

Limoneira CO
Form 10-K
January 12, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended October 31, 2014

OR

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission file number: 001-34755

Limoneira Company

(Exact name of registrant as specified in its charter)

Delaware **77-0260692**

(State of incorporation) (I.R.S. Employer Identification No.)

1141 Cummings Road, Santa Paula, CA 93060
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (805) 525-5541

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

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

Based on the closing price as reported on the NASDAQ Global Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2014 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$247.2 million. Shares of Common Stock held by each executive officer and director and by each stockholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of December 31, 2014 was 14,109,702.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders, which we intend to hold on March 24, 2015, are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2014.

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CAUTIONARY STATEMENT

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

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

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

general economic conditions for residential and commercial real estate development;

political changes and economic crises;

international conflict;

acts of terrorism;

labor disruptions, strikes or work stoppages;

loss of important intellectual property rights; and

other factors disclosed in this Annual Report.

In addition, this Annual Report contains industry data related to our business and the markets in which we operate. This data includes projections that are based on a number of assumptions. If these assumptions turn out to be incorrect, actual results could differ from the projections. We urge you to carefully review this Annual Report, particularly the section entitled “Risk Factors,” for a complete discussion of the risks of an investment in our common stock.

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

All references to “we,” “us,” “our,” “our Company,” “the Company,” or “Limoneira” in this Annual Report mean Limoneira Company, a Delaware corporation, and its wholly-owned subsidiaries.

PART I

Item 1. Business

Limoneira Company was incorporated in Delaware in 1990 as the successor to several businesses with operations in California since 1893. Our business and operations are described below. For detailed financial information with respect to our business and our operations, see our consolidated financial statements and the related notes to consolidated financial statements, which are included in Item 8 in this Annual Report. In addition, general information concerning our Company can be found on our website, the internet address of which is www.limoneira.com. All of our filings with the Securities and Exchange Commission (the “SEC”), including but not limited to, the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments thereto, are available free of charge on our website as soon as reasonably practicable after such material is electronically filed or furnished to the SEC.

Overview

We are an agribusiness and real estate development company founded and based in Santa Paula, California, committed to responsibly using and managing our approximately 10,500 acres of land, water resources and other assets to maximize long-term stockholder value. Our current operations consist of fruit production, sales and marketing, rental operations, real estate development and capital investment activities.

We are one of California’s oldest citrus growers. According to Sunkist Growers, Inc. (“Sunkist”), we are one of the largest growers of lemons in the United States and, according to the California Avocado Commission, one of the largest growers of avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of specialty citrus and other crops. We have agricultural plantings throughout Ventura, Tulare and San Bernardino Counties in California and in Yuma County in Arizona, which plantings consist of approximately 4,000 acres of lemons, 1,200 acres of avocados, 1,400 acres of oranges and 700 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, where we process, pack and sell lemons that we grow as well as lemons grown by others.

Our water resources include water rights, usage rights and pumping rights to the water in aquifers under, and canals that run through, the land we own or lease. Water for our California farming operations is sourced from the existing water resources associated with our land, which includes rights to water in the adjudicated Santa Paula Basin (aquifer) and the un-adjudicated Fillmore, Santa Barbara and Paso Robles Basins (aquifers). We use ground water and water from local water districts in Tulare County, which is in California’s San Joaquin Valley and we use ground water in San Bernardino County. Following our acquisition of Associated Citrus Packers, Inc. (“Associated”) we began using

ground water in Arizona from the Colorado River through the Yuma Mesa Irrigation and Drainage District (“YMIDD”).

For more than 100 years, we have been making strategic investments in California agricultural and real estate development. As of the date of this Annual Report, we have five active real estate development projects in California. These projects include multi-family housing and single-family homes comprising approximately 200 completed units and another approximately 1,800 units in various stages of planning and entitlement.

Fiscal Year 2014 Highlights and Recent Developments

In June 2013, we announced plans to build 71 agriculture workforce housing units in Santa Paula, California, that will be available for rent to local agriculture workers and Limoneira employees. We estimate that the total cost of the development will be approximately \$8.8 million and will be completed and available for rent during 2015. When fully occupied, annual rental revenue from the additional housing units is anticipated to be approximately \$0.9 million. We capitalized approximately \$5.8 million of costs related to this project in fiscal year 2014.

In December 2013, we entered into a construction contract that includes design and construction services for the expansion of our lemon packing facilities in Santa Paula, California. The project is expected to increase the efficiency and capacity of our packing facilities. During fiscal year 2014, we capitalized approximately \$8.2 million of costs in connection with construction services and equipment. The project is expected to cost \$19 million to \$21 million and be operational in 2015.

During December 2013 and revised in December 2014, Associated entered into an agreement with the YMIDD to participate in a Pilot Fallowing Program in which Associated has agreed to forego its water allocation for approximately 300 acres of land in exchange for \$750 per acre through December 31, 2016, unless terminated sooner by YMIDD. We recorded revenues of approximately \$0.2 million and a loss on disposal of orchards of approximately \$0.2 million in fiscal year 2014 related to this program.

On March 31, 2014, we entered into a Third Amendment to the Amended and Restated Line of Credit Agreement dated December 15, 2008 in order to, among other things, release the security interest held by Rabobank N.A. (“Rabobank”) in Teague McKeveatt Ranch, which is also known as East Area I real estate development project, in Ventura County, California, and grant Rabobank a security interest in certain of our agricultural properties located in Ventura and Tulare Counties in California. The line of credit provides for maximum borrowings of \$100 million and the borrowing capacity based on collateral value was \$93.8 million at October 31, 2014. We paid debt financing costs of approximately \$0.1 million related to this amendment.

During March and April of 2014, pursuant to a Series B-2 Stock Purchase Agreement dated March 21, 2014, we issued an aggregate of 9,300 shares of Series B-2, 4% voting preferred stock with a par value of \$100 per share (“Series B-2 Preferred Stock”) to an entity (“WPI”) affiliated with Water Asset Management, LLC (“WAM”) for total proceeds of \$9.3 million. The transactions were exempt from the registration requirements of Securities Act of 1933, as amended.

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

In May 2014, we submitted the Master Tentative Tract Map and Supplemental Environmental Impact Report for our East Area I real estate development project to the City of Santa Paula. These items are expected to be approved during 2015.

On June 30, 2014, we acquired the packing house property, equipment and certain intangible assets of Marlin Packing Company from its sole shareholder, Marlin Ranching Company. Both companies are privately owned Arizona corporations located in Yuma, Arizona. The purchase price was \$1.7 million, comprised of 23,455 unregistered shares of our common stock valued at approximately \$0.5 million, \$0.7 million in cash, contingent consideration consisting of an earn-out with a fair value of \$0.3 million and a deferred cash payment of approximately \$0.2 million to be made upon the completion of certain land remediation activities required to be completed by the seller. The earn-out has a maximum value of \$0.4 million in cash based on the operating profits of the acquired business, as defined in the purchase agreement, over a five-year period ending October 31, 2019. The liability for the fair value of the earn-out is included in other long term liabilities and the deferred cash payment is included in accrued liabilities in the accompanying October 31, 2014 balance sheet. Transaction costs associated with the acquisition were not significant and were expensed in fiscal year 2014. The acquisition was accounted for as a business combination. Revenues of approximately \$0.2 million and operating loss of approximately \$0.5 million are included in our fiscal year 2014 results of operations.

On August 14, 2014, through our wholly owned subsidiary, Limoneira Chile SpA, we invested approximately \$1.8 million for a 35% interest in Rosales S.A, (“Rosales”), a citrus packing, marketing and sales business located in La Serena, Chile. We will earn equity income from our investment and \$0.50 per carton on lemon sales to Asian markets. Our investment includes certain preferred interest provisions through December 31, 2016, including cash distributions of 50% and 40% of the net income of Rosales for the years ending December 31, 2014 and 2015, respectively, as well as a liquidation preference on our investment. In addition, we have the right to acquire the 52% interest of the majority shareholder of Rosales upon death or disability of Rosales’ general manager for the fair value of the interest on the date of the event as defined in the shareholders’ agreement.

In September 2014, we filed a Registration Statement on Form S-3 with the SEC in accordance with the Securities Act of 1933, as amended, which became effective on October 1, 2014. Utilizing a “shelf” process, we registered our common stock, par value \$0.01 per share, which may be offered and sold in one or more offerings at indeterminate prices for a maximum aggregate offering price of up to \$75.0 million.

For the year ended October 31, 2014, we declared dividends to our common shareholders totaling \$0.17 per share in the aggregate amount of approximately \$2.3 million compared to \$0.15 per share in the aggregate amount of approximately \$1.9 million for fiscal year 2013. On December 16, 2014, we declared a \$0.045 per share dividend to be paid on January 15, 2015 in the aggregate amount of approximately \$0.6 million to common shareholders of record on December 29, 2014.

Business Segments

We have three business segments: agribusiness, rental operations, and real estate development. The agribusiness segment includes our farming and lemon packing and sales operations. The rental operations segment includes our residential and commercial rentals, leased land operations and organic recycling. The real estate development segment includes our real estate projects and development. Financial information and further discussion of these segments are contained in the notes to the accompanying consolidated financial statements of this Annual Report.

Agribusiness

Our agribusiness segment includes our farming and lemon packing and sales operations. The agribusiness segment represented approximately 95%, 94% and 93% of our fiscal year 2014, 2013 and 2012 consolidated revenues, respectively.

Farming

We are one of California's oldest citrus growers and one of the largest growers of lemons and avocados in the United States. In addition to growing lemons and avocados, we grow oranges and a variety of specialty citrus and other crops. We have agricultural plantings throughout Ventura, Tulare and San Bernardino Counties in California and Yuma County in Arizona, which collectively consist of approximately 4,000 acres of lemons, 1,200 acres of avocados, 1,400 acres of oranges and 700 acres of specialty citrus and other crops. We also operate our own packinghouses in Santa Paula, California and Yuma, Arizona, where we process, pack and sell lemons we grow as well as lemons grown by others.

Lemons. We market and sell lemons directly to food service, wholesale and retail customers throughout the United States, Canada, Asia, Australia and certain other international markets. We are one of the largest lemon growers in the United States with approximately 4,000 acres of lemons planted primarily in Ventura and Tulare Counties in California and in Yuma County, Arizona. In California, the lemon growing area stretches from the Coachella Valley to Fresno and Monterey Counties, with the majority of the growing areas being located in the coastal areas from Ventura County to Monterey County. Ventura County is California's top lemon producing county. Approximately 45% of our lemons are grown in Ventura County, 30% are grown in Tulare County, 25% are grown in Yuma County, Arizona and 5% are grown in San Bernardino County, California.

There are over fifty varieties of lemons, with the Lisbon, Eureka and Genoa being the predominant varieties marketed on a worldwide basis. California grown lemons are available throughout the year, with peak production periods occurring from January through August. Approximately 90% of our lemon plantings are of the Lisbon and Eureka varieties and approximately 10% are of other varieties such as sweet Meyer lemons, proprietary seedless lemons and pink variegated lemons. The storage life of fresh lemons generally ranges from one to 18 weeks, depending upon the maturity of the fruit, the growing methods used and the handling conditions in the distribution chain.

With an average annual production of approximately 750,000 tons of lemons, California accounts for approximately 90% of the United States lemon crop, with Arizona producing a vast majority of the rest. Between 50% and 70% percent of the United States lemon crop is utilized in the fresh market, with the remainder going to the processed market for products such as juice, oils and essences. Most lemons are consumed as either a cooking ingredient, a

garnish, or as juice in lemonade or carbonated beverages or other drinks. Demand for lemons is typically highest in the summer, although California producers through various geographical zones are typically able to harvest lemons year round.

Avocados. We are one of the largest avocado growers in the United States with approximately 1,200 acres of avocados planted throughout Ventura County. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County.

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

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

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

Oranges. While we are primarily known for our high-quality lemons, we also grow oranges. We have approximately 1,400 acres of oranges planted throughout Tulare County, California. In California, the growing area for oranges stretches from Imperial County to Yolo County.

For many decades, the Valencia variety of oranges was grown in Ventura County primarily for export to the Pacific Rim. Throughout the late 20th century, developing countries began producing the larger, seedless Navel variety of oranges that successfully competed against the smaller Valencia variety. California grown Navel oranges are available from October to June, with peak production periods occurring between January and April. California grown Valencia oranges are available from March to October, with peak production periods occurring between June and September. Approximately 95% of our orange plantings are of the Navel variety and approximately 5% are of the Valencia variety.

Navel oranges comprise most of California's orange crop, accounting for approximately 75% over the past three growing seasons. Valencia oranges account for a vast majority of the remainder 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.

We utilize Sunkist to market and sell a portion of our oranges under the Sunkist brand to food service wholesale and retail customers. As an agricultural cooperative, Sunkist coordinates the sales and marketing of our oranges, and orders are processed by third-party packinghouses for direct shipment to customers. We typically partner with third-party packinghouses to process and ship our oranges. We estimate approximately 70% of our oranges are sold to retail customers and approximately 30% are sold to wholesale customers.

Specialty Citrus and Other Crops. A few decades ago we began growing specialty citrus varieties and other crops that we believed would appeal to changing North American and worldwide demand. As a result, we currently have approximately 700 acres of specialty citrus and other crops planted such as Moro blood oranges, Cara Cara oranges, Minneola tangelos, Star Ruby grapefruit, pummelos, pistachios and olives.

Acreage devoted to specialty citrus and other crops in California has been growing significantly over the past few decades, especially with the popularity of the Clementine, a type of mandarin orange. Similar to our oranges, a portion of our specialty citrus is marketed and sold under the Sunkist brand by Sunkist and packed and shipped to major retail operations in the United States through arrangements with other packinghouses.

We market our other specialty crops, such as pistachios and olives, independently. All of our pistachios are harvested and sold to an independent roaster, packager and marketer of nuts. Our olives are harvested and sold to third-party

packers and shippers.

We have agricultural plantings on properties located throughout Ventura, Tulare, and San Bernardino Counties in California and in Yuma, Arizona. The following is a description of our agriculture properties:

Ranch Name	County / State	Total Acres	Lemons	Avocados	Oranges	Specialty Crops	Other
Limoneira/Olivelihoods	Ventura, CA	1,700	700	500	-	-	500
Orchard Farm	Ventura, CA	1,100	400	-	-	-	700
Teague McKeveatt	Ventura, CA	500	200	200	-	-	100
La Campana	Ventura, CA	300	100	200	-	-	-
Rancho La Cuesta	Ventura, CA	200	100	-	-	-	100
Limco Del Mar	Ventura, CA	200	100	100	-	-	-
Porterville Ranches	Tulare, CA	1,200	400	-	400	200	200
Ducor Ranches	Tulare, CA	1,000	300	-	400	200	100
Sheldon	Tulare, CA	1,000	100	-	600	200	100
Lemons 400	Tulare, CA	800	400	-	-	-	400
Cadiz	San Bernardino, CA	300	200	-	-	-	100
Associated Citrus Packers	Yuma, AZ	1,300	1,000	-	-	-	300
Other agribusiness land	Ventura, CA	900	-	200	-	100	600
Total		10,500	4,000	1,200	1,400	700	3,200
Percentage of Total		100	% 38	% 11	% 13	% 7	% 31

The *Limoneira/Olivelihoods Ranch* is the original site of our Company. Our headquarters, lemon packing operations and storage facilities are located on this property.

The *Teague McKeveitt Ranch* is the site of our real estate development project known as East Area I and described below under the heading “Real Estate Development.”

Limco Del Mar is owned by a limited partnership of which we are the general partner and own an interest of 23.4%, which is comprised of a 1.3% general partner interest and a 22.1% limited partner interest.

We manage the farming operations of the *Sheldon* and *Cadiz Ranches* under operating lease arrangements.

The other agribusiness land in the table above include corporate and lemon packing facilities, land leased to other agricultural businesses, rental units, roads, creeks, hillsides and other open land.

Our orchards can maintain production for many years. For financial reporting purposes, we depreciate our orchards from 20 to 40 years depending on the fruit variety with the majority of our orchards depreciated over 20 to 30 years. We regularly evaluate our orchards’ production and growing costs, and based on these and other factors we may decide to redevelop certain orchards. In addition, we may acquire agricultural property with existing productive orchards or without productive orchards, which would require new orchard plantings. The fruit varieties that we grow typically are non-producing for approximately the first four years after planting. Orchards may continue producing fruit longer than their depreciable lives. The following table presents the number of acres planted by fruit variety and approximate age of our orchards:

County, State, Fruit Variety	Age of Orchards			Total
	0-4 Years	5-25 Years	Over 25 Years	
Ventura, CA				
Lemons	100	700	800	1,600
Avocados	100	700	400	1,200
Total Ventura, CA	200			