interest rates. These variable interest rates subject us to the risk of increased interest costs associated with any upward movements in interest rates. Our borrowing interest rate for the Rabobank Credit Facility is a LIBOR-based rate plus a spread. Under the Farm Credit West Term Loans and the Farm Credit West Line of Credit, our borrowing interest rate is an internally calculated rate based on Farm Credit West's internal monthly operations and their cost of funds and generally follows the changes in the 90-day treasury rates in increments divisible by 0.25%. At October 31, 2013, our total debt outstanding under the Rabobank Credit Facility and the Farm Credit West Line of Credit was $54.4 million and $0.5 million, respectively. At October 31, 2013, our total debt outstanding under the Farm Credit West Term Loans was approximately $5.3 million and $2.0 million for each of the term loans, respectively.

We manage our exposure to interest rate movements by utilizing interest rate swaps (derivatives). We fixed $42.0 million and $40.0 million of our outstanding borrowings with "fixed-to-floating" interest rate swaps as described in the following table:

	Notional Amount		Fair Value Net Liability	
	October 31, 2013	October 31, 2012	October 31, 2013	October 31, 2012
Pay fixed rate, receive floating-rate interest rate swap, matured June 2013	$-	$42,000,000	$-	$1,072,000
Pay fixed-rate, receive floating-rate interest rate swap, maturing June 2018	$40,000,000	$40,000,000	$2,240,000	$2,768,000

As of October 31, 2013, the fixed interest rate on our $40.0 million swap was 4.30%. Based on our level of borrowings at October 31, 2013, after taking into consideration the effects of our interest rate swap (derivative), a 1% increase in interest rates would increase our interest expense $0.2 million for fiscal year 2014 and an annual average of $0.2 million for the three subsequent fiscal years. Additionally, a 1% increase in the interest rate would decrease our net income by $0.1 million for fiscal year 2014 and an annual average of $0.1 million for the three subsequent fiscal years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Item 8. Financial Statements and Supplementary Data

Limoneira Company

Index to Consolidated Financial Statements

Management’s Report on Internal Control over Financial Reporting	61
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	62
Report of Independent Registered Public Accounting Firm	63
Consolidated Financial Statements of Limoneira Company	
Consolidated Balance Sheets at October 31, 2013 and 2012	64
Consolidated Statements of Operations for the years ended October 31, 2013, 2012 and 2011	65
Consolidated Statements of Comprehensive Income for the years ended October 31, 2013, 2012 and 2011	66
Consolidated Statements of Stockholders’ Equity for the years ended October 31, 2013, 2012 and 2011	67
Consolidated Statements of Cash Flows for the years ended October 31, 2013, 2012 and 2011	68
Notes to Consolidated Financial Statements	70

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

Management’s Report on Internal Control over Financial Reporting

Management of Limoneira Company (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Exchange Act Rule 13a-15(f). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

On September 6, 2013 we completed our acquisition of Associated Citrus Packers, Inc. (“Associated“), which included its existing information systems and internal controls over financial reporting. In conducting our evaluation of the effectiveness of our internal controls over financial reporting as of October 31, 2013, we have elected to exclude Associated from our evaluation for 2013 as permitted under existing SEC rules. We are currently in the process of evaluating and integrating Associated’s historical internal controls over financial reporting with those of the rest of the Company. The integration may lead to changes in future periods, but we do not expect these changes to materially affect our internal controls over financial reporting. We expect to complete this integration in 2014.

The Company’s management, including the principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of Limoneira Company’s internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this evaluation, management concluded that internal control over financial reporting was effective as of October 31, 2013. Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of the Company’s internal control over financial reporting and has issued a report on internal control over financial reporting, which is included herein.

Harold S. Edwards

President and Chief Executive Officer

Joseph D. Rumley

Chief Financial Officer and Corporate Secretary

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limoneira Company

We have audited Limoneira Company's internal control over financial reporting as of October 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Limoneira Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Associated Citrus Packers, Inc., which is included in the 2013 consolidated financial statements of Limoneira Company and constituted $26,721,000 and $276,000 of total and net assets, respectively, as of October 31, 2013 and $2,809,000 and $276,000 of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Limoneira Company also did not include an evaluation of the internal control over financial reporting of Associated Citrus Packers, Inc.

In our opinion, Limoneira Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Limoneira Company as of October 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2013 of Limoneira Company and our report dated January 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 14, 2014

62

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limoneira Company

We have audited the accompanying consolidated balance sheets of Limoneira Company (the “Company”) as of October 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended October 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limoneira Company at October 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Limoneira Company’s internal control over financial reporting as of October 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated January 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 14, 2014

63

Limoneira Company

Consolidated Balance Sheets

	October 31, 2013	2012
Assets		
Current assets:		
Cash	$82,000	$11,000
Accounts receivable, net	6,419,000	4,252,000
Notes receivable - related parties	-	42,000
Cultural costs	4,124,000	2,254,000
Prepaid expenses and other current assets	2,972,000	2,116,000
Income taxes receivable	-	712,000
Total current assets	13,597,000	9,387,000
Property, plant and equipment, net	86,210,000	53,380,000
Real estate development	83,419,000	77,772,000
Equity in investments	1,800,000	8,947,000
Investment in Calavo Growers, Inc.	14,845,000	15,701,000
Notes receivable - related parties	17,000	16,000
Notes receivable	2,024,000	2,296,000
Other assets	8,002,000	5,123,000
Total Assets	$209,914,000	$172,622,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$4,784,000	$3,670,000
Growers payable	2,325,000	2,085,000
Accrued liabilities	6,280,000	4,017,000
Fair value of derivative instruments	717,000	1,072,000
Current portion of long-term debt	569,000	760,000
Total current liabilities	14,675,000	11,604,000
Long-term liabilities:		
Long-term debt, less current portion	61,563,000	88,875,000
Deferred income taxes	18,540,000	10,488,000
Other long-term liabilities	4,483,000	8,953,000
Total long-term liabilities	84,586,000	108,316,000
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock – $100.00 par value (50,000 shares authorized: 30,000 shares issued and outstanding at October 31, 2013 and 2012) (8.75% coupon rate)	3,000,000	3,000,000
Series A Junior Participating Preferred Stock – $.01 par value (20,000 shares authorized: -0- issued or outstanding at October 31, 2013 and 2012)	-	-
Common Stock – $.01 par value (19,900,000 shares authorized: 14,016,011 and 11,203,180 shares issued and outstanding at October 31, 2013 and 2012, respectively)	140,000	112,000

Additional paid-in capital	88,160,000	35,714,000
Retained earnings	19,098,000	16,398,000
Accumulated other comprehensive income (loss)	255,000	(2,522,000)
Total stockholders' equity	110,653,000	52,702,000
Total Liabilities and Stockholders' Equity	$209,914,000	$172,622,000

See Notes to Consolidated Financial Statements.

64

Limoneira Company

Consolidated Statements of Operations

	Years Ended October 31,		
	2013	2012	2011
Revenues:			
Agribusiness	$79,990,000	$61,553,000	$46,085,000
Rental operations	4,250,000	4,023,000	3,948,000
Real estate development	644,000	252,000	2,462,000
Total revenues	84,884,000	65,828,000	52,495,000
Costs and expenses:			
Agribusiness	63,607,000	47,300,000	35,180,000
Rental operations	2,601,000	2,418,000	2,230,000
Real estate development	1,333,000	1,037,000	3,551,000
Impairments of real estate development assets	95,000	-	1,196,000
Selling, general and administrative	11,850,000	10,517,000	9,328,000
Total cost and expenses	79,486,000	61,272,000	51,485,000
Operating income	5,398,000	4,556,000	1,010,000
Other income (expense):			
Interest expense	(124,000)	(508,000)	(1,260,000)
Interest income from derivative instruments	711,000	739,000	537,000
Gain on sale of stock in Calavo Growers, Inc.	3,138,000	-	-
Gain on sale of Rancho Refugio.	-	-	1,351,000
Interest income	85,000	104,000	104,000
Other income, net	382,000	64,000	482,000
Total other income	4,192,000	399,000	1,214,000
Income before income taxes and equity (losses) earnings of investments	9,590,000	4,955,000	2,224,000
Income tax provision	(3,235,000)	(1,978,000)	(707,000)
Equity in (losses) earnings of investments	(1,449,000)	173,000	81,000
Net income	4,906,000	3,150,000	1,598,000
Preferred dividends	(262,000)	(262,000)	(262,000)
Net income applicable to common stock	$4,644,000	$2,888,000	$1,336,000
Basic net income per common share	$0.36	$0.26	$0.12
Diluted net income per common share	$0.36	$0.26	$0.12
Dividends per common share	$0.15	$0.13	$0.13
Weighted-average common shares outstanding-basic	12,775,000	11,202,000	11,205,000
Weighted-average common shares outstanding-diluted	12,775,000	11,202,000	11,208,000

See Notes to Consolidated Financial Statements.

Limoneira Company

Consolidated Statements of Comprehensive Income

	Years Ended October 31,		
	2013	2012	2011
Net income	$4,906,000	$3,150,000	$1,598,000
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment	1,764,000	(695,000)	(712,000)
Unrealized holding gains on security available for sale	479,000	417,000	267,000
Unrealized gains (losses) from derivative instruments	534,000	(1,341,000)	337,000
Total other comprehensive income (loss), net of tax	2,777,000	(1,619,000)	(108,000)
Comprehensive income	$7,683,000	$1,531,000	$1,490,000

See Notes to Consolidated Financial Statements.

66

Limoneira Company

Consolidated Statements of Stockholders' Equity

	Series B Convertible Preferred Stock		Common Stock		**Additional Paid-In**	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance at November 1, 2010	30,000	$3,000,000	11,194,460	$112,000	$34,735,000	$15,044,000	$(795,000)	$52,096,000
Dividends - common	-	-	-	-	-	(1,400,000)	-	(1,400,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	70,270	1,000	806,000	-	-	807,000
Exchange of common stock	-	-	(27,796)	(1,000)	(778,000)	-	-	(779,000)
Repurchase of common stock	-	-	(36,120)	-	-	-	-	-
Donation of common stock	-	-	4,427	-	100,000	-	-	100,000
Net income						1,598,000		1,598,000
Other comprehensive income (loss), net of tax							(108,000)	(108,000)
Balance at October 31, 2011	30,000	3,000,000	11,205,241	112,000	34,863,000	14,980,000	(903,000)	52,052,000
Dividends - common	-	-	-	-	-	(1,470,000)	-	(1,470,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	10,269	-	947,000	-	-	947,000
Exchange of common stock	-	-	(10,995)	-	(196,000)	-	-	(196,000)

Repurchase of common stock	-	-	(7,500)	-	-	-	-	-
Donation of common stock	-	-	6,165	-	100,000	-	-	100,000
Net income						3,150,000		3,150,000
Other comprehensive income (loss), net of tax							(1,619,000)	(1,619,000)
Balance at October 31, 2012	30,000	3,000,000	11,203,180	112,000	35,714,000	16,398,000	(2,522,000)	52,702,000
Dividends - common	-	-	-	-	-	(1,944,000)	-	(1,944,000)
Dividends - preferred	-	-	-	-	-	(262,000)	-	(262,000)
Stock compensation expense	-	-	43,761	-	753,000	-	-	753,000
Exchange of common stock	-	-	(11,010)	-	(236,000)	-	-	(236,000)
Donation of common stock	-	-	4,859	-	100,000	-	-	100,000
Issuance of common stock			2,775,221	28,000	51,829,000			51,857,000
Net income						4,906,000		4,906,000
Other comprehensive income (loss), net of tax							2,777,000	2,777,000
Balance at October 31, 2013	30,000	$3,000,000	14,016,011	$140,000	$88,160,000	$19,098,000	$255,000	$110,653,000

See Notes to Consolidated Financial Statements.

67

Limoneira Company

Consolidated Statements of Cash Flows

	Years Ended October 31,		
	2013	2012	2011
Operating activities			
Net income	$4,906,000	$3,150,000	$1,598,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,403,000	2,131,000	2,207,000
Gain on sale of Ranch Refugio/Caldwell Ranch	-	-	(1,351,000)
Impairments of real estate development	95,000	-	1,196,000
Gain on sale of stock in Calavo Growers. Inc.	(3,138,000)	-	-
Loss on disposals/sales of assets	-	207,000	90,000
Stock compensation expense	753,000	947,000	795,000
Equity in losses (earnings) of investments	1,449,000	(173,000)	(81,000)
Deferred income taxes	(1,033,000)	1,399,000	1,784,000
Amortization of deferred financing costs	33,000	36,000	27,000
Non-cash interest income from derivative instruments	(711,000)	(739,000)	(537,000)
Accrued interest on note receivable	(78,000)	(78,000)	(84,000)
Donation of common stock	100,000	100,000	100,000
Changes in operating assets and liabilities:			
Accounts and notes receivable	(2,154,000)	(1,738,000)	209,000
Cultural costs	716,000	(1,328,000)	133,000
Prepaid expenses and other current assets	(476,000)	(621,000)	(41,000)
Income taxes receivable	712,000	612,000	(83,000)
Other assets	(128,000)	(181,000)	(168,000)
Accounts payable and growers payable	93,000	1,836,000	263,000
Accrued liabilities	2,008,000	1,271,000	(624,000)
Other long-term liabilities	(296,000)	(503,000)	567,000
Net cash provided by operating activities	5,254,000	6,328,000	6,000,000
Investing activities			
Capital expenditures	(10,359,000)	(8,467,000)	(6,359,000)
Agriculture property acquisitions	(375,000)	(1,796,000)	-
Business combinations, net of cash acquired	(11,101,000)	(803,000)	-
Net proceeds from sale of stock in Calavo Growers, Inc.	4,788,000	-	-
Net proceeds from sale of HM East Ridge, LLC property	5,713,000	-	-
Acquisition of Rancho Refugio/Caldwell Ranch	-	-	(6,510,000)
Net proceeds from sale of Rancho Refugio/Caldwell Ranch	-	-	9,297,000
Net proceeds from sale of 6037 East Donna Circle, LLC	-	-	2,080,000
Cash distributions from equity investments	110,000	220,000	330,000
Equity investment contributions	(125,000)	(98,000)	(88,000)

Issuance of notes receivable	350,000	(15,000)	(100,000)
Investments in mutual water companies and water rights	(319,000)	(311,000)	(154,000)
Other	(30,000)	(3,000)	34,000
Net cash used in investing activities	$(11,348,000)	$(11,273,000)	$(1,470,000)

68

Limoneira Company

Consolidated Statements of Cash Flows (continued)

	Years Ended October 31,		
	2013	2012	2011
Financing activities			
Borrowings of long-term debt	$58,450,000	$40,044,000	$31,622,000
Repayments of long-term debt	(85,976,000)	(33,280,000)	(34,689,000)
Dividends paid-common	(1,944,000)	(1,470,000)	(1,400,000)
Dividends paid-preferred	(262,000)	(262,000)	(262,000)
Issuance (repurchase) of common stock	35,897,000	(6,000)	(42,000)
Payments of debt financing costs	-	(91,000)	-
Net cash provided by (used in) financing activities	6,165,000	4,935,000	(4,771,000)
Net increase (decrease) in cash	71,000	(10,000)	(241,000)
Cash at beginning of year	11,000	21,000	262,000
Cash at end of year	$82,000	$11,000	$21,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$1,705,000	$3,479,000	$3,792,000
Cash paid during the year for income taxes, net of (refunds) received	$1,910,000	$252,000	$(709,000)
Non-cash investing and financing activities:			
Unrealized holding gain on Calavo investment	$(795,000)	$(692,000)	$(445,000)
Capital expenditures accrued but not paid at year-end	$487,000	$248,000	$245,000
Accrued interest on note receivable	$78,000	$78,000	$84,000
Donation of common stock	$100,000	$100,000	$100,000

During October 2013, the Company purchased a citrus orchard for a cash purchase price of $8,750,000, which was accounted for as a business combination and is further described in Note 3.

On September 6, 2013 the Company completed the acquisition of Associated Citrus Packers, Inc. (“Associated”), a privately-owned Arizona corporation, for $18,580,000. The acquisition was accounted for as a business combination and is further described in Note 3.

During July 2012, the Company purchased a citrus orchard for a cash purchase price of $803,000, which was accounted for as a business combination and is further described in Note 3.

See Notes to Consolidated Financial Statements.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements

1. Business

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. The consolidated financial statements represent the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of stockholders’ equity and consolidated statements of cash flows of Limoneira Company and its wholly owned subsidiaries. The Company’s subsidiaries include: Limoneira Company International Division, LLC, Limoneira Mercantile, LLC, Windfall Investors, LLC, Templeton Santa Barbara, LLC, and Associated Citrus Packers, Inc. All significant intercompany balances and transactions have been eliminated in consolidation. The Company considers the criteria established under the Financial Accounting Standards Board –

Accounting Standards Code ("FASB ASC") 810, *Consolidations* and the effect of variable interest entities, in its consolidation process.

Use of Estimates

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

Accounts Receivable

The Company grants credit in the course of its operations to cooperatives, companies and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company provides allowances on its receivables as required based on accounts receivable aging and other factors. At October 31, 2013 and 2012 the allowances totaled $85,000 and $109,000, respectively. For fiscal years 2013, 2012 and 2011 credit losses were insignificant.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Concentrations

The Company sells all of its avocado production to Calavo. Sales of avocados to Calavo were $11,683,000, $9,546,000 and $7,539,000 in fiscal years 2013, 2012 and 2011, respectively.

Lemons procured from third-party growers were approximately 52%, 46% and 33%, of lemon supply in fiscal years 2013, 2012 and 2011, respectively, of which two third-party growers were 18% and 11%, respectively, of lemon supply in 2013.

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

Cultural Costs

Growing costs, also referred to as cultural costs, consist of orchard maintenance costs such as cultivation, fertilization and soil amendments, pest control, pruning and irrigation. Harvest costs are comprised of labor and equipment expenses incurred to harvest and deliver crops to the packinghouses.

Lemons, oranges, specialty citrus and other crops such as pistachio nuts, cherries and olives are grown in the Company's San Joaquin Valley orchards. Additionally, lemons are grown in the Company's Yuma County, Arizona orchards. These crops have distinct growing periods and distinct harvest and selling periods, each of which lasts approximately four to six months. During the growing period, cultural costs are capitalized as they are associated

with benefiting and preparing the crops for the harvest and selling period. During the harvest and selling period, harvest costs and cultural costs are expensed when incurred and capitalized cultural costs are amortized as components of agribusiness costs and expenses.

The Company grows lemons and avocados in its Ventura County orchards. Due to climate, growing conditions and the types of crops grown, the Ventura County orchards may be harvested and sold on a more year round basis. Accordingly, the Company does not capitalize cultural costs associated with its Ventura County orchards and therefore such costs, as well as harvest costs associated with the Ventura County orchards, are expensed to operations when incurred as components of agribusiness costs and expenses.

Most cultural costs, including amortization of capitalized cultural costs, and harvest costs are associated with and charged to specific crops. Certain other costs, such as property taxes, indirect labor including farm supervision and management and irrigation that benefit multiple crops are allocated to crops on a per acre basis.

Income Taxes

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

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

Capitalized Interest

Interest is capitalized on real estate development projects and significant construction in progress using the weighted average interest rate during the fiscal year. Interest of $2,451,000 and $2,901,000 was capitalized during the years ended October 31, 2013, and 2012, respectively, and is included in property, plant, and equipment and real estate development assets in the Company’s consolidated balance sheets.

Real Estate Development Costs

The Company capitalizes the planning, entitlement, construction, development costs and interest associated with its various real estate projects. Costs that are not capitalized, which include property maintenance and repairs, general and administrative and marketing expenses, are expensed as incurred. A real estate development project is considered substantially complete upon the cessation of construction and development activities. Once a project is substantially completed, future costs are expensed as incurred. The Company capitalized costs related to its real estate projects of $5,647,000, $5,149,000 and $5,204,000 in fiscal years 2013, 2012 and 2011, respectively.

Equity in Investments

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

Marketable Securities

The Company classifies its marketable securities as available-for-sale. The Company's investments in marketable securities are stated at fair value with unrealized gains (losses), net of tax, reported as a component of accumulated other comprehensive income (loss) in the Company's consolidated statements of comprehensive income. At October 31, 2013 and 2012, marketable securities are comprised of the Company's investment in Calavo.

Intangible Assets

Intangible assets consist primarily of acquired water and mineral rights, a patent and certain trade names and trademarks. Certain of the Company's trade names and trademarks are being amortized on a straight line basis over their estimated lives of 8 years. The Company evaluates its indefinite-life intangible assets annually or whenever events or changes in circumstances indicate an impairment of the assets' value may exist.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

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

Based on results from independent appraisals and other factors which indicated that the fair values of certain real estate development assets were less than the carry values, the Company recognized impairment losses in fiscal years 2013 and 2011. See Note 7.

Fair Values of Financial Instruments

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

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

Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the fair value of long-term debt is approximately equal to its carrying amount as of October 31, 2013 and 2012.

Derivative Financial Instruments

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

Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in a company’s net assets, except changes resulting from transactions with shareholders, and is reported as a component of the Company’s stockholders’ equity.

Revenue Recognition

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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

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

The Company's arrangements with its third-party packinghouses are such that the Company is the producer and supplier of the product and the third-party packinghouses are the Company's customers. The revenues the Company recognizes related to the fruits sold to the third-party packinghouses are based on the volume and quality of the fruits delivered, the market price for such fruit, less the packinghouses' charges to pack and market the fruit. Such packinghouse charges include the grading, sizing, packing, cooling, ripening and marketing of the related fruit. The Company bears inventory risk until product is delivered to the third-party packinghouses at which time title and inventory risk to the product is transferred to the third-party packinghouses and revenue is recognized. Such

third-party packinghouse charges are recorded as a reduction of revenue based on the application of specific authoritative revenue recognition guidance entitled "Vendor's Income Statement Characterization of Consideration Given to a Customer". The identifiable benefit the Company receives from the third-party packinghouses for packaging and marketing services cannot be sufficiently separated from the third-party packinghouses' purchase of the Company's products. In addition, the Company is not able to reasonably estimate the fair value of the benefit received from the third-party packinghouses for such services and as such, these costs are characterized as a reduction of revenue in the Company's consolidated statement of operations.

Revenue from crop insurance proceeds is recorded when the amount of and the right to receive the payment can be reasonably determined. The Company recorded agribusiness revenues from crop insurance proceeds of $36,000 related to cherries in fiscal year 2013 and $64,000 and $551,000 related to avocados in fiscal years 2012 and 2011, respectively.

Rental operations revenue - Minimum rental revenues are generally recognized on a straight-line basis over the respective initial lease term. Contingent rental revenues are contractually defined as to the percentage of rent received by the Company and are based on fees collected by the lessee. Such revenues are recognized when actual results, based on collected fees reported by the tenant, are received. The Company's rental arrangements generally require payment on a monthly or quarterly basis.

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

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Expense

Advertising costs are expensed as incurred. Such costs in fiscal years 2013, 2012 and 2011 were $315,000, $167,000 and $127,000, respectively.

Leases

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

Basic and Diluted Net Income per Share

Basic net income per common share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of share-based compensation. Diluted net income per common share is calculated using the diluted weighted-average number of common shares. Diluted weighted-average common shares include weighted-average common shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method of zero, zero and 3,000 for fiscal years 2013, 2012 and 2011, respectively. The Series B convertible preferred shares (see Note 21) are anti-dilutive.

Reclassifications

There were no significant reclassifications to the prior years' consolidated financial statements to conform to the October 31, 2013 presentation.

Defined Benefit Retirement Plan

The Company sponsors a defined benefit retirement plan that was frozen in June 2004, and no future benefits have been accrued to participants subsequent to that time. Ongoing accounting for this plan under FASB ASC 715, *Compensation – Retirement Benefits,* provides guidance as to, among other things, future estimated pension expense, minimum pension liability and future minimum funding requirements. This information is provided to the Company by third-party actuarial consultants. In developing this data, certain estimates and assumptions are used, including among other things, discount rate, long-term rates of return and mortality tables. Changes in any of these estimates could materially affect the amounts recorded that are related to our defined benefit retirement plan.

Recent Accounting Pronouncements

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

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company's adoption of this standard in the first quarter of fiscal year 2013 only impacted the presentation of the Company's financial statements and had no effect on the reported results of operations.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220)", to defer the effective date for those aspects of ASU 2011-05 relating to the presentation of reclassification adjustments out of accumulated other comprehensive income.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In February 2013, the FASB issued ASC update No. 2013-02, “Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (ASC 2013-02). The objective of this update requires companies to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, a company is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments in this update are effective for fiscal years and interim periods within those years beginning after December 15, 2012. The adoption of this update will only impact the presentation of the Company’s consolidated financial statements and will have no impact on the reported results of operations.

FASB ASC 2012-02, Intangibles-Goodwill and Other (Topic 350)

In July 2012, the FASB issued ASC update No. 2012-02, “Intangibles-Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment” (ASC 2012-02). Under the amendments in this update, a company has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-live intangible asset is impaired as a basis for determining whether it is necessary to perform the qualitative impairment test in accordance with Topic 350. The more likely than not threshold is defined as having a likely-hood of more that 50 percent. If after assessing the qualitative factors, a company determines it does not meet the more likely than not threshold, a company is required to perform the quantitative impairment test by calculating the fair value of an indefinite-lived intangible asset and comparing the fair value with the carrying amount of the asset. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). The adoption of this update had no impact on the reported results of operations.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

3. Acquisitions

Agriculture Property Acquisitions

In April 2013, the Company purchased land for use as a citrus orchard for a purchase price of $375,000 cash. The acquisition was for approximately 25 acres of agricultural property located adjacent to the Sheldon Ranch, which is leased by the Company. This acquisition was accounted for as an asset purchase with substantially the entire purchase price allocated to land and included in property, plant and equipment on the Company's consolidated balance sheet at October 31, 2013.

In August 2012, the Company purchased land for use as a citrus orchard for a cash purchase price of $1,363,000. The acquisition was for 230 acres of agricultural property adjacent to the Company's leased orchards in Lindsay, California. This acquisition was accounted for as an asset purchase with substantially the entire purchase price allocated to land and included in property, plant and equipment on the Company's consolidated balance sheets at October 31, 2013 and 2012.

In April 2012, the Company purchased land for use as a citrus orchard for a cash purchase price of $433,000. The acquisition was for 60 acres of agricultural property located in close proximity to the Company's existing orchards in Porterville, California. This acquisition was accounted for as an asset purchase with substantially the entire purchase price allocated to land and included in property, plant and equipment on the Company's consolidated balance sheet at October 31, 2013 and 2012.

Business Combinations

On October 11, 2013, the Company completed the acquisition of approximately 760 acres of agricultural property in the town of Porterville in Tulare County, California ("Lemons 400") for $8,750,000 cash. This property consists of approximately 400 acres of productive lemon orchards and 360 acres primarily utilized for cattle grazing. The acquisition also included water assets and agricultural equipment and supplies.

The following table summarizes the fair value of the assets acquired based on a third-party valuation on the date of the acquisition:

Cultural costs	$1,130,000
Land	5,180,000
Land improvements	309,000
Buildings and building improvements	60,000
Equipment	150,000
Orchards	601,000
Investment in mutual water company	1,320,000
Fair value of assets acquired	$8,750,000

Results of operations are included in the Company's consolidated statement of operations from the date of acquisition but are not significant due to the short time period from the acquisition date to the Company's fiscal year end of October 31, 2013.

The unaudited, pro forma consolidated statement of operations as if the acquisition had been included in the consolidated results of the Company for the entire year ended October 31, 2013, results in revenue of $88,900,000 and net income of $5,879,000. The unaudited, pro forma consolidated statement of operations as if the acquisition had been included in the consolidated results of the Company for the entire year ended October 31, 2012 results in revenue of $70,140,000 and net income of $4,562,000.

77

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

3. Acquisitions (continued)

On September 6, 2013 the Company acquired of all of the outstanding stock of Associated, a privately owned Arizona corporation, for $18,580,000. The purchase price consisted of the issuance of 705,000 unregistered shares of the Company's common stock with an aggregate value of $15,959,000 based on the Company's stock price on the acquisition date, $1,041,000 in cash and the repayment of $1,580,000 in Associated's long term debt. The acquisition was structured as a tax-free reorganization under section 368 of the Internal Revenue Code. The acquisition provides for a potential purchase price adjustment based on the net assets acquired and for a holdback from payment of 5% ($850,000) of the stock and cash purchase price for a period of one year in support of potential indemnification claims as defined in the merger agreement. Upon completion of the acquisition, Associated became a wholly-owned subsidiary of the Company. Associated owns approximately 1,300 acres of property in Yuma County, Arizona, comprised of 950 acres of productive lemon orchards, 350 acres of other crops and agriculture equipment and facilities. Transactions costs incurred in connection with the acquisition were approximately $270,000, which are included in selling, general and administrative expense. The results of operations of Associated have been included in the consolidated results of operations from the acquisition date.

The following table summarizes the fair value of the assets acquired and liabilities assumed based on a third-party valuation as of the date of the acquisition:

Cultural costs	$1,456,000
Other current assets	814,000
Land	15,035,000
Land improvements	1,103,000
Buildings and building improvements	355,000
Equipment	1,751,000
Orchards	4,382,000
Other assets	491,000
Goodwill	680,000
Total assets acquired	26,067,000
Current liabilities	(216,000)
Long-term debt	(24,000)
Deferred income taxes	(7,247,000)
Total liabilities assumed	(7,487,000)

Fair value of net assets acquired	$18,580,000

Of the $491,000 of acquired other assets, $486,000 was assigned to trade names and trademarks that are subject to amortization over an estimated life of 8 years.

Revenue of $2,809,000 and net income of $276,000 of Associated are included in the Company's consolidated statement of operations from the acquisition date to the period ended October 31, 2013.

The unaudited, pro forma consolidated statement of operations as if Associated had been included in the consolidated results of the Company for the entire year ended October 31, 2013 results in revenue of $86,667,000 and net income of $4,973,000. The unaudited, pro forma consolidated statement of operations as if Associated had been included in the consolidated results of the Company for the entire year ended October 31, 2012 results in revenue of $69,632,000 and net income of $2,072,000.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements

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

The following table sets forth the Company’s financial assets and liabilities as of October 31, 2013, that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Available- for -sale securities	$14,845,000	$–	$ –	$14,845,000
Liabilities at fair value:				
Derivatives	$–	$2,240,000	$ –	$2,240,000

Available-for-sale securities consist of marketable securities in Calavo Growers, Inc. common stock. The Company currently owns 500,000 shares, representing approximately 3.2% of Calavo’s outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo’s stock price at October 31, 2013 and 2012 was $29.69 and $23.61 per share, respectively.

The derivative consists of an interest rate swap (see Note 14); the fair value is estimated using industry-standard valuation models. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at October 31:

	2013	2012
Prepaid insurance	$557,000	$505,000
Prepaid supplies	909,000	736,000
Net current deferred income tax assets	508,000	395,000
Deposits and Other	998,000	480,000
	$2,972,000	$2,116,000

79

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

6. Property, Plant and Equipment

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

	2013	2012
Land	$47,008,000	$26,464,000
Land improvements	14,803,000	12,114,000
Buildings and building improvements	12,446,000	12,625,000
Equipment	25,965,000	23,224,000
Orchards	25,703,000	20,900,000
Construction in progress	6,118,000	2,054,000
	132,043,000	97,381,000
Less accumulated depreciation	(45,833,000)	(44,001,000)
	$86,210,000	$53,380,000

Depreciation expense was $2,380,000, $2,118,000 and $2,195,000 for fiscal years 2013, 2012 and 2011, respectively.

7. Real Estate Development

Real estate development assets are comprised primarily of land and land development costs and consist of the following at October 31:

	2013	2012
East Areas 1 and 2	$51,538,000	$47,384,000
Templeton Santa Barbara, LLC	11,276,000	10,532,000
Windfall Investors, LLC	20,605,000	19,856,000
	$83,419,000	$77,772,000

East Areas 1 and 2

In fiscal year 2005, the Company began capitalizing the costs of two real estate development projects east of Santa Paula, California, for the development of 550 acres of land into residential units, commercial buildings and civic facilities. During fiscal years 2013 and 2012, the Company capitalized $4,154,000 and $2,953,000, respectively, of costs related to these real estate development projects. Additionally, in connection with these projects, the Company incurred expenses of $11,000, $63,000 and $82,000 in fiscal years 2013, 2012 and 2011, respectively.

On August 24, 2010, the Company entered into an amendment (the "Amendment") to a Real Estate Advisory Management Consultant Agreement (the "Consultant Agreement") with Parkstone Companies, Inc. (the "Consultant") dated April 1, 2004, that includes provisions for the Consultant to earn a success fee (the "Success Fee") upon the annexation by the City of Santa Paula, California of East Area I. Under the terms of the Amendment, the Company agrees to pay the Success Fee in an amount equal to 4% of the incremental Property Value under a formula defined in the Amendment. The Success Fee is due and payable 120 days following the earlier to occur of (a) the sale of all or any portion of East Area I, including any unrelated third party material investment in the property, (b) the determination of an appraised value of the East Area I or (c) the second anniversary of the property annexation (each a "Success Fee Event").

The Success Fee, if any, shall be paid in cash, shares of the Company's common stock, or any combination of the forgoing at the sole discretion of the Company. The Success Fee is based on the calculated value of the property, which can vary over time until the settlement date. Accordingly, the Success Fee will be "marked to market" periodically to recognize the potential variability in the property value. Changes in the value, if any, will be recorded to capitalized development costs and additional paid in capital ("APIC"). To the extent that it becomes probable that cash will be used in the settlement rather than stock, such amount of cash will be classified as a liability rather than APIC.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

7. Real Estate Development (continued)

If the Success Fee is paid in shares of common stock, deemed to be an equity award, the amount of common stock paid will be determined using a price per share equal to the average of closing prices of the common stock on the NASDAQ Global Market for the 20 trading days ending on the last trading day prior to the earliest occurring Success Fee Event; provided, however, that the price per share shall be no less than $16.00 per share. Previously recognized capitalized development costs will be adjusted to reflect the calculated value of the property upon settlement. The related APIC amount will be adjusted to common stock to reflect the issuance of common stock. To the extent that it becomes probable that cash will be used in the settlement rather than stock, such amount of cash will be classified as a liability rather than APIC / common stock. As of October 31, 2013, the estimated amount of the Success Fee was zero.

In connection with facilitating the annexation of East Area 1 into the City of Santa Paula, during February 2013, the Company entered into a Capital Improvement Cost Sharing Agreement for Improvements to Santa Paula Creek Channel (the “Cost Sharing Agreement”) with the Ventura County Watershed Protection District (the “District”). The Cost Sharing Agreement requires the Company to reimburse the District 28.5% of the costs of the improvements, up to a maximum of $5,000,000. Additionally, the Company is required to pay the cost of preparing a study to determine a feasible scope of work and budget for the improvements. As of October 31, 2013, $150,000 has been accrued for the cost of the study.

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

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

Templeton Santa Barbara, LLC

The four real estate development parcels within the Templeton Santa Barbara, LLC project (“Templeton Project”) are described as Centennial Square (“Centennial”), The Terraces at Pacific Crest (“Pacific Crest”), Sevilla and East Ridge. The carrying values of Centennial, Pacific Crest and Sevilla at October 31, 2013 were $3,220,000, $3,370,000 and $4,686,000, respectively. East Ridge is described in Note 8.

During fiscal years 2013 and 2012, the Company capitalized $744,000 and $1,207,000, respectively, of costs related to these real estate development projects. Additionally, in relation to these projects, the Company has incurred net expenses of $32,000, $20,000 and $242,000 in fiscal years 2013, 2012 and 2011, respectively.

In February 2010, the Company and HM Manager, LLC formed a limited liability company, HM East Ridge, LLC (“East Ridge”) for the purpose of developing the East Ridge parcel. The Company’s initial capital contribution into East Ridge was the land parcel with a net carrying value of $7,207,000. Since the Company has significant influence over, but less than a controlling interest in, East Ridge, the Company accounted for its investment in East Ridge using the equity method of accounting and the investment was included in equity in investments in the Company’s consolidated balance sheets at October 31, 2012. See Note 8.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

7. Real Estate Development (continued)

On November 29, 2013, the Company entered into a Purchase and Sale Agreement and Escrow Instructions to sell Sevilla for approximately $4.8 million. The purchase price includes (i) a deposit of $250,000 paid in cash as escrow upon entry of the agreement, and (ii) a promissory note with a simple interest of 5% per annum, payable monthly, for the balance of the purchase price, secured by a first deed of trust on the Sevilla property. The final due date of the promissory note is the earlier of: (i) 30 days following final city approval of a tentative tract map for the Sevilla property, or (ii) October 24, 2014. The transaction, which is subject to customary closing conditions and expected to close within 90 days after entry of the agreement, is estimated to generate net proceeds of approximately $4.7 million. The Company recognized an impairment charge of approximately $32,000 for the difference in estimated net proceeds and the book value at October 31, 2013.

On November 29, 2013, the Company entered into a Purchase and Sale Agreement and Escrow Instructions to sell Pacific Crest for approximately $3.5 million. The purchase price includes (i) a deposit of $250,000 paid in cash as escrow upon entry of the agreement, and (ii) a promissory note with a simple interest of 5% per annum, payable monthly, for the balance of the purchase price, secured by a first deed of trust on the Pacific Crest property. The final due date of the promissory note is the earlier of: (i) 30 days following final city approval of a tentative tract map for the Pacific Crest property, or (ii) October 24, 2014. The transaction, which is subject to customary closing conditions and expected to close within 90 days after entry of the agreement, is estimated to generate net proceeds of approximately $3.4 million. The Company recognized an impairment charge of approximately $63,000 for the difference in estimated net proceeds and the book value at October 31, 2013.

Windfall Investors, LLC

On November 15, 2009, the Company acquired Windfall Investors, LLC, which included $16,842,000 of real estate development assets. During 2013 and 2012, the Company capitalized $749,000 and $989,000, respectively, of costs related to this real estate development project. Additionally, in relation to this project, the Company has incurred net expenses of $644,000, $702,000 and $737,000, in fiscal years 2013, 2012 and 2011, respectively.

Impairments of Real Estate Assets

During fiscal years 2013 and 2011, the Company recorded impairment charges as a result of the decline in demand and market prices within our real estate markets. The following table summarizes the impairments of real estate development assets for the years ended October 31:

	2013	2012	2011
Templeton Santa Barbara, LLC	$95,000	$ -	$993,000
Arizona Development Projects	-	-	203,000
	$95,000	$ -	$1,196,000

82

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

8. Equity Investments

Limco Del Mar, Ltd.

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

The Company provided Del Mar with farm management, orchard land development and accounting services, which resulted in cash receipts of $141,000, $136,000 and $123,000 in fiscal years 2013, 2012 and 2011, respectively. The Company also performed contract lemon packing services for Del Mar and recognized revenues of $733,000, $569,000 and $439,000 in fiscal years 2013, 2012 and 2011, respectively. Fruit proceeds due to Del Mar were $342,000 and $176,000 at October 31, 2013 and 2012, respectively, and are included in growers payable in the accompanying consolidated balance sheets.

Romney Property Partnership

In May 2007, the Company and an individual formed the Romney Property Partnership ("Romney") for the purpose of owning and leasing an office building and adjacent lot in Santa Paula, California. The Company paid $489,000 in 2007 for 75% interest in Romney, and contributed $34,000, $9,000 and zero to the partnership in fiscal years 2013, 2012 and 2011, respectively. The terms of the partnership agreement affirm the status of the Company as a non-controlling investor in the partnership since the Company cannot exercise unilateral control over the partnership. Since the Company has significant influence, but less than a controlling interest, the Company's investment in Romney is accounted for using the equity method of accounting. Net profits, losses and cash flows of Romney are shared by the Company, which receives 75% and the individual, who receives 25%.

HM East Ridge, LLC

In February 2010, the Company and HM Manager, LLC formed HM East Ridge, LLC, for the purpose of developing one of the four Templeton Project parcels. The Company and HM Manager each have a 50% interest in the East Ridge. HM Manager is responsible to direct and manage the day to day affairs of East Ridge. The Company's initial capital contribution into East Ridge was the land parcel with a net carrying value of $7,207,000. The Company contributed an additional $91,000 and $89,000 to East Ridge in fiscal years 2013 and 2012, respectively. Since the Company has significant influence of, but less than a controlling interest in, East Ridge, the Company accounted for its investment in East Ridge using the equity method of accounting and the investment was included in equity in investments in the Company's October 31, 2012 consolidated balance sheet.

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

8. Equity Investments (continued)

The following is financial information of the equity method investees for the years ended October 31, 2013, 2012 and 2011, respectively:

2013	Del Mar	Romney	East Ridge	Total
Assets	$2,286,000	$712,000	$–	$2,998,000
Liabilities	$–	$–	$–	$–
Equity	2,286,000	712,000	–	2,998,000
Total liabilities and equity	$2,286,000	$712,000	$–	$2,998,000
Revenues	$2,218,000	$9,000	$6,000,000	$8,227,000
Expenses	862,000	25,000	7,754,000	8,641,000
Net income (loss)	$1,356,000	$(16,000)	$(1,754,000)	$(414,000)

2012	Del Mar	Romney	East Ridge	Total
Assets	$1,399,000	$675,000	$8,255,000	$10,329,000
Liabilities	$–	$–	$-	$–
Equity	1,399,000	675,000	8,255,000	10,329,000
Total liabilities and equity	$1,399,000	$675,000	$8,255,000	$10,329,000
Revenues	$1,508,000	$7,000	$–	$1,515,000
Expenses	726,000	21,000	1,000	748,000
Net income (loss)	$782,000	$(14,000)	$(1,000)	$767,000

2011	Del Mar	Romney	East Ridge	Total
Assets	$1,555,000	$688,000	$8,165,000	$10,408,000
Liabilities	$–	$–	$-	$–
Equity	1,555,000	688,000	8,165,000	10,408,000
Total liabilities and equity	$1,555,000	$688,000	$8,165,000	$10,408,000
Revenues	$1,059,000	$10,000	$–	$1,069,000
Expenses	686,000	17,000	2,000	705,000
Net income (loss)	$373,000	$(7,000)	$(2,000)	$364,000

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

8. Equity Investments (continued)

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

	Del Mar	Romney	East Ridge	Total
Investment balance October 31, 2010	$1,338,000	$519,000	$7,200,000	$9,057,000
Equity earnings (losses)	87,000	(5,000)	(1,000)	81,000
Cash distribution	(330,000)	–	–	(330,000)
Investment contributions	–	–	88,000	88,000
Investment balance October 31, 2011	1,095,000	514,000	7,287,000	8,896,000
Equity earnings (losses)	183,000	(10,000)	–	173,000
Cash distribution	(220,000)	–	–	(220,000)
Investment contributions	–	9,000	89,000	98,000
Investment balance October 31, 2012	1,058,000	513,000	7,376,000	8,947,000
Equity earnings (losses)	317,000	(12,000)	(1,754,000)	(1,449,000)
Cash distribution	(110,000)	–	(5,713,000)	(5,823,000)
Investment contributions	–	34,000	91,000	125,000
Investment balance October 31, 2013	$1,265,000	$535,000	$–	$1,800,000

9. Investment in Calavo Growers, Inc.

In June 2005, the Company entered into a stock purchase agreement with Calavo. Pursuant to this agreement, the Company purchased 1,000,000 shares, or approximately 6.9%, of Calavo's common stock for $10,000,000 and Calavo purchased 1,728,570 shares, or approximately 15.1%, of the Company's common stock for $23,450,000. Under the terms of the agreement, the Company received net cash consideration of $13,450,000. The Company has classified its Calavo investment as available-for-sale. In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of $6,079,000, recognizing a gain of $2,729,000.

On April 11, 2013, the Company sold 165,000 shares of Calavo stock at a price of $29.02 per share (the closing price on April 10, 2013). Calavo repurchased the shares pursuant to the 2005 stock repurchase agreement between the

companies. Following the sale, the Company continues to own 500,000 shares of Calavo common stock. The net proceeds to the Company from the sale were $4,788,000 and the Company recognized a gain of $3,138,000, which is included in other income in the consolidated statements of operations.

Additionally, changes in the fair value of the available-for-sale securities result in unrealized holding gains or losses for the remaining shares held by the Company. The Company recorded unrealized holding gains of $795,000 ($479,000 net of tax), $692,000 ($417,000 net of tax) and $445,000 ($267,000 net of tax) for the years ended October 31, 2013, 2012 and 2011, respectively.

85

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

10. Notes Receivable

In fiscal year 2004, the Company sold a parcel of land in Morro Bay, California. The sale was recognized under the installment method and the resulting gain on the sale of $161,000 was deferred. In connection with the sale, the Company recorded a note receivable of $4,263,000. Principal of $2,963,000 and interest was paid in April 2005 and $112,000 of the deferred gain was recognized as income at that time. The remaining $49,000 balance of the deferred gain is included in other long-term liabilities in the Company's consolidated balance sheets. The remaining principal balance of $1,300,000 and the related accrued interest was initially payable in April 2009; however, the Company and the buyer of the Morro Bay land executed a note extension agreement in March 2009. Based on the terms of the note extension agreement, the remaining principal balance of $1,300,000 and the related accrued interest was to be paid in full on April 1, 2014. During July 2011, the Company and the buyer agreed to extend the due date for the note from April 1, 2014 to April 1, 2020 and to convert the interest rate from a fixed rate of 7.0% to a floating rate of LIBOR plus 3.5% with a floor of 6.0%. On April 1, 2014 the rate will convert to a floating rate of LIBOR plus 3.5% with no floor. The note is subordinate to bank financing and provides for repayment that is based on a percentage of net operating cash flows of the underlying avocado orchard as defined in the note, ranging from 35% through 2014 and 50% until fully repaid or any unpaid balance due and payable on the due date. The note and accrued interest is recorded in noncurrent notes receivable in the Company's consolidated balance sheets at October 31, 2013 and 2012. Interest continues to accrue on the principal balance of the note and was $78,000, $78,000 and $84,000 in fiscal years 2013, 2012 and 2011, respectively.

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

In connection with the Company's stock grant program, the Company has notes receivable and accrued interest from certain employees of $17,000 and $58,000 at October 31, 2013 and 2012, respectively. Interest income recognized on employee notes receivable was $1,000, $2,000 and $2,000 for fiscal years 2013, 2012 and 2011, respectively.

In fiscal year 2011, the Company entered into an agreement to loan an unrelated California limited liability company up to $115,000 for the purpose of establishing and operating an internet television station in the Santa Paula area of Ventura County, California, featuring events and historical items of interest from the Santa Paula area. The interest rate is 6% per annum, compounded monthly, with monthly principal and interest payments beginning January 1, 2012 and the balance due on or before June 1, 2014. The Company had loaned $100,000 under this agreement as of October

31, 2011 and loaned the remaining $15,000 in November 2011. The Company determined that the note was uncollectable and wrote off the $115,000 balance in March 2012.

In June 2008, the Company sold a discontinued business unit in Modesto, California. In connection with the sale, the Company recorded a note receivable for $150,000. The note is unsecured and bears interest at the prime rate plus 2.00%, payable monthly. This note matured in June 2011 and the Company and the buyer agreed to extend the due date an additional three years. The Company determined that the note was uncollectable and wrote off the $150,000 balance in October 2012.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

11. Other Assets

Other assets consist of the following at October 31:

	2013	2012
Investments in mutual water companies	$3,430,000	$1,791,000
Acquired water and mineral rights	1,536,000	1,536,000
Deferred lease assets and other	1,522,000	1,437,000
Revolving funds and memberships	358,000	359,000
Acquired trade names and trademarks	476,000	-
Goodwill	680,000	-
	$8,002,000	$5,123,000

Investments in Mutual Water Companies

The Company's investments in various not-for-profit mutual water companies provide the Company with the right to receive a proportionate share of water from each of the not-for-profit mutual water companies that have been invested in and do not constitute voting shares and/or rights.

Acquired Water and Mineral Rights

Acquired water and mineral rights are indefinite-life intangible assets not subject to amortization.

Deferred Lease Assets and Other

Finite-lived intangible assets include a patent for an agricultural variety with a carrying value of $136,000 at October 31, 2013, net of accumulated amortization of $86,000. Amortization expense associated with the patent was $13,000 for each of the fiscal years 2013, 2012 and 2011. The Company will amortize $13,000 each year for fiscal years 2014 through 2018 related to its patent.

With the acquisition of Associated in September 2013, the Company acquired $680,000 of goodwill and $486,000 of trade names and trademarks. The Company will amortize $60,000 each year for fiscal years 2014 through 2018 related to trade names and trademarks.

The remaining amounts in finite-lived intangibles and other assets at October 31, 2013 consist primarily of $1,034,000 of deferred rent assets, $142,000 of deferred borrowing costs and $103,000 of prepaid lease amounts on pollination equipment. See Notes 13 and 20.

Revolving Funds and Memberships

Revolving funds and memberships represent the Company's investments in various cooperative associations.

12. Accrued Liabilities

Accrued liabilities consist of the following at October 31:

	2013	2012
Accrued compensation	$1,979,000	$1,609,000
Accrued property taxes	469,000	439,000
Accrued income taxes	1,732,000	-
Accrued interest	208,000	336,000
Deferred income	298,000	260,000
Accrued lease expense	546,000	551,000
Other	1,048,000	822,000
	$6,280,000	$4,017,000

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

13. Long-Term Debt

Long-term debt is comprised of the following:

	October 31, 2013	**2012**
Rabobank revolving credit facility secured by property with a net book value of $12,260,000 at October 31, 2013 and 2012. The interest rate is variable based on the one-month London Interbank Offered Rate (LIBOR), which was 0.18% at October 31, 2013, plus 1.80%. Interest is payable monthly and the principal is due in full in June 2018.	$54,380 ,000	$ 61,261 ,000
Farm Credit West term loan secured by property with a net book value of $11,615,000 at October 31, 2013 and $11,626,000 at October 31, 2012. The interest rate is variable and was 2.75% at October 31, 2013. The loan is payable in quarterly installments through November 2022.	5,262,000	5,743,000
Farm Credit West term loan secured by property with a net book value of $11,626,000 at October 31, 2012. The loan was paid in full in February 2013.	-	861,000
Farm Credit West non-revolving line of credit secured by property with a net book value of $3,890,000 at October 31, 2013 and $3,864,000 at October 31, 2012. The interest rate is variable and was 2.75% at October 31, 2013. Interest is payable monthly and the principal is due in full in May 2018.	492,000	13,000,000
Farm Credit West term loan secured by property with a net book value of $20,605,000 at October 31, 2013 and $19,856,000 at October 31, 2012. The interest rate is fixed at 3.65% until November 2014, becoming variable for the remainder of the loan. The loan is payable in monthly installments through October 2035.	1,975,000	8,770,000
CNH Capital loans secured by property with a net book value of $11,000 at October 31, 2013. The interest rate is zero and the loans are payable in monthly installments through May and July 2015.	23,000	-
Subtotal	62,132,000	89,635,000

Less current portion	569,000	760,000
Total long-term debt, less current portion	$61,563,000	$88,875,000

In November 2011, the Company entered into a Second Amendment to Amended and Restated Line of Credit Agreement dated as of December 15, 2008, between the Company and Rabobank in order to (i) increase the revolving line of credit from $80,000,000 to the lesser of $100,000,000 or 60% of the appraised value of any real estate pledged as collateral, which was $89,000,000 at October 31, 2013, (ii) amend the interest rate such that the line of credit bears interest equal to LIBOR plus 1.80% and (iii) extend the maturity date from June 30, 2013 to June 30, 2018. The Company is subject to an annual financial covenant and certain other restrictions measured at its fiscal year-end.

88

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

13. Long-Term Debt (continued)

The Company incurs certain loan fees and costs associated with its new or amended credit arrangements. Such costs are capitalized as deferred borrowing costs and amortized as interest expense using the straight-line method over the terms of the credit agreements. The balance of deferred borrowing costs is $142,000, net of amortization of $141,000, and is included in other assets on the Company's consolidated balance sheet at October 31, 2013.

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

2014	$569,000
2015	608,000
2016	602,000
2017	620,000
2018	55,509,000
Thereafter	4,224,000
	$62,132,000

14. Derivative Instruments and Hedging Activities

Derivative financial instruments consist of the following at October 31:

	Notional Amount		Fair Value Liability	
	2013	2012	2013	2012
Pay fixed-rate, receive floating-rate interest rate swap, matured June 2013	$-	$42,000,000	$-	$1,072,000
Pay fixed-rate, receive floating-rate forward interest rate swap, beginning July 2013 until June 2018	$40,000,000	$40,000,000	$2,240,000	$2,768,000

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

These interest rate swaps previously qualified as cash flow hedges and were accounted for as hedges under the short-cut method. On the amendment date of the swap agreements, the fair value liability and the related accumulated other comprehensive loss balance was $2,015,000. The accumulated other comprehensive loss balance was amortized and included in interest income from derivative instruments over the remaining period of the original swap agreements. Amortization for fiscal years 2013, 2012 and 2011 was $361,000, $541,000 and $561,000, respectively. The accumulated other comprehensive loss balance was fully amortized at October 31, 2013.

As a result of the re-negotiated terms of the derivatives above, the remaining interest rate swap with a notional amount of $42,000,000 no longer qualified for hedge accounting as of April 30, 2010. Therefore, mark to market adjustments to the underlying fair value liability were recorded in interest income from derivative instruments and the liability balance was recorded in fair value of derivative instruments and other long-term liabilities in the Company’s consolidated balance sheets. The mark to market adjustments recognized by the Company during the years ended October 31, 2013, 2011 and 2011 resulted in non-cash interest income of $1,072,000, $1,280,000 and $1,098,000, respectively. This swap matured in June 2013.

In November 2011, the Company entered into a forward interest rate swap agreement with Rabobank International, Utrecht to fix the interest rate at 4.30% on $40,000,000 of its outstanding borrowings under the Rabobank line of credit beginning July 2013 until June 2018. This interest rate swap qualifies as a cash flow hedge and is accounted for as a hedge under the short-cut method. Therefore, the fair value liability is included in fair value of derivative instruments, other long-term liabilities and related accumulated other comprehensive income (loss) at October 31, 2013.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Related-Party Transactions

The Company rents certain of its residential housing assets to employees on a month-to-month basis. The Company recorded $534,000, $528,000 and $522,000 of rental income from employees in fiscal years 2013, 2012 and 2011, respectively. There were no rental payments due from employees at October 31, 2013 and 2012.

The Company has representation on the boards of directors of the mutual water companies in which the Company has investments. The Company recorded capital contributions and purchased water and water delivery services from such mutual water companies, in aggregate, of $1,135,000, $989,000 and $700,000 in fiscal years 2013, 2012 and 2011, respectively. Capital contributions are included in other assets in the Company's consolidated balance sheets and purchased water and water delivery services are included in agribusiness expense in the Company's consolidated statements of operations. Additionally, the Company purchased a $1,320,000 investment in a mutual water company with the acquisition of Lemons 400 in October 2013, which is included in other assets in the Company's consolidated balance sheet at October 31, 2013. Water payments due to the mutual water companies were, in aggregate, $78,000 and $20,000 at October 31, 2013 and 2012, respectively.

The Company has representation on the board of directors of a non-profit cooperative association that provides pest control services for the agricultural industry. The Company purchased services and supplies of $1,266,000, $1,410,000 and $1,316,000 from the association in fiscal years 2013, 2012 and 2011, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the cooperative were $26,000 and $72,000 at October 31, 2013 and 2012, respectively.

The Company recorded dividend income of $432,000, $366,000 and $366,000 in fiscal years 2013, 2012 and 2011, respectively, on its investment in Calavo, which is included in other income, net, in the Company's consolidated statements of operations. The Company had $11,683,000, $9,456,000 and $7,539,000 in avocado sales to Calavo in fiscal years 2013, 2012 and 2011, respectively. Additionally, the Company had $242,000, $189,000 and $557,000 in lemon sales to Calavo in fiscal years 2013, 2012 and 2011, respectively. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. The Company leases office space to Calavo and received rental income of $271,000, $265,000, and $252,000 in fiscal years 2013, 2012 and 2011, respectively. Such amounts are included in rental revenues in the Company's consolidated statements of operations. No amounts were receivable by the Company from Calavo at October 31, 2013 or 2012. The Company purchased $2,418,000, $1,316,000 and $71,000 of packed avocados and lemons to sell from Calavo in fiscal years 2013, 2012 and 2011,

respectively. No amounts were due to Calavo at October 31, 2013 and 2012, respectively.

Certain members of the Company's Board of Directors market lemons through Limoneira Company pursuant to its customary marketing agreements. During fiscal years 2013, 2012 and 2011 the aggregate amount of lemons procured from entities owned or controlled by members of the Board of Directors was $1,101,000, $1,815,000 and $1,335,000, respectively, which is included in agribusiness expense in the Company's consolidated statements of operations. Payments due to these Board members were $240,000, $705,000 and $125,000 at October 31, 2013, 2012 and 2011, respectively.

On July 1, 2013, the Company and Cadiz Real Estate, LLC ("Cadiz"), a wholly owned subsidiary of Cadiz, Inc., entered into a long-term lease agreement (the "Lease") for a minimum of 320 acres, with an option to lease up to an additional 640 acres, located within 9,600 zoned agricultural acres owned by Cadiz in eastern San Bernardino County, California. The initial term of the Lease runs for 20 years and the annual base rental will be equal to the sum of $200 per planted acre and 20% of gross revenues from the sale of harvested lemons (less operating expenses) and will not exceed $1,200 per acre per year. As of October 31, 2013, no acres have been planted on the leased property; therefore no lease expense has been incurred. A member of the Company's Board of Directors serves as the CEO, President and a member of the board of directors of Cadiz, Inc.

As of the September 6, 2013 acquisition of Associated, the Company has had representation on the board of directors of Colorado River Growers, Inc. ("CRG"), a non-profit cooperative association of fruit growers engaged in the agricultural harvesting and marketing business in Yuma County, Arizona. The Company paid harvest advances to CRG of $1,320,000 from the acquisition date to October 31, 2013. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Additionally, Associated provided harvest management and administrative services to CRG in the amount of $112,000 from the acquisition date to October 31, 2013. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. There was $194,000 due to Associated from CRG at October 31, 2013, which is included in accounts receivable in the Company's October 31, 2013 consolidated balance sheet.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

15. Related-Party Transactions (continued)

The Company has representation on the board of directors of Yuma Mesa Irrigation and Drainage District. The Company purchased water in the amount of $59,000 during fiscal year 2013 and this amount is included in agribusiness expenses in the consolidated statements of operations. There were no amounts that were due to the district at October 31, 2013.

16. Income Taxes

The components of the provisions for income taxes for fiscal years 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Current:			
Federal	$(3,589,000)	$(535,000)	$653,000
State	(856,000)	(327,000)	139,000
Total current (provision) benefit	(4,445,000)	(862,000)	792,000
Deferred:			
Federal	1,084,000	(968,000)	(1,171,000)
State	126,000	(148,000)	(328,000)
Total deferred provision	1,210,000	(1,116,000)	(1,499,000)
Total provision	$(3,235,000)	$(1,978,000)	$(707,000)

The income tax provision differs from the amount which would result from the statutory federal income tax rate primarily as a result of dividend exclusions, the domestic production activities deduction and state income taxes.

Deferred income taxes reflect the net of temporary differences between the carrying amount of the assets and liabilities for financial reporting and income tax purposes. In connection with the acquisition of Associated on September 6, 2013, the Company assumed noncurrent deferred tax liabilities of $7,247,000. The components of

deferred income tax assets (liabilities) at October 31, 2013 and 2012 are as follows:

	2013	2012
Current deferred income tax assets (liabilities):		
Labor accruals	$211,000	$188,000
Property taxes	(176,000)	(175,000)
State income taxes	240,000	110,000
Prepaid insurance and other	233,000	272,000
Net current deferred income tax assets	508,000	395,000
Noncurrent deferred income tax (liabilities) assets:		
Depreciation	(5,878,000)	(3,297,000)
Amortization	366,000	604,000
Impairments of real estate development assets	3,019,000	3,379,000
Derivative instruments	892,000	871,000
Minimum pension liability adjustment	1,707,000	1,590,000
Unrealized net gain on Calavo investment	(3,918,000)	(3,602,000)
Book and tax basis difference of acquired assets	(14,180,000)	(9,865,000)
Other	(548,000)	(168,000)
Net noncurrent deferred income tax liabilities	(18,540,000)	(10,488,000)
Net deferred income tax liabilities	$(18,032,000)	$(10,093,000)

The net current deferred income tax assets are included in prepaid expenses and other current assets in the Company’s consolidated balance sheets at October 31, 2013 and 2012.

91

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

16. Income Taxes (continued)

At October 31, 2013, the Company had federal and state operating loss carry-forwards of approximately $190,000 and $970,000, respectively. The federal and state tax loss carry-forwards will begin to expire in 2033 and 2017, respectively, unless previously utilized.

The income tax provision differs from that computed using the federal statutory rate applied to income before taxes as follows for fiscal years 2013, 2012 and 2011:

	2013 Amount	%	2012 Amount	%	2011 Amount	%
Provision at statutory rates	$(2,768,000)	(34.0)%	$(1,744,000)	(34.0)%	$(775,000)	(34.0)%
State income tax, net of federal benefit	(509,000)	(6.2)%	(314,000)	(6.1)%	(137,000)	(6.0)%
Dividend exclusion	103,000	1.3%	87,000	1.7%	87,000	3.8%
Production deduction	175,000	2.1%	161,000	3.1%	42,000	1.8%
Officer’s compensation	-	-	-	-	-	-
Change in unrecognized tax benefits	-	-	-	-	-	-
Other permanent items	(236,000)	(2.9)%	(168,000)	(3.3)%	76,000	3.3%
Total income tax provision	$(3,235,000)	(39.7)%	$(1,978,000)	(38.6)%	$(707,000)	(31.1)%

In connection with the acquisition of Associated on September 6, 2013 as described in Note 3, the Company recognized goodwill in the amount of $680,000, which is non-deductible for income tax purposes because of the tax-deferred nature of the transaction under IRS section 368.

At October 31, 2013 and 2012, the Company had no unrecognized tax benefits. The Company reports accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company does not expect the unrecognized tax benefits to change significantly over the next 12 months.

The Company files income tax returns in the U.S., California and Arizona. The Company is no longer subject to significant U.S. and state income tax examinations for years prior to the statutory periods of three years for federal and four years for state tax jurisdictions. The Company recognizes interest expense and penalties related to income tax matters as a component of income tax expense. There was no accrued interest or penalties associated with uncertain tax positions as of October 31, 2013.

92

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Retirement Plans

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

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of $1,252,000 and $1,275,000 for fiscal years 2013 and 2012, respectively. 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 investment policy and strategy 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 Plan funding at a reasonable level. The long-term target asset allocation ranges are as follows: Global Equity 40%-80%; Alternative Investments 0%-30%; Fixed Income 20%-60% and Cash 0%-30%. Alternative Investments may include Hedge Funds, Real Estate and Private Equity.

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

The components of net periodic benefit cost for the Plan for fiscal years 2013 and 2012 were as follows:

	2013	2012
Service cost	$166,000	$146,000

Interest cost	721,000	804,000
Expected return on plan assets	(959,000)	(990,000)
Recognized actuarial loss	1,030,000	818,000
Net periodic benefit cost	$958,000	$778,000

93

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Retirement Plans (continued)

Following is a summary of the Plan's funded status as of October 31:

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	$20,690,000	$18,459,000
Service cost	166,000	146,000
Interest cost	721,000	804,000
Benefits paid	(1,058,000)	(983,000)
Actuarial (gain) loss	(1,239,000)	2,264,000
Benefit obligation at end of year	$19,280,000	$20,690,000
Change in plan assets:		
Fair value of plan assets at beginning of year	$14,560,000	$12,985,000
Actual return on plan assets	1,621,000	1,283,000
Employer contributions	1,252,000	1,275,000
Benefits paid	(1,058,000)	(983,000)
Fair value of plan assets at end of year	$16,375,000	$14,560,000
Reconciliation of funded status:		
Fair value of plan assets	$16,375,000	$14,560,000
Benefit obligations	19,280,000	20,690,000
Net plan obligations	$(2,905,000)	$(6,130,000)
Amounts recognized in statements of financial position:		
Noncurrent assets	$–	$–
Current liabilities	–	–
Noncurrent liabilities	(2,905,000)	(6,130,000)
Net obligation recognized in statements of financial position	$(2,905,000)	$(6,130,000)
Reconciliation of amounts recognized in statements of financial position:		
Accumulated other comprehensive loss	$(7,191,000)	$(10,123,00)
Accumulated contributions in excess of net periodic benefit cost	4,286,000	3,993,000
Net deficit recognized in statements of financial position	$(2,905,000)	$(6,130,000)

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Retirement Plans (continued)

Presented below are changes in accumulated other comprehensive loss, before tax, in the Plan as of October 31:

	2013	2012
Changes recognized in other comprehensive loss:		
Net loss (gain) arising during the year	$(1,901,000)	$1,971,000
Amortization or settlement recognition of net loss	(1,030,000)	(818,000)
Total recognized in other comprehensive loss	$(2,931,000)	$1,153,000
Total recognized in net periodic benefit and other comprehensive loss	$(1,973,000)	$1,931,000

Presented below is the October 31 year-ended estimated amount that will be amortized from accumulated other comprehensive loss over the next fiscal year:

	2013
Initial net asset (obligation)	$–
Prior service credit (cost)	–
Net loss	(781,000)
Total	$(781,000)

The following assumptions as of October 31 were used in determining benefit obligations and net periodic benefit cost:

	2013	2012
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.40 %	3.60 %
Assumptions used to determine net periodic benefit cost:		
Discount rate	3.60 %	4.50 %

Expected return on plan assets	7.00 %	7.50 %
Additional year-end information:		
Projected benefit obligation	$19,280,000	$20,690,000
Accumulated benefit obligation	$19,280,000	$20,690,000
Fair value of plan assets	$16,375,000	$14,560,000

95

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

17. Retirement Plans (continued)

The Company expects to contribute $500,000 to the Plan in fiscal year 2014. Additionally, benefit payments are expected to be paid during the following fiscal years:

2014	$1,031,000
2015	1,068,000
2016	1,102,000
2017	1,150,000
2018	1,179,000
2019-2023	6,037,000
	$11,567,000

The following table sets forth the Plan's assets as of October 31, 2013, segregated by level using the hierarchy established by FASB ASC 820, *Fair Value Measurements and Disclosures*:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$483,000	$–	$ –	$483,000
Mutual funds	2,381,000	–	–	2,381,000
Common stocks	6,249,000	–	–	6,249,000
U.S. government & agency issues	–	2,891,000	–	2,891,000
Corporate bonds	–	4,300,000	–	4,300,000
Estimated accrued income	–	71,000	–	71,000
	$9,113,000	7,262,000	$ –	$16,375,000

The Company has a 401(k) plan in which it contributes an amount equal to 4% of an eligible employee's annual earnings beginning after one year of employment. Employees may elect to defer up to 100% of their annual earnings subject to Internal Revenue Code limits. The Company makes an additional matching contribution on these deferrals up to 4% of the employee's annual earnings. Employees are 100% vested in the Company's contribution after six years of employment. Participants vest in any matching contribution at a rate of 20% per year beginning after one year of employment. During fiscal years 2013, 2012, and 2011, the Company contributed to the plan and recognized expenses of $615,000, $517,000, and $488,000, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

18. Other Long-Term Liabilities

Other long-term liabilities consist of the following at October 31:

	2013	2012
Minimum pension liability	$2,905,000	$6,130,000
Fair value of derivative instrument	1,523,000	2,768,000
Other	55,000	55,000
	$4,483,000	$8,953,000

19. Operating Lease Income

The Company rents certain of its assets under net operating lease agreements ranging from one month to 20 years. The cost of land subject to agricultural land leases was $1,861,000 at October 31, 2013. The total cost and accumulated depreciation of buildings, equipment and building improvements subject to leases was $9,352,000 and $4,635,000, respectively, at October 31, 2013. The Company’s rental operations revenue includes contingent rental revenue of $119,000, $165,000 and $206,000 for fiscal years 2013, 2012 and 2011, respectively.

The future minimum lease payments to be received by the Company related to these net operating lease agreements as of October 31, 2013, are as follows:

2014	$2,019,000
2015	1,747,000
2016	1,685,000
2017	1,211,000
2018	1,078,000
Thereafter	1,483,000
	$9,223,000

97

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

20. Commitments and Contingencies

Operating Leases

The Company has operating leases for agricultural land, pollinating equipment, packinghouse equipment, and photovoltaic generators. Total lease expense for fiscal years 2013, 2012 and 2011 was $2,316,000, $1,972,000 and $1,480,000, respectively, which is included in agribusiness costs and expenses in the Company’s consolidated statements of operations.

During fiscal year 2008, the Company entered into a contract with Perpetual Power, LLC (“Perpetual”) to install a 1,000 KW photovoltaic generator in order to provide electrical power for the Company’s lemon packinghouse operations. The facility became operational in October 2008. Farm Credit West provided financing for the generator and upon completion of the construction Perpetual sold the generator to Farm Credit West. The Company then signed a 10-year operating lease agreement with Farm Credit West. At the end of the 10-year lease term, the Company will have an option to purchase the generator from Farm Credit West for $1,125,000.

Additionally in fiscal year 2008, the Company entered into a contract with Perpetual to install a second 1,000 KW photovoltaic generator in order to provide electrical power for the Company’s farming operations in Ducor, California. Farm Credit West provided the financing for the generator and when construction was completed, Perpetual sold the generator to Farm Credit West. The Company then signed a 10-year operating lease agreement with Farm Credit West for this facility. At the end of the 10-year lease term, the Company will have an option to purchase the generator from Farm Credit West for $1,275,000. The generator in Ducor, California became operational in December 2008. Included in other assets in the Company’s consolidated balance sheets is $1,112,000 and $872,000 at October 31, 2013 and 2012, respectively of deferred rent assets related to the Company’s Ducor solar lease as the minimum lease payments exceed the straight-line rent expense during the earlier terms of the lease.

Additionally, we have agreements with an electric utility through the California Solar Initiative which entitle us to receive rebates for energy produced by our solar arrays. These rebates, which are scheduled to expire in fiscal year 2014, were $992,000, $1,006,000 and $911,000 in fiscal years 2013, 2012 and 2011, respectively.

In January 2012, the Company entered into six operating leases for approximately 1,000 acres of lemon, orange, specialty citrus and other crop orchards in Lindsay, California. Each of the leases is for a ten-year term and provides for four five-year renewal options with an aggregate base rent of approximately $500,000 per year. The leases also contain profit share arrangements with the lessors as additional rent on each of the properties and a provision for the potential purchase of the properties by the Company in the future. In accordance with the terms of the lease agreements, the Company did not share in the citrus crop revenue in its fiscal year ending October 31, 2012. The Company incurred $724,000 and $456,000 of net lease expense in fiscal years 2013 and 2012, respectively.

Minimum future lease payments are as follows:

2014	$1,740,000
2015	1,698,000
2016	1,720,000
2017	1,732,000
2018	1,699,000
Thereafter	4,279,000
	$12,868,000

Letters of Credit

The Company utilizes standby letters of credit to satisfy workers' compensation insurance security deposit requirements. At October 31, 2013, these outstanding letters of credit totaled $193,000.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statement s (continued)

Other Commitments

In December 2013 the Company entered into a construction contract that includes design and construction services for the expansion of the Company's lemon packing facilities. The contract is subject to a guaranteed maximum price of approximately $9,300,000, which may be revised based on design modifications and finalization of construction costs. The project is expected to commence in March 2014 and be substantially complete in the spring of 2015.

Litigation

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

21. Stockholders' Equity

Series B Convertible, Redeemable Preferred Stock

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

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

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

Redemption: The Company, at the option of the Board of Directors, may redeem the Series B Stock, as a whole or in part, at any time or from time to time on or after 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 have the right, at their option, to convert such shares into shares of Common Stock of the Company at any time prior to redemption. The conversion price is $8.00 per share of Common Stock. Pursuant to the terms of the Certificate of Designation, Preferences and Rights of the Series B Stock, the conversion price shall be adjusted to reflect any dividends paid in Common Stock of the Company, the subdivision of the Common Stock of the Company into a greater number of shares of Common Stock of the Company or upon the advice of legal counsel.

Put: The holders of Series B Stock may at any time after July 1, 2017 and before June 30, 2027 cause the Company to repurchase such shares at a repurchase price equal to the par value thereof, plus accrued and unpaid dividends thereon to the date fixed for repurchase.

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

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

21. Stockholders' Equity (continued)

Series A Junior Participating Preferred Stock and Shareholder Rights Agreement

During fiscal 2007, the Company entered into a shareholder rights agreement with the Bank of New York acting as rights agent. In connection with this agreement, on October 31, 2006, the Company designated 20,000 shares of preferred stock as Series A Junior Participating Preferred Stock at $.01 par value (the "Series A Stock"). Additionally, on October 31, 2006, the Company declared a dividend to be distributed on December 20, 2006, to each holder of record of the Company's common stock the right to purchase one one-hundredth of a share of Series A Stock. If a triggering event occurs, the Board of Directors has the option to allow rights holders to exercise their rights.

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 Company.

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

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

Stock-based compensation

The Company has a stock-based compensation plan (the "Stock Plan") that allows for the grant of common stock of the Company to members of management based on achievement of certain annual financial performance and other criteria. The number of shares granted is based on a percentage of the employee's base salary divided by the stock price on the grant date. Shares granted under the Stock Plan generally vest over a three year period. During December 2013, 26,708 shares of common stock were granted to management under the Stock Plan for fiscal year 2013 performance, resulting in total compensation expense of approximately $727,000, with $253,000 recognized in the year ended December 31, 2013 and the balance to be recognized over the next two years as the shares vest. During December 2012, 34,721 shares of common stock were granted to management under the Stock Plan for fiscal year 2012 performance, resulting in total compensation expense of approximately $657,000, with $216,000 recognized in the year ended October 31, 2012 and the balance to be recognized over the next two years as the shares vest. No shares were granted for fiscal year 2011 performance. Stock-based compensation expense is included in selling, general and administrative expense and is recognized over the performance and vesting periods as summarized below:

Performance	Shares	Year Ended October 31,		
Year	Granted	2013	2012	2011
2008	11,962	$-	$-	$80,000
2010	62,287	91,000	546,000	535,000
2012	34,721	209,000	216,000	-
2013	26,708	253,000	-	-
		$553,000	$762,000	$615,000

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

During January 2013, 9,040 shares of common stock were granted to the Company's non-employee directors under the Company's stock-based compensation plans. The Company recognized $200,000, $185,000 and $180,000 of stock-based compensation to non-employee directors during fiscal years 2013, 2012 and 2011, respectively.

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

21. Stockholders' Equity (continued)

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

During February 2013, the Company sold 2,070,000 shares of common stock at a price of $18.50 per share in a public offering. See Note 24.

In connection with the acquisition of Associated described in Note 3, the Company issued 705,221 shares of unregistered common stock with a per share value of $22.63, which comprised $15,959,000 of the $18,580,000 purchase price.

Donation of Common Stock

During each June of 2013, 2012 and 2011 the Company donated $100,000 of unregistered common stock to the Museum of Ventura County ("the Museum"), a California non-profit corporation. The number of shares of common stock issued was 4,859, 6,165 and 4,427 in 2013, 2012 and 2011, respectively, which was based on the market value of Limoneira common stock on the date of the donation. The Company recognized expense of $100,000 each year, which is included in selling, general and administrative expense. The donations are to be used by the Museum to establish and operate an agriculture museum in Santa Paula, California depicting the history of agriculture in Ventura County.

22. Fruit Growers Supply Cooperative

The Company is a member of Fruit Growers Supply ("FGS"), a cooperative supply corporation. FGS is the manufacturing and supply affiliate of Sunkist. FGS allocates after-tax earnings derived from non-member business to members. The allocations may then be disbursed to members as dividends no less than five years after allocation. As of October 31, 2013 and October 31, 2012, the Company has been allocated $863,000 and $981,000, respectively; however, the declaration of dividends is subject to approval by the FGS Board of Directors and members may receive amounts less than those originally allocated. The Company records allocations disbursed by FGS as reductions of agribusiness expenses. The Company received dividends of $59,000, $113,000 and $96,000 in fiscal years 2013, 2012 and 2011, respectively.

During September 2011, the Company settled a claim with Sunkist in which Sunkist requested a refund of $586,000 of fiscal year 2010 lemon by-products revenue. The Company assigned 50% of future dividends it receives from FGS up to the amount of claim in the unconditional settlement of the claim. The balance of the claim as of October 31, 2013, 2012 and 2011 was $318,000, $377,000 and $490,000, respectively.

101

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

23. Segment Information

The Company operates in three reportable operating segments; agribusiness, rental operations and real estate development. The reportable operating segments of the Company are strategic business units with different products and services, distribution processes and customer bases. The agribusiness segment includes farming and lemon packing operations. The rental operations segment includes housing and commercial rental operations, leased land and organic recycling. The real estate development segment includes real estate development operations. No asset information is provided for reportable segments as these specified amounts are not included in the measure of segment profit or loss reviewed by the Company's chief operating decision maker. The Company measures operating performance, including revenues and earnings, of its operating segments and allocates resources based on its evaluation. The Company does not allocate selling, general and administrative expense, other income (expense), interest expense and income tax expense, or specifically identify them to its operating segments.

Segment information for year ended October 31, 2013:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$79,990,000	$4,250,000	$ 644,000	$–	$84,884,000
Costs and expenses	61,850,000	2,213,000	1,266,000	11,659,000	76,988,000
Depreciation and amortization	1,757,000	388,000	67,000	191,000	2,403,000
Impairment charges	-	-	95,000	-	95,000
Operating income (loss)	$16,383,000	$1,649,000	$ (784,000)	$(11,850,000)	$5,398,000

Segment information for year ended October 31, 2012:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$61,553,000	$4,023,000	$ 252,000	$–	$65,828,000
Costs and expenses	45,811,000	2,045,000	981,000	10,304,000	59,141,000

Depreciation and amortization	1,489,000	373,000	56,000	213,000	2,131,000
Impairment charges	–	–	–	–	–
Operating income (loss)	$14,253,000	$1,605,000	$ (785,000)	$(10,517,000)	$4,556,000

Segment information for year ended October 31, 2011:

	Agribusiness	Rental Operations	Real Estate Development	Corporate and Other	Total
Revenues	$46,085,000	$3,948,000	$ 2,462,000	$ –	$52,495,000
Costs and expenses	33,645,000	1,865,000	3,483,000	9,089,000	48,082,000
Depreciation and amortization	1,535,000	365,000	68,000	239,000	2,207,000
Impairment charges	–	–	1,196,000	–	1,196,000
Operating income (loss)	$10,905,000	$1,718,000	$ (2,285,000)	$ (9,328,000)	$1,010,000

102

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

23. Segment Information (Continued)

The following table sets forth revenues by category, by segment for fiscal years 2013, 2012 and 2011:

	Year Ended October 31,		
	2013	2012	2011
Lemons	$58,137,000	$44,162,000	$31,243,000
Avocados	11,683,000	9,546,000	7,539,000
Navel and Valencia oranges	5,528,000	4,066,000	3,789,000
Specialty citrus and other crops	4,642,000	3,779,000	3,514,000
Agribusiness revenues	79,990,000	61,553,000	46,085,000
Rental operations	2,385,000	2,293,000	2,235,000
Leased land	1,746,000	1,565,000	1,507,000
Organic recycling	119,000	165,000	206,000
Rental operations revenues	4,250,000	4,023,000	3,948,000
Real estate sales	-	-	2,275,000
Real estate operations	644,000	252,000	187,000
Real estate revenues	644,000	252,000	2,462,000
Total revenues	$84,884,000	$65,828,000	$52,495,000

LIMONEIRA COMPANY

Notes to Consolidated Financial Statements (continued)

24. Public Offering of Common Stock

During February 2013, the Company completed the sale of 2,070,000 shares of common stock, at a price of $18.50 per share, to institutional and other investors in a registered offering under the shelf registration statement. The offering represented 16% of the Company's outstanding common stock on an after-issued basis. Upon completion of the offering and issuance of common stock, the Company had 13,307,085 shares of common stock outstanding. The gross proceeds of the offering totaled $38,295,000 and after an underwriting discount of $2,106,000 and other offering expenses of $292,000, the net proceeds were $35,897,000. During February 2013, the Company used the net offering proceeds to repay long-term debt.

25. Subsequent Events

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. As of October 31, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report.

Internal Control over Financial Reporting. See "Management's Report on Internal Control over Financial Reporting" on page 59 and "Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting" on page 60.

Changes in Internal Control over Financial Reporting. There have been no significant changes in our internal controls over financial reporting during the quarter ended October 31, 2013 or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

On September 6, 2013, we completed our acquisition of Associated, which included its existing information systems and internal controls over financial reporting. We are currently in the process of evaluating and integrating Associated's historical internal controls over financial reporting with those of the rest of the Company. The integration may lead to changes in future periods, but we do not expect these changes to materially affect our internal controls over financial reporting. We expect to complete this integration in 2014. In conducting our evaluation of the effectiveness of our internal controls over financial reporting pursuant to Section 404 of the Sarbanes Oxley Act of 2002 for 2013, we have elected to exclude Associated from our evaluation for 2013. This exclusion is in accordance with the general guidance issued by the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of an acquisition.

Limitations on the Effectiveness of Controls. Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are

met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information

None.

PART III

Certain information required by Part III is omitted from this Annual Report because we will file a definitive Proxy Statement for the Annual Meeting of Stockholders pursuant to Regulation 14A of the Exchange Act (the “Proxy Statement”), not later than 120 days after the end of the fiscal year covered by this Annual Report, and the applicable information included in the Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item is incorporated herein by reference to the Proxy Statement.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the Proxy Statement.

Item 14. Principal Accountant's Fees and Services

The information required by this Item is incorporated herein by reference to the Proxy Statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) **Financial Statements**
Management's Report on Internal Control over Financial Reporting
Report of Independent Registered Accounting Firm on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at October 31, 2013 and 2012
Consolidated Statements of Operations for the years ended October 31, 2013, 2012 and 2011
Consolidated Statements of Comprehensive Income for the years ended October 31, 2013, 2012 and 2011
Consolidated Statements of Stockholders' Equity for the years ended October 31, 2013, 2012 and 2011

Consolidated Statements of Cash Flows for the years ended October 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

(b) **Exhibits**

See “Exhibit Index” set forth on page E-1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 14, 2014.

LIMONEIRA COMPANY

By: /s/ Harold S. Edwards
Harold S. Edwards
Director, President and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 14, 2014 by the following persons on behalf of the registrant and in the capacities indicated:

Signature	**Title**
/s/ Alan M. Teague Alan M. Teague	Chairman of the Board of Directors
/s/ Harold S. Edwards Harold S. Edwards	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Joseph D. Rumley Joseph D. Rumley	Chief Financial Officer, Treasurer and Corporate Secretary (Principal Financial and Accounting Officer)
/s/ John W. Blanchard John W. Blanchard	Director
/s/ Lecil E. Cole Lecil E. Cole	Director

/s/ Gordon E. Kimball Gordon E. Kimball	Director
/s/ John W.H. Merriman John W.H. Merriman	Director
/s/ Ronald Michaelis Ronald Michaelis	Director
/s/ Allan Pinkerton Allan Pinkerton	Director
/s/ Keith W. Renken Keith W. Renken	Director
/s/ Robert M. Sawyer Robert M. Sawyer	Director
/s/ Scott S. Slater Scott S. Slater	Director

108

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Limoneira Company, dated July 5, 1990 (Incorporated by reference to exhibit 3.1 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.2	Certificate of Merger of Limoneira Company and The Samuel Edwards Associates into Limoneira Company, dated October 31, 1990 (Incorporated by reference to exhibit 3.2 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.3	Certificate of Merger of McKevett Corporation into Limoneira Company dated December 31, 1994 (Incorporated by reference to exhibit 3.3 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.4	Certificate of Designation, Preferences and Rights of $8.75 Voting Preferred Stock, $100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.4 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.5	Amended Certificate of Designation, Preferences and Rights or $8.75 Voting Preferred Stock, $100.00 Par Value, Series B of Limoneira Company, dated May 21, 1997 (Incorporated by reference to exhibit 3.5 to the Company’s Registration Statement of Form 10, and amendments thereto, declared effective April 13, 2010)
3.6	Agreement of Merger Between Ronald Michaelis Ranches, Inc. and Limoneira Company, dated June 24, 1997 (Incorporated by reference to exhibit 3.6 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.7	Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated April 22, 2003 (Incorporated by reference to exhibit 3.7 to the Company’s Registration Statement of Form 10, and amendments thereto, declared effective April 13, 2010)
3.8	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, $.01 Par Value, of Limoneira Company, dated November 21, 2006 (Incorporated by reference to exhibit 3.8 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.9	Certificate of Amendment of Certificate of Incorporation of Limoneira Company, dated March 24, 2010 (Incorporated by reference to exhibit 3.9 to the Company’s Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
3.10	Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.10 to the Company’s Annual Report on From 10-K, filed January 14, 2013)
3.10.1	Amendment to Amended and Restated Bylaws of Limoneira Company (Incorporated by reference to exhibit 3.1 to the Company’s Current Report on From 8-K, filed September 25, 2013)

4.1	Specimen Certificate representing shares of Common Stock, par value $0.01 per share (Incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
4.2	Rights Agreement dated December 20, 2006 between Limoneira Company and The Bank of New York, as Rights Agent (Incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.1	Real Estate Advisory Management Consultant Agreement dated April 1, 2004, by and between Limoneira Company and Parkstone Companies (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed August 25, 2010)

Exhibit No.	Description
10.2	Amendment No. 1 to Real Estate Advisory Management Consultant Agreement dated August 24, 2010, by and between Limoneira Company and Parkstone Companies (Incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed August 25, 2010)
10.3	Avocado Marketing Agreement effective February 8, 2003, by and between Calavo Growers, Inc. and Limoneira Company, as amended (Incorporated by reference to exhibit 10.2 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.4	Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.3 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.5	Standstill Agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.4 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.6	Standstill Agreement dated June 1, 2005 between Calavo Growers, Inc. and Limoneira Company (Incorporated by reference to exhibit 10.5 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.7	Lease Agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc. (Incorporated by reference to exhibit 10.6 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.8	Amended and Restated Line of Credit Agreement dated as of December 15, 2008, by and between Limoneira Company and Rabobank, N.A. (Incorporated by reference to exhibit 10.7 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.9	Amendment to Amended and Restated Line of Credit Agreement dated May 12, 2009, between Limoneira Company and Rabobank, N.A. (Incorporated by reference to exhibit 10.8 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.10	Second Amendment to Amended and Restated Line of Credit Agreement dated November 14, 2011 between Limoneira Company and Rabobank N.A. (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed November 17, 2011)
10.11	Revolving Equity Line of Credit Promissory Note and Loan Agreement dated October 28, 1997, between Limoneira Company and Farm Credit West, FLCA (as successor by merger to Central Coast Federal Land Bank Association) (Incorporated by reference to exhibit 10.9 to the Company's Registration Statement of Form 10, and amendments thereto, declared effective April 13, 2010)
10.12	Promissory Note and Loan Agreement dated April 23, 2007, between Farm Credit West, FLCA and Limoneira Company (Incorporated by reference to exhibit 10.10 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)

10.13	Promissory Note and Loan Agreement dated as of September 23, 2005, among Farm Credit West, FLCA and Windfall Investors, LLC (Incorporated by reference to exhibit 10.12 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.14	Master Loan Agreement dated as of May 1, 2012 between Limoneira Company and Farm Credit West, PCA (Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 2, 2012)
10.15	Promissory Note and Supplement to Master Loan Agreement dated as of May 1, 2012 between Limoneira Company and Farm Credit West, PCA (Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 2, 2012)

Exhibit No.	Description
10.16	Limoneira Company Amended and Restated 2010 Omnibus Incentive Plan (Incorporated by reference to exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on June 11, 2012)
10.17	Limoneira Company Management Incentive Plan 2009-2010 (Incorporated by reference to exhibit 10.16 of the Company's Form 10-K, filed January 26, 2011)
10.18	Limoneira Stock Grant Performance Bonus Plan (Incorporated by reference to exhibit 10.15 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010.)
10.19	Pre-Annexation and Development Agreement dated March 3, 2008, by and between the City of Santa Paula and Limoneira Company (Incorporated by reference to exhibit 10.20 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.20	Judgment, dated March 7, 1996, *United Water Conservation Dist. v. City of San Buenaventura, et al.* , Case No. 115611, Superior Court of the State of California, Ventura County (Incorporated by reference to exhibit 10.24 to the Company's Registration Statement on Form 10, and amendments thereto, declared effective April 13, 2010)
10.21	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and the C. V. Sheldon Family Limited Partnership (Incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.22	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and the CH Sheldon LP (Incorporated by reference to exhibit 10.2 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.23	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Charles W. T. Sheldon (Incorporated by reference to exhibit 10.3 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.24	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Paul N. Sheldon Family Trust, U/D/T 10-27-06 (Incorporated by reference to exhibit 10.4 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.25	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Sheldon Family Revocable Trust, U/D/T 1-31-10 (Incorporated by reference to exhibit 10.5 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.26	Agricultural Land Lease, dated January 6, 2012 and effective January 1, 2012, by and between Limoneira Company and Katherine J. Sheldon as Trustee of the Katherine J. Sheldon Trust (Incorporated by reference to exhibit 10.6 of the Company's Current Report on Form 8-K, filed January 11, 2012)
10.27	Option Agreement, dated February 27, 2013, by and among the Company, Jason B. Rushing as Trustee of the Jason B. rushing Trust, Jennifer R. rushing as trustee for the Jennifer R. Rushing Revocable trust, Zella

	A. Rushing as trustee of the 1988 Zella Rushing Trust (Incorporated by reference to exhibit 10.1 of the company's Quarterly Report on Form 10-Q, filed June 10, 2013)
10.28	Purchase and Sale Agreement and Escrow Instructions, dated April 8, 2013, by and among HM East Ridge LLC, Limoneira Company and IPDC construction, Inc., (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed April 12, 2013)
10.29	Lease Agreement, dated July 1, 2013, by and between the Company and Cadiz, Inc. (Incorporated by reference to exhibit 10.1 to the Current Report on Form 8-K, filed July 2, 2013)

Exhibit No.	Description
10.30	Agreement and Plan of Merger, dated September 6, 2013, by and among Limoneira Company, ACP Merger Sub, Inc., Associated Citrus Packers, Inc., and Mark Spencer, as the Shareholder Representative defined therein (Incorporated by reference to exhibit 10.1 to the Current Report on form 8-K, filed September 12, 2013)
10.31	Purchase and Sale Agreement and Joint Escrow Instructions, dated September 27, 2013, by and between Sun World International LLC and Limoneira Company (Incorporated by reference to exhibit 10.1 to the Current report on form 8-K, filed October 15, 2013)
10.32	Construction Contract and Agreement, dated October 1, 2013, by and between Limoneira Company and NEXGEN Builders, Inc. (Incorporated by reference to exhibit 10.1 to the Current report on Form 8-K, filed December 4, 2013)
10.33	General Conditions of the Contract and Agreement, dated October 1, 2013, by and between Limoneira company and NEXGEN Builders, Inc. (Incorporated by reference to exhibit 10.2 to the Current report on Form 8-K, filed December 4, 2013)
10.34	Purchase and sale Agreement and escrow Instructions, dated November 29, 2013, by and between Templeton Santa Barbara, LLC and MI Land, LLC related to the sale of the Sevilla Property (Incorporated by reference to exhibit 10.3 to the Current report on Form 8-K, filed December 4, 2013)
10.35	Purchase and sale Agreement and escrow Instructions, dated November 29, 2013, by and between Templeton Santa Barbara, LLC and MI Land, LLC related to the sale of the Pacific Crest Property (Incorporated by reference to exhibit 10.3 to the Current report on Form 8-K, filed December 4, 2013)
21.1*	Subsidiaries of Limoneira Company
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certificate of the Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
31.2*	Certificate of the Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a)
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit No.	**Description**
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
† Denotes management contracts and compensatory plans or arrangements