

Limoneira CO
Form 10-Q
March 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2016

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 001-34755

Edgar Filing: Limoneira CO - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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

As of February 29, 2016, there were 14,171,976 shares outstanding of the registrant's common stock.

LIMONEIRA COMPANY

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	4
<u>Item 1. Financial Statements (unaudited)</u>	4
<u>Consolidated Balance Sheets – January 31, 2016 and October 31, 2015</u>	4
<u>Consolidated Statements of Operations – three months ended January 31, 2016 and 2015</u>	5
<u>Consolidated Statements of Comprehensive Loss – three months ended January 31, 2016 and 2015</u>	6
<u>Consolidated Statements of Cash Flows – three months ended January 31, 2016 and 2015</u>	7
<u>Notes to Consolidated Financial Statements</u>	10
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	42
<u>PART II. OTHER INFORMATION</u>	43
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3. Defaults Upon Senior Securities</u>	43
<u>Item 4. Mine Safety Disclosures</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44
<u>SIGNATURES</u>	46

Cautionary Note on Forward-Looking Statements.

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

- *changes in laws, regulations, rules, quotas, tariff, and import laws;*

- *weather conditions, including freeze, rains and droughts that affect the production, transportation, storage, import and export of fresh produce;*

- *market responses to industry volume pressures;*

- *increased pressure from crop 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 current exchange rates;*

- *availability of financing for land development activities;*

- *general economic conditions for residential and commercial real estate development;*

- *political changes and economic crisis;*

- *international conflict;*

acts of terrorism;

labor disruptions, strike, shortages or work stoppages;

loss of important intellectual property rights; and

other factors disclosed in our public filings with the Securities and Exchange Commission.

The Company's actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. Additional risks of which the Company is not currently aware or which the Company currently deems immaterial could also cause the Company's actual results to differ, including those discussed in the section entitled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update these forward-looking statements, even if our situation changes in the future.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Limoneira Company

Consolidated Balance Sheets (unaudited)

	January 31,	October 31,
	2016	2015
Assets		
Current assets:		
Cash	\$60,000	\$39,000
Accounts receivable, net	8,844,000	7,420,000
Cultural costs	1,650,000	3,916,000
Prepaid expenses and other current assets	2,876,000	2,387,000
Income taxes receivable	1,992,000	-
Total current assets	15,422,000	13,762,000
Property, plant and equipment, net	145,986,000	128,951,000
Real estate development	99,607,000	96,067,000
Equity in investments	3,161,000	3,047,000
Investment in Calavo Growers, Inc.	18,630,000	18,508,000
Other assets	9,128,000	9,035,000
Total Assets	\$291,934,000	\$269,370,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$6,683,000	\$6,611,000
Growers payable	6,551,000	5,841,000
Accrued liabilities	3,413,000	5,864,000
Fair value of derivative instrument	729,000	767,000
Current portion of long-term debt	1,877,000	589,000
Total current liabilities	19,253,000	19,672,000
Long-term liabilities:		
Long-term debt, less current portion	97,204,000	89,079,000
Deferred income taxes	19,546,000	19,425,000
Other long-term liabilities	5,649,000	7,641,000
Sale-leaseback deferral (Note 8)	21,114,000	-
Total liabilities	162,766,000	135,817,000

Edgar Filing: Limoneira CO - Form 10-Q

Commitments and contingencies	-	-
Series B Convertible Preferred Stock – \$100.00 par value (50,000 shares authorized: 29,500 shares issued and outstanding at January 31, 2016 and October 31, 2015) (8.75% coupon rate)	2,950,000	2,950,000
Series B-2 Convertible Preferred Stock – \$100.00 par value (10,000 shares authorized: 9,300 shares issued and outstanding at January 31, 2016 and October 31, 2015) (4% dividend rate on liquidation value of \$1,000 per share)	9,331,000	9,331,000
Stockholders' equity:		
Series A Junior Participating Preferred Stock – \$.01 par value (20,000 shares authorized: zero issued or outstanding at January 31, 2016 and October 31, 2015)	-	-
Common Stock – \$.01 par value (19,900,000 shares authorized: 14,171,976 and 14,135,080 shares issued and outstanding at January 31, 2016 and October 31, 2015, respectively)	141,000	141,000
Additional paid-in capital	90,962,000	90,759,000
Retained earnings	22,439,000	27,216,000
Accumulated other comprehensive income	3,345,000	3,156,000
Total stockholders' equity	116,887,000	121,272,000
Total Liabilities and Stockholders' Equity	\$291,934,000	\$269,370,000

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

Limoneira Company

Consolidated Statements of Operations (unaudited)

	Three months ended	
	January 31,	
	2016	2015
Net revenues:		
Agribusiness	\$23,567,000	\$26,883,000
Rental operations	1,408,000	1,118,000
Real estate development	12,000	10,000
Total net revenues	24,987,000	28,011,000
Costs and expenses:		
Agribusiness	25,472,000	25,814,000
Rental operations	949,000	805,000
Real estate development	1,436,000	242,000
Selling, general and administrative	3,464,000	3,667,000
Total costs and expenses	31,321,000	30,528,000
Operating loss	(6,334,000)	(2,517,000)
Other income:		
Interest expense, net	(219,000)	(12,000)
Equity in earnings of investments	114,000	85,000
Other income, net	360,000	241,000
Total other income	255,000	314,000
Loss before income tax benefit	(6,079,000)	(2,203,000)
Income tax benefit	2,167,000	755,000
Net loss	(3,912,000)	(1,448,000)
Preferred dividends	(158,000)	(159,000)
Net loss applicable to common stock	\$(4,070,000)	\$(1,607,000)
Basic net loss per common share	\$(0.29)	\$(0.11)
Diluted net loss per common share	\$(0.29)	\$(0.11)
Dividends per common share	\$0.05	\$0.04
Weighted-average common shares outstanding-basic	14,148,000	14,098,000
Weighted-average common shares outstanding-diluted	14,148,000	14,098,000

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

Limoneira Company

Consolidated Statements of Comprehensive Loss (unaudited)

Three months ended**January 31,**

2016 2015

Net loss	\$ (3,912,000)	\$ (1,448,000)
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustment	113,000	149,000
Unrealized holding gains (losses) of security available-for-sale	75,000	(2,545,000)
Unrealized gains (losses) from derivative instrument	1,000	(173,000)
Total other comprehensive income (loss), net of tax	189,000	(2,569,000)
Comprehensive loss	\$ (3,723,000)	\$ (4,017,000)

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

Limoneira Company

Consolidated Statements of Cash Flows (unaudited)

	Three months ended	
	January 31,	
	2016	2015
Operating activities		
Net loss	\$(3,912,000)	\$(1,448,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,128,000	989,000
Loss on disposal of assets	30,000	160,000
Stock compensation expense	393,000	569,000
Equity in earnings of investments	(114,000)	(85,000)
Cash distributions from equity investments	-	313,000
Accrued interest on note receivable	(5,000)	(12,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,424,000)	(4,083,000)
Cultural costs	2,266,000	2,132,000
Prepaid expenses and other current assets	(539,000)	(23,000)
Income taxes receivable	(1,992,000)	(755,000)
Other assets	178,000	98,000
Accounts payable and growers payable	237,000	622,000
Accrued liabilities	(1,762,000)	(4,403,000)
Other long-term liabilities	159,000	86,000
Net cash used in operating activities	(5,357,000)	(5,840,000)
Investing activities		
Capital expenditures	(5,861,000)	(7,065,000)
Proceeds from sale of LLC interest	18,000,000	-
Agriculture property acquisition	(15,098,000)	-
Equity investment contributions	-	(9,000)
Investments in mutual water companies	(8,000)	(8,000)
Net cash used in investing activities	(2,967,000)	(7,082,000)
Financing activities		
Borrowings of long-term debt	60,225,000	36,960,000
Repayments of long-term debt	(50,824,000)	(22,957,000)
Dividends paid – common	(708,000)	(635,000)
Dividends paid – preferred	(158,000)	(159,000)
Exchange of common stock	(190,000)	(275,000)
Net cash provided by financing activities	8,345,000	12,934,000

Edgar Filing: Limoneira CO - Form 10-Q

Net increase in cash	21,000	12,000
Cash at beginning of period	39,000	92,000
Cash at end of period	\$60,000	\$104,000

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

Limoneira Company**Consolidated Statements of Cash Flows (unaudited) (continued)**

	Three months ended	
	January 31,	
	2016	2015
Supplemental disclosures of cash flow information		
Cash paid during the period for interest (net of amounts capitalized)	\$ 227,000	\$ (12,000)
Cash paid during the period for income taxes, net of refunds received	\$ 5,000	\$ -
Non-cash investing and financing activities:		
Unrealized holding (gain) loss on Calavo investment	\$ (122,000)	\$ 4,215,000
Increase in real estate development and sale-leaseback deferral	\$ 1,114,000	\$ -
Settlement of lease obligation related to agricultural property acquisition	\$ (739,000)	\$ -
Capital expenditures accrued but not paid at period-end	\$ 325,000	\$ 1,261,000
Accrued interest on note receivable	\$ 5,000	\$ 12,000
Accrued contribution obligation of investment in water company	\$ 270,000	\$ 270,000

Accrued Series B-2 Convertible Preferred Stock dividends	\$	31,000	\$	31,000
--	----	--------	----	--------

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

Limoneira Company

Consolidated Financial Statements (unaudited)

Preface

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

The unaudited interim consolidated financial statements for the three months ended January 31, 2016 and 2015 and balance sheet as of January 31, 2016 included herein have not been audited by an independent registered public accounting firm, but in management's opinion, all adjustments (consisting of normal recurring adjustments) necessary to make a fair statement of the financial position at January 31, 2016 and the results of operations and the cash flows for the periods presented herein have been made. The results of operations for the three months ended January 31, 2016 are not necessarily indicative of the operating results expected for the full fiscal year.

The consolidated balance sheet at October 31, 2015 included herein has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements.

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Although we believe the disclosures made are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules or regulations. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended October 31, 2015.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited)

1. Business

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

The Company markets and sells lemons directly to food service, wholesale and retail customers throughout the United States, Canada, Asia and other international markets. The Company is a member of Sunkist Growers, Inc. (“Sunkist”), an agricultural marketing cooperative, and sells 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.

The unaudited interim consolidated financial statements include the accounts of the Company and the accounts of all the subsidiaries and investments in which a controlling interest is held by the Company. The unaudited interim consolidated financial statements represent the consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive loss and consolidated statements of cash flows of the Company and its wholly-owned subsidiaries. The Company’s subsidiaries include: Limoneira International Division, LLC, Limoneira Mercantile, LLC, Windfall Investors, LLC, Templeton Santa Barbara, LLC, Associated Citrus Packers, Inc. (“Associated”), Limoneira Chile, SpA and Limoneira EA1 Land, LLC. 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. These unaudited consolidated financial statements should be read in conjunction with the notes thereto included in this quarterly report.

2. Summary of Significant Accounting Policies

Reclassifications and Adjustments

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the January 31, 2016 presentation.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and tangible assets within the scope of Topic 350, Intangibles – Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

2. Summary of Significant Accounting Policies (continued)

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

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

Financial Accounting Standards Board – Accounting Standards Update (“FASB ASU”) 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

The amendments in ASU 2014-15 are intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial

doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes.

The amendments in this ASU are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

FASB Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU.

The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Retrospective adoption is required. The Company has early adopted this guidance as of January 31, 2016 and has reclassified debt issuance costs of \$144,000 and \$156,000 from other long-term assets to long-term debt as of January 31, 2016 and October 31, 2015, respectively.

FASB Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory

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

An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

2. Summary of Significant Accounting Policies (continued)

The amendments in this ASU more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

FASB Accounting Standards Update No. 2016-02, Leases (Topic 832)

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

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the effect this ASU may have on its consolidated financial statements.

3. Agriculture Property Acquisition

In September 2015, the Company entered into a purchase agreement to acquire 757 acres of lemon, orange and specialty citrus orchards in California's San Joaquin Valley, for \$15,148,000. The orchards were acquired pursuant to purchase options contained in the Sheldon Ranches operating leases. The Company paid a deposit of \$50,000 in September 2015 and escrow closed in December 2015, at which time the remaining \$15,098,000 was paid. This acquisition was accounted for as an asset purchase and included in property, plant and equipment in the Company's consolidated balance sheet at January 31, 2016.

Additionally, the Company incurred \$111,000 of transaction costs which were capitalized as a component of land value. The purchase price includes the settlement of the balance of the lease obligation as of the closing of the acquisition in the amount of \$739,000.

Limoneira Company**Notes to Consolidated Financial Statements (unaudited) (continued)****3. Agriculture Property Acquisition (continued)**

The following is a summary of the fair value of the assets acquired on the date of acquisition based on a third-party valuation, which is considered a Level 3 fair value measurement under FASB ASC 820, *Fair Value Measurements and Disclosures*:

Land	\$11,560,000
Land improvements	1,800,000
Buildings and building improvements	110,000
Orchards	1,050,000
Fair value of assets acquired	\$14,520,000

4. Fair Value Measurements

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

The following table sets forth the Company's financial assets and liabilities as of January 31, 2016 and October 31, 2015, which are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

January 31, 2016	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Available-for-sale securities	\$18,630,000	\$—	\$—	\$18,630,000

Liabilities at fair value:

Derivative	\$-	\$1,700,000	\$ -	\$1,700,000
------------	-----	-------------	------	-------------

October 31, 2015	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Available-for-sale securities	\$18,508,000	\$-	\$ -	\$18,508,000
Liabilities at fair value:				
Derivative	\$-	\$1,702,000	\$ -	\$1,702,000

Available-for-sale securities consist of marketable securities in Calavo common stock. The Company currently owns 360,000 shares, representing approximately 2.1% of Calavo's outstanding common stock. These securities are measured at fair value by quoted market prices. Calavo's stock price at January 31, 2016 and October 31, 2015 was \$51.75 and \$51.41 per share, respectively.

The derivative consists of an interest rate swap, the fair value of which 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. Accounts Receivable

The Company grants credit in the course of its operations to customers, cooperatives, companies and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company provides allowances on its receivables, as required, based on accounts receivable aging and certain other factors. As of January 31, 2016 and October 31, 2015 the allowances totaled \$191,000 and \$390,000, respectively.

6. Concentrations

Lemons procured from third-party growers were 60% of lemon supply in the three months ended January 31, 2016, of which one third-party grower was 22% of lemon supply.

The Company sells all of its avocado production to Calavo.

Limoneira Company**Notes to Consolidated Financial Statements (unaudited) (continued)****7. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

	January 31, 2016	October 31, 2015
Prepaid insurance	\$647,000	\$598,000
Prepaid supplies	1,173,000	1,064,000
Lemon supplier advances	-	35,000
Deposits	128,000	129,000
Other	928,000	561,000
	\$2,876,000	\$2,387,000

8. Real Estate Development Assets

Real estate development assets consist of the following:

	January 31, 2016	October 31, 2015
Investment in East Area 1	\$60,522,000	\$57,076,000
East Area 2	2,155,000	2,151,000
Templeton Santa Barbara, LLC	11,039,000	11,039,000
Windfall Investors, LLC	25,891,000	25,801,000
	\$99,607,000	\$96,067,000

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 the three months ended January 31, 2016 and 2015, the Company capitalized \$3,450,000 and \$1,007,000, respectively, of costs related to these real estate development projects. Additionally, in relation to these projects, the Company incurred expenses of \$1,151,000 and \$4,000 in the three months ended January 31, 2016 and 2015, respectively.

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

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

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

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

8. Real Estate Development Assets (continued)

East Areas 1 and 2 (continued)

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

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

The Company's sale of an interest in the LLC in which the Company's contributed property comprises the LLC's primary asset, combined with the Lease Agreement is considered a sale-leaseback transaction under *FASB ASC 840, Leases* because of the Company's continuing involvement in the property in the form of its agricultural operations. Accordingly, the property continues to be carried on the consolidated balance sheet as real estate development, rather than being classified as an equity investment and a sale-leaseback deferral has been recorded for the \$20,000,000 payment made by Lewis for the purchase of the LLC interest. Lease expense associated with the Lease Agreement is not required under sale-leaseback accounting since the Company is treated as though it continues to own the property. During the three months ended January 31, 2016, the Company recorded \$1,114,000 of real estate development and a corresponding increase in the sale-leaseback deferral to recognize real estate development costs capitalized by the LLC. There are no repayment requirements for the sale-leaseback deferral and as the Lease Agreement is terminated in connection with the staged development of the property, a corresponding amount of real estate development and the sale-leaseback deferral will be adjusted to equity investments on the consolidated balance sheet.

Contributions made by the Company to the LLC and the Company's proportionate share of Joint Venture's results of operations and distributions received by the Company from the LLC will be accounted for under the equity method.

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

Templeton Santa Barbara, LLC

The three real estate development parcels within the Templeton Santa Barbara, LLC project are described as Centennial Square ("Centennial"), The Terraces at Pacific Crest ("Pacific Crest"), and Sevilla. The net carrying values of Centennial, Pacific Crest and Sevilla at January 31, 2016 and October 31, 2015 were \$2,983,000, \$3,370,000 and \$4,686,000, respectively. These projects were idle in the three months ended January 31, 2016 and 2015 and as such, no costs were capitalized. Additionally, in relation to these parcels, the Company incurred expenses of \$43,000 in the three months ended January 31, 2016 and 2015.

Windfall Investors, LLC

On November 15, 2009, the Company acquired Windfall Investors, LLC, which included \$16,842,000 of real estate development assets. Real estate development activities are currently idle except for vineyard development which began in fiscal year 2014. During the three months ended January 31, 2016 and 2015, the Company capitalized \$90,000 and \$150,000, respectively, of costs related to vineyard development. Additionally, in relation to this project, the Company incurred net expenses of \$241,000 and \$185,000 during the three months ended January 31, 2016 and 2015, respectively.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

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 marketable securities investment as available-for-sale.

In fiscal year 2009, the Company sold 335,000 shares of Calavo stock for a total of \$6,079,000, recognizing a gain of \$2,729,000. In fiscal year 2013, the Company sold 165,000 shares to Calavo for a total of \$4,788,000, recognizing a gain of \$3,138,000. In fiscal year 2015, the Company sold 140,000 shares to Calavo for a total of \$6,433,000, recognizing a gain of \$5,033,000. The Company continues to own 360,000 shares of Calavo common stock.

Additionally, changes in the fair value of the available-for-sale securities result in unrealized holding gains and losses on shares held by the Company and reclassifications of unrealized gains on securities sold by the Company. The Company recorded unrealized holding gains and (losses) of \$122,000 (\$75,000 net of tax) and (\$4,215,000) ((\$2,545,000) net of tax) during the three months ended January 31, 2016 and 2015, respectively.

10. Other Assets

Other assets consist of the following:

January 31,	October 31,
2016	2015

Investments in mutual water companies	\$4,309,000	\$4,031,000
Acquired water and mineral rights	1,536,000	1,536,000
Deferred lease assets and other	1,605,000	1,753,000
Note receivable	594,000	589,000
Acquired trade names and trademarks, net	404,000	446,000
Goodwill	680,000	680,000
	\$9,128,000	\$9,035,000

11. Accrued Liabilities

Accrued liabilities consist of the following:

	January 31, 2016	October 31, 2015
Compensation	\$1,044,000	\$1,655,000
Income taxes	-	180,000
Property taxes	193,000	541,000
Interest	266,000	263,000
Deferred rental income and deposits	869,000	892,000
Lease expense	93,000	827,000
Lemon supplier payables	66,000	788,000
Capital expenditures and other	882,000	718,000
	\$3,413,000	\$5,864,000

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

12. Long-Term Debt

Long-term debt is comprised of the following:

	January 31, 2016	October 31, 2015
Rabobank revolving credit facility: the interest rate is variable based on the one-month London Interbank Offered Rate ("LIBOR"), which was 0.42% at January 31, 2016, plus 1.80%. Interest is payable monthly and the principal is due in full in June 2018.	\$83,382,000	\$83,834,000
Farm Credit West term loan: the interest rate is variable and was 2.95% at January 31, 2016. The loan is payable in quarterly installments through November 2022.	4,102,000	4,235,000
Farm Credit West non-revolving line of credit: the interest rate is variable and was 2.95% at January 31, 2016. Interest is payable monthly and the principal is due in full in May 2018.	492,000	492,000
Farm Credit West term loan: the interest rate is variable and was 2.95% at January 31, 2016. The loan is payable in monthly installments through October 2035.	1,249,000	1,263,000
Wells Fargo term loan: the interest rate is fixed at 3.58%. The loan is payable in monthly installments through January 2023.	10,000,000	-
Subtotal	99,225,000	89,824,000
Less deferred financing costs	144,000	156,000
Total long-term debt, net	99,081,000	89,668,000
Less current portion	1,877,000	589,000
Long-term debt, less current portion	\$97,204,000	\$89,079,000

The Rabobank revolving credit facility provides for maximum borrowings of \$100,000,000 and the borrowing capacity based on collateral value was \$92,556,000 at January 31, 2016.

The Company entered into a \$10,000,000 term loan (the "Term Loan") on January 20, 2016 with Wells Fargo Equipment Finance, Inc. ("Wells Fargo") with security on the loan comprised of certain equipment associated with the Company's new packing facilities. The Term Loan is payable in monthly installments through January 2023 and bears interest at 3.58%. The Term Loan contains affirmative and restrictive covenants including, among other customary covenants and default provisions, a requirement that the Company maintain a debt service coverage ratio, as defined in the loan agreement, of less than 1.25 to 1.0 measured annually at October 31. The Term Loan includes a prepayment penalty of 2% of the unpaid balance for the first eighteen months, with no prepayment penalty thereafter.

On February 20, 2016, the Company entered into a loan agreement with Farm Credit West and repaid the Farm Credit West non-revolving line of credit in full as further described in Note 21.

Interest is capitalized on non-bearing orchards, real estate development projects and significant construction in progress. Interest of \$507,000 and \$609,000 was capitalized during the three months ended January 31, 2016 and 2015, respectively, and is included in property, plant and equipment and real estate development in the Company's consolidated balance sheets.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

13. Derivative Instruments and Hedging Activities

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

	Notional Amount		Fair Value Liability	
	January 31, 2016	October 31, 2015	January 31, 2016	October 31, 2015
Pay fixed-rate, receive floating-rate forward interest rate swap, beginning July 2013 until June 2018	\$40,000,000	\$40,000,000	\$1,700,000	\$1,702,000

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 instrument, other long-term liabilities and related accumulated other comprehensive income at January 31, 2016 and October 31, 2015.

14. Basic and Diluted Net Loss per Share

Basic net loss per common share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of conversion of preferred stock. Diluted net loss per common share is calculated using the weighted-average number of common shares outstanding plus the dilutive effect of conversion of preferred stock. The Series B and Series B-2 convertible preferred shares were excluded from the computation of diluted net loss per common share for the three months ended January 31, 2016 and 2015 because such shares were anti-dilutive.

Unvested stock-based compensation awards that contain non-forfeitable rights to dividends as participating shares are included in computing earnings per share using the two-class method. The Company's unvested, restricted stock awards qualify as participating shares.

15. Related-Party Transactions

The Company rents certain of its residential housing assets to employees on a month-to-month basis. The Company recorded \$151,000 and \$156,000 of rental income from employees in the three months ended January 31, 2016 and 2015, respectively. There were no rental payments due from employees at January 31, 2016 and October 31, 2015.

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 the mutual water companies, in aggregate, of \$653,000 and \$586,000 in the three months ended January 31, 2016 and 2015, respectively. Capital contributions are included in other assets in the Company's consolidated balance sheets and purchases of water and water delivery services are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the mutual water companies were, in aggregate, \$292,000 and \$175,000 at January 31, 2016 and October 31, 2015, 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 \$456,000 and \$342,000 from the association in the three months ended January 31, 2016 and 2015, respectively. Such amounts are included in agribusiness expense in the Company's consolidated statements of operations. Payments due to the association were \$22,000 and \$142,000 at January 31, 2016 and October 31, 2015, respectively.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

15. Related-Party Transactions (continued)

The Company recorded dividend income of \$288,000 and \$375,000 in the three months ended January 31, 2016 and 2015, respectively, on its investment in Calavo, which is included in other income, net in the Company's consolidated statements of operations. The Company had \$2,000 and \$6,000 of avocados sales to Calavo for the three months ended January 31, 2016 and 2015, respectively. Such amounts are included in agribusiness revenues in the Company's consolidated statements of operations. There were no amounts that were receivable by the Company from Calavo at January 31, 2016 and October 31, 2015. Additionally, the Company leases office space to Calavo and received rental income of \$68,000 in each of the three months ended January 31, 2016 and 2015. Such amounts are included in rental revenues in the Company's consolidated statements of operations.

Certain members of the Company's board of directors market lemons through the Company pursuant to its customary marketing agreements. During the three months ended January 31, 2016 and 2015, the aggregate amount of lemons procured from entities owned or controlled by members of the Company's board of directors was \$55,000 and \$56,000, respectively, which is included in agribusiness expense in the Company's consolidated statements of operations. Payments due to these Board members were zero and \$531,000 at January 31, 2016 and October 31, 2015, respectively.

On July 1, 2013, the Company and Cadiz Real Estate, LLC ("Cadiz"), a wholly-owned subsidiary of Cadiz, Inc., entered into a long-term lease agreement (the "Lease") for a minimum of 320 acres, with options to lease up to an additional 960 acres, located within 9,600 zoned agricultural acres owned by Cadiz in eastern San Bernardino County, California. The initial term of the Lease runs for 20 years and the annual base rental rate is equal to the sum of \$200 per planted acre and 20% of gross revenues from the sale of harvested lemons (less operating expenses) not to exceed \$1,200 per acre per year. A member of the Company's Board of Directors serves as the CEO, President and a member of the board of directors of Cadiz, Inc. Additionally, this board member is an attorney with a law firm that provided services of zero and \$52,000 to the Company during the three months ended January 31, 2016 and 2015, respectively. The Company incurred lease and farming expenses of \$44,000 and \$9,000 in the three months ended January 31, 2016 and 2015, respectively, which is recorded in agribusiness expense in the Company's consolidated statements of operations. Payments due to Cadiz were \$90,000 and \$32,000 at January 31, 2016 and October 31, 2015, respectively.

On February 5, 2015, the Company entered into a Modification of Lease Agreement (the “Amendment”) with Cadiz. The Amendment, among other things, increased by 200 acres the amount of property leased by the Company under the lease agreement dated July 1, 2013. In connection with the Amendment, the Company paid a total of \$1,212,000 to acquire existing lemon trees and irrigations systems from Cadiz and a Cadiz tenant.

The Company has representation on the board of directors of Colorado River Growers, Inc. (“CRG”), a non-profit cooperative association of fruit growers engaged in the agricultural harvesting business in Yuma County, Arizona. The Company paid harvest and third-party grower expense to CRG of \$2,584,000 and \$4,071,000 for the three months ended January 31, 2016 and 2015, respectively. Such amounts are included in agribusiness expense in the Company’s consolidated financial statements. Additionally, Associated provided harvest management and administrative services to CRG in the amount of \$229,000 and \$305,000 in the three months ended January 31, 2016 and 2015, respectively. Such amounts are included in agribusiness revenues in the Company’s consolidated financial statements. There was \$6,000 and \$116,000 due to Associated from CRG at January 31, 2016 and October 31, 2015, respectively, which is included in accounts receivable in the Company’s consolidated balance sheets.

The Company has representation on the board of directors of Yuma Mesa Irrigation and Drainage District (“YMIDD”). In December 2013, Associated entered into an agreement, as amended in December 2014 and 2015, with YMIDD to participate in a Pilot Fallowing Program in which Associated agreed to forego its water allocation for approximately 300 acres of land in exchange for \$750 per acre through December 31, 2016, unless terminated sooner by YMIDD. In relation to this program, during the three months ended January 31, 2016 and 2015 the Company recorded revenues of \$50,000 each quarter, respectively, and recorded losses on orchard disposals of zero and \$160,000, respectively. These amounts are included in other income, net in the Company’s consolidated statements of operations. Additionally, the Company purchased water in the amounts of \$17,000 and \$15,000 from YMIDD during the three months ended January 31, 2016 and 2015, respectively and such amounts are included in agribusiness expenses in the Company’s consolidated statements of operations. There was \$17,000 and zero receivable from YMIDD at January 31, 2016 and October 31, 2015, respectively.

Limoneira Company

Notes to Consolidated Financial Statements (unaudited) (continued)

15. Related-Party Transactions (continued)

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. The Company provides Del Mar with farm management, orchard land development and accounting services, and received expense reimbursements of \$31,000 and \$39,000 in the three months ended January 31, 2016 and 2015, respectively. The Company procures lemons from Del Mar and fruit proceeds due to Del Mar were zero and \$712,000 at January 31, 2016 and October 31, 2015, respectively, and are included in grower’s payable in the Company’s consolidated balance sheets. In the three months ended January 31, 2016 and 2015, the Company received cash distributions of zero and \$313,000, respectively, and recorded equity in earnings of this investment of \$175,000 and \$183,000, respectively.

On August 14, 2014, through the Company’s wholly owned subsidiary, Limoneira Chile SpA, it invested \$1,750,000 for a 35% interest in Rosales S.A. (“Rosales”), a citrus packing, marketing and sales business located in La Serena, Chile. The Company recognized zero and \$119,000 of lemon sales to Rosales in the three months ended January 31, 2016 and 2015, respectively, and such amounts are recorded in agribusiness revenues in the Company’s consolidated statements of operations. Amounts due from Rosales were zero at January 31, 2016 and October 31, 2015, respectively. Additionally, the Company recorded equity in losses of this investment of \$10,000 and \$46,000 and amortization of fair value basis differences of \$52,000 in each of the three months ended January 31, 2016 and 2015, respectively.

16. Income Taxes

The Company’s estimated effective tax rate for the first quarter of fiscal year 2016 is approximately 35.7%, inclusive of certain discrete items.

There has been no material change to the Company’s uncertain tax position for the three months ended January 31, 2016. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has not accrued any interest and penalties associated with uncertain tax positions as of January 31, 2016.

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 of the Company. Benefits paid by the Plan are calculated based on years of service, highest five-year average earnings, primary Social Security benefit and retirement age. Effective June 2004, the Company froze the Plan and no additional benefits accrued to participants subsequent to that date. The Plan is administered by Wells Fargo Bank and Mercer Human Resource Consulting.

The Plan is funded consistent with the funding requirements of federal law and regulations. There were funding contributions of zero and \$125,000 during the three months ended January 31, 2016 and 2015, respectively.

The components of net periodic benefit cost for the Plan for the three months ended January 31 were as follows:

	2016	2015
Administrative expenses	\$31,000	\$34,000
Interest cost	209,000	213,000
Expected return on plan assets	(269,000)	(282,000)
Recognized actuarial loss	186,000	246,000
Net periodic benefit cost	\$157,000	\$211,000

Limoneira Company**Notes to Consolidated Financial Statements (unaudited) (continued)****18. Other Long-Term Liabilities**

Other long-term liabilities consist of the following:

	January 31, 2016	October 31, 2015
Minimum pension liability	\$4,329,000	\$4,359,000
Fair value of derivative instrument	971,000	935,000
Contingent consideration	300,000	300,000
Deposit received for joint venture interest	-	2,000,000
Deferred gain and other	49,000	47,000
	\$5,649,000	\$7,641,000

19. 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. In December 2015, 27,424 shares of common stock with a per share value of \$15.29 were granted to management under the Stock Plan for fiscal year 2015 performance, resulting in total compensation expense of approximately \$410,000, with \$130,000 recognized in the year ended October 31, 2015 and the balance to be recognized over the next two years as the shares vest. In December 2014, 42,085 shares of common stock with a per share value of \$25.35 were granted to management under the Stock Plan for fiscal 2014 performance, resulting in a total compensation expense of approximately \$1,071,000, with \$367,000 recognized in the year ended October 31, 2014 and the balance to be recognized over the next two years as the shares vest. In December 2013, 27,091 shares of common stock with a per share value of \$26.82 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. Stock-based compensation expense is included in selling, general and administrative expense and is recognized over the performance and vesting periods as summarized below:

Year	Performance Shares Granted	Three Months Ended January 31,	
		2016	2015
2012	34,721	\$-	\$33,000
2013	27,091	-	59,000
2014	42,085	88,000	88,000
2015	27,424	32,000	64,000
		\$120,000	\$244,000

During the three months ended January 31, 2016 and 2015 members of management exchanged 12,433 and 10,907 shares, respectively of common stock with fair value of \$190,000 and \$275,000, respectively, at the date of the exchanges, for the payment of payroll taxes associated with the vesting of shares under the Company's stock-based compensation programs.