

Edgar Filing: ALICO INC - Form 10-K/A

ALICO INC  
Form 10-K/A  
January 06, 2005

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 (FEE REQUIRED)

For the fiscal year ended August 31, 2003.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.  
Commission file number 0-261.

ALICO, INC.

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

Florida

59-0906081

\_\_\_\_\_  
(State or other jurisdiction of  
incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

P. O. Box 338, La Belle, Florida

33975

\_\_\_\_\_  
(Address of principal executive offices)

\_\_\_\_\_  
(Zip Code)

(863) 675-2966

Registrant's telephone number, including area code\_\_\_\_\_

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON CAPITAL STOCK, \$1.00 Par value, Non-cumulative  
\_\_\_\_\_  
(Title of Class)

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  
such 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 is an accelerated filer (as  
Defined in rule 12b-2 of the Exchange Act).

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. \_\_\_\_\_

As of October 17, 2003 there were 7,141,197 shares of stock outstanding and  
the aggregate market value (based upon the average bid and asked price, as

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quoted on NASDAQ) of the common stock held by non-affiliates was approximately \$108,013,944.

### Explanatory note

This Amendment on Form 10-K/A constitutes Amendment No. 2 to our Annual Report on Form 10-K for the fiscal year ended August 31, 2003 which was previously filed with the Securities and Exchange Commission (the "SEC") on November 19, 2003 and amended December 5, 2003. We are amending the footnotes to the financial statements and the disclosures set forth in Management's Discussion and Analysis.

This Amendment amends the footnotes to the financial statements and Management's discussion and analysis portions of the Annual Report as specified above and does not reflect events occurring after the original filing date of the Annual Report on November 19, 2003.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement dated November 10, 2003 are incorporated by reference in Parts II and III, respectively.

### PART I

## Edgar Filing: ALICO INC - Form 10-K/A

Item 1. Business.

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Alico, Inc. (the "Company"), was formed February 29, 1960 as a spinoff of the Atlantic Coast Line Railroad Company and is generally recognized as an agribusiness company operating in Central and Southwest Florida. The Company's primary asset is 141,764 acres of land located in Collier, Hendry, Lee and Polk Counties. (See table on Page 7 for location and acreage by current primary use.) The Company is involved in various operations and activities including citrus fruit production, cattle ranching, sugarcane and sod production, and forestry. The Company also leases land for farming, cattle grazing, recreation, and oil exploration.

The Company's land is managed for multiple use wherever possible. Cattle ranching, forestry and land leased for farming, grazing, recreation and oil exploration, in some instances, utilize the same acreage.

Agricultural operations have combined to produce from 67 to 82 percent of total annual revenues during the past five years. Citrus groves generate the most gross operating revenue. Sugarcane ranks second in operating revenue production. While the cattle ranching operation utilizes the largest acreage, it ranks third in the production of operating revenue. Approximately 8,748 acres of the Company's property are classified as timberlands, however, the area in which these lands are located is not highly rated for timber production. These lands are also utilized as native range, in the ranching operation, and leased out for recreation and oil exploration.

Diversification of the Company's agricultural base was initiated with the development of a Sugarcane Division at the end of the 1988 fiscal year. The 11,840 acres in production during the 2003 fiscal year consisted of 2,477 acres planted in 1998, 4,052 acres planted in 1999, 2,550 acres planted in 2000 and 2,761 acres planted in 2001.

Leasing of lands for rock mining and oil and mineral exploration, rental of land for grazing, farming, recreation and other uses, while not classified as agricultural operations, are important components of the Company's land utilization and operation. Gross revenue from these activities during the past five years has ranged from 4 to 5 percent of total revenue.

The Company is not in the retail land sales and development business, except through its wholly owned subsidiary, Saddlebag Lake Resorts, Inc. However, it does from time to time sell properties which, in the judgment of management, are surplus to the Company's primary operations. Additionally, the Company's wholly owned subsidiary, Alico-Agri, Ltd., engages in bulk land sales in connection with the generation of underwriting capital. Revenues from sales of real estate during the past five years has ranged from 10 to 26 percent of total revenues.

For further discussion of the relative importance of the various segments of the Company's operations, including financial information regarding revenues, operating profits (losses) and assets attributable to each major segment of the Company's business, see Note 15 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document.

Subsidiary Operations

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The Company has three wholly owned subsidiaries; Saddlebag Lake Resorts, Inc. ("Saddlebag") Agri-Insurance Company, Ltd. ("Agri") and Alico-Agri, Ltd. ("A/A").

Saddlebag has been active in the subdividing, development and sale of real estate since its inception in 1971. Saddlebag has two subdivisions near Frostproof, Florida which have been developed and are on the market. While one of the subdivisions has been sold out, approximately 69% of the lots in the second development have been sold.

Agri, formed during fiscal 2000, was created to write crop insurance against catastrophic losses due to weather and disease. During fiscal 2002, Agri supplied reinsurance to an independent underwriter who insured catastrophic business interruption coverage for Ben Hill Griffin, Inc. The total coverage under the policy was \$3.5 million and the premium charged was \$138 thousand. The coverage term was from December 2002 to December 2003. The Company expects to renew the policy and appropriately adjust premium rates. Additionally, Agri directly underwrote catastrophic business interruption coverage for its parent company, Alico, Inc., insuring all but two of Alico's citrus groves. The coverage term was from August 2002 to August 2003. Total coverage under the policy was \$12.7 million and the premium charged was \$803 thousand. Alico, Inc., renewed the policy in August 2003, extending the coverage term to August 2004. The coverage under the renewal was \$13.6 million and the premium charge was \$858 thousand.

Agri underwrote catastrophic business coverage for Alico's remaining two groves under a policy covering the term from January 2003 to January 2004. Total coverage under the policy is \$2.0 million, and the premium charged was \$119 thousand.

Alico-Agri, Ltd. was formed during fiscal 2003 to manage the real estate holdings of Agri. The partnership allows Alico to provide management and administrative services so that Agri can focus on insurance issues. Agri transferred all of its property holdings and the related contracts to A/A for a 99% partnership interest. Alico, the managing partner, transferred cash for a 1% interest in the partnership.

The financial results of the operation of these subsidiaries are consolidated with those of the Company. (See Note 1 of Notes to Consolidated Financial Statements.)

### Citrus

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Approximately 9,715 acres of citrus were harvested during the 2002/03 season. Since 1983 the Company has maintained a marketing contract covering the majority of the Company's citrus crop with Ben Hill Griffin, Inc., a Florida corporation and major shareholder. The agreement provides for modifications to meet changing market conditions and provides that either party may terminate the contract by giving notice prior to the first day of August preceding each fruit season. Under the terms of the contract, the Company's fruit is packed and/or processed and sold along with fruit from other growers, including Ben Hill Griffin, Inc. The proceeds are distributed on a pro rata basis as the finished product is sold.

During the year ended August 31, 2003, approximately 75% of the Company's fruit crop was marketed under this agreement, as compared to 77% for each of the years ended August 31, 2002 and August 31, 2001. In addition, Ben Hill Griffin, Inc. provides harvesting services to the Company for citrus

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sold to unrelated processors. These sales accounted for the remaining 25% of total citrus revenue for the year.

### Sugarcane

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The Company had 11,840 acres, 11,680 acres, and 11,722 acres of sugarcane in production during the 2003, 2002, and 2001 fiscal years, respectively. The 2003, 2002, and 2001 fiscal year crops yielded approximately 413,000, 376,000, and 417,000 gross tons, respectively.

### Ranch

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The Company has a cattle operation located in Hendry and Collier Counties, Florida which is engaged primarily in the production of beef cattle and the raising of replacement heifers. The breeding herd consists of approximately 13,428 cows, bulls and replacement heifers. Approximately 42% of the herd are from one to five years old, while the remaining 58% are six and older. The Company primarily sells to packing and processing plants. The Company also sells cattle through local livestock auction markets and to contract cattle buyers. These buyers provide ready markets for the Company's cattle. The loss of any one or a few of these plants and/or buyers would not, in management's view, have a material adverse effect on the Company's cattle operation. Subject to prevailing market conditions, the Company may hedge its beef inventory by entering into cattle futures contracts to reduce exposure to changes in market prices.

### Forest Products

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Approximately 6% of the Company's properties are classified as timberlands. The principal forest products sold by the Company are sabal palms and other horticultural commodities. These products are sold to various landscaping companies. The Company does not incur any of the harvesting expenses.

Part of the land, from which the timber was removed, is being converted to semi-improved pasture and other uses.

### Mining Operations: Rock and Sand

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The Company leases approximately 5,714 acres in Lee County, Florida to CSR America, Inc. of West Palm Beach, Florida for mining and production of rock, aggregate, sand, baserock and other road building and construction materials.

Royalties which the company receives for these products are based on a percentage of the F.O.B. plant sales price.

### Land Rental for Grazing, Agricultural and Other Uses

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The Company rents land to others for grazing, farming and recreational uses, on a tenant-at-will basis, for an annual fee. The income is not significant when compared to overall gross income, however, it does help to offset the expense of carrying these properties until they are put to a more profitable use. The Company has developed additional land to lease

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for farming.

There were no significant changes in the method of rental for these purposes during the past fiscal year.

### Leases for Oil and Mineral Exploration

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The Company has leased subsurface rights to a portion of its properties for the purpose of oil and mineral exploration. Currently, there are two leases in effect.

Twenty-four wells have been drilled during the years that the Company has been leasing subsurface rights to oil companies. The drilling has resulted in twenty-one dry holes, one marginal producer, which has been abandoned, and two average producers, still producing.

### Competition

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As indicated, the Company is primarily engaged in a limited number of agricultural activities, all of which are highly competitive. For instance, citrus is grown in several states, the most notable of which are: Florida, California, Arizona and Texas. In addition, citrus and sugarcane products are imported from some foreign countries. Beef cattle are produced throughout the United States and domestic beef sales must also compete with sales of imported beef. Additionally, forest and rock products are produced in most parts of the United States. Leasing of land for oil exploration is also widespread.

All of the Company's sales are to United States purchasers. The Company's share of the market for citrus, sugarcane, cattle and forest products in the United States is insignificant.

### Environmental Regulations

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The Company's operation is subject to various federal, state and local laws regulating the discharge of materials into the environment. The Company is in compliance with all such rules and such compliance has not had a material effect upon capital expenditures, earnings or the competitive position of the Company.

While compliance with environmental regulations has not had a material economic effect on the Company's operations, executive officers are required to spend a considerable amount of time keeping current on these matters. In addition, there are ongoing costs incurred in complying with the permitting and reporting requirements.

### Employees

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At the end of August 2003, the Company had a total of 143 full-time employees classified as follows: Citrus 75; Ranch 15; Sugarcane 12; Facilities Maintenance Support 26; General and Administrative 15. There are no employees engaged in the development of new products or research.

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Management is not aware of any efforts by employees or outside organizers to create any type of labor union arrangement. Management believes that the employer/employee relationship environment is such that labor organization activities are unlikely to occur.

### Seasonal Nature of Business

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As with any agribusiness enterprise, the Company's business operations are predominantly seasonal in nature. The harvest and sale of citrus fruit generally occurs from October to June. Sugarcane is harvested during the first, second and third quarters. Other segments of the Company's business such as its cattle and sod sales, and its timber, mining and leasing operations, tend to be more successive than seasonal in nature.

### Available information

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The Company's internet address is: <http://www.alicoinc.com>. The Company files reports with the Securities Exchange Commission ("SEC") as required by SEC rules and regulations on Form 10-Q, Form 10-K and the annual proxy statement. These reports are available to the public to read and copy at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C.

The Company is an electronic filer with the SEC and these reports are available through the SEC internet site (<http://www.sec.gov>), and through the Company's website as soon as reasonably practicable after filing with the SEC. Copies of SEC filed documents are also available free of charge upon request.

### Item 2. Properties.

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At August 31, 2003, the Company owned a total of 141,764 acres of land located in four counties in Florida. Acreage in each county and the primary classification with respect to present use of these properties is shown in the following table:

#### ACREAGE BY CURRENT PRIMARY USE

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County	Timber Land	Native Pasture	Improved Pasture	Sod	Citrus Land	Sugar- cane	Agri- culture	Other	Total
Polk	251	8,559	359	--	3,253	--	--	1	12,423
Lee	2,792	1,086	--	--	--	--	1,460	625	5,963
Hendry	3,823	48,735	21,573	580	3,765	14,358	15,953	3,435	112,222
Collier	1,882	1,700	1,112	--	4,129	--	--	2,333	11,156
Totals	8,748	60,080	23,044	580	11,147	14,358	17,413	6,394	141,764

Of the above lands, the Company utilizes approximately 20,977 acres of

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improved pasture plus approximately 49,000 acres of native pasture for cattle production and approximately 5,714 acres are leased for rock mining operations. Much of the land is also leased for multi-purpose use such as cattle grazing, oil exploration, agriculture and recreation.

In addition to the land shown in the above table, the Company owns full subsurface rights to 1,064 acres and fractional subsurface rights to 18,707 acres located throughout the Counties referred to above.

From the inception of the Company's initial development program in 1948, the goal has been to develop the lands for the most profitable use. Prior to implementation of the development program, detailed studies were made of the properties focusing on soil capabilities, topography, transportation, availability of markets and the climatic characteristics of each of the tracts. Based on these and later studies, the use of each tract was determined. It is the opinion of Management that the lands are suitable for agricultural, residential and commercial uses. However, since the Company is primarily engaged in agricultural activities, some of the lands are considered surplus to its needs for this purpose and, as indicated under Item 1 of this report, sales of real property are made from time to time.

Management believes that each of the major programs is adequately supported by agricultural equipment, buildings, fences, irrigation systems and other amenities required for the operation of the projects.

### Item 3. Legal Proceedings.

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Ben Hill Griffin III, Chairman of the Board, was a party to a lawsuit filed against him in Polk County, Florida Circuit Court by the families of his four sisters, most of the members of whom are beneficiaries of a trust, entitled the Ben Hill Griffin, Jr. Revocable Inter Vivos Trust #1 (the "Trust"). The plaintiffs in the lawsuit (The Four Sisters Protectorate, et al. v. Ben Hill Griffin, III, Trustee, Case No. GC-G-0054, Section 81) sought to impose judicial sanctions on Mr. Griffin III, including his removal as Trustee of the Trust based on allegations of over-compensation and receipt of an illegal bonus.

The Company has been informed by Mr. Griffin III, that he has executed a "Settlement Agreement" with the families of his four sisters, The Four Sisters Protectorate, and that the enforceability of the settlement agreement was affirmed by both the Circuit court, Case number GC-G-0054, and the second District Court of Appeals for the State of Florida, Case numbers 2D01-5407 and 2D03-0499. A second litigation challenging the enforceability of the settlement Agreement, Case number 4:01CU432-RH, was dismissed with prejudice by the United States District Court for the Northern District of Florida, Tallahassee Division.

The Settlement Agreement had been entered into subject to certain conditions, including Internal Revenue Service approval of the proposed transaction as a tax free split-off for federal income tax purposes and judicial termination of the Trust. Mr. Griffin, III has informed the Company that (a) the issues related to the mechanism and terms of the proposed distribution of certain of the assets of the Trust to the families of the four sisters, including the Alico stock beneficially owned by the Trust, have been worked out between the representatives of the four sisters and Ben Hill Griffin, III and are set forth in a definitive separation agreement, and (b) the parties have received a favorable IRS Revenue Ruling related to the original "Settlement Agreement".



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On June 11, 2003, BHG Investments, a wholly owned subsidiary of Ben Hill Griffin, Inc. (BHG) and the record owner of 3,493,777 shares of the Company (the "Alico Shares") was merged into Alico Holding, LLC (the "Merger"), another entity wholly owned by BHG. Also on June 11, 2003, Mr. Griffin, III, individually and as trustee of the Trust, BHG, and BHG Investments (prior to consummation of the Merger) and certain beneficiaries of the Trust entered into a supplemental settlement agreement (the "Griffin Agreement"), which set forth certain actions to be performed by Mr. Griffin, III, as Trustee, to facilitate the performance of a separate supplement agreement that had been executed on June 5, 2003, by and among other of the Trust's beneficiaries and members of their respective families (the "2003 Mediated Settlement Agreement"). The purpose of both the Griffin Agreement and the 2003 Mediated Settlement Agreement, each resulting from further mediation, was to finally settle all disputes among the parties to the Mediation Settlement Agreement, thereby facilitating final performance of the Settlement Agreement.

On August 6, 2003, an Order Approving Supplemental Mediation Settlement Agreements was entered by the Tenth Judicial Circuit Court in and for Polk County, Florida, Case No. GC-G-0054, approving the Griffin Agreement and the 2003 Mediated Settlement Agreements as being in the best interests of all persons having any interest in the Trust and authorizing Mr. Griffin III, as trustee, to perform all of the actions required of him under each agreement. Those actions, following receipt of a favorable private letter ruling from the Internal Revenue Service that takes into account the changes to the Griffin Agreement and the "2003 Mediated Settlement Agreement", will result in the transfer and assignment of the Alico Shares to a Florida corporation formed for the purpose of transferring and assigning of substantially all shares of that corporation's issued and outstanding voting stock to Atlantic Blue Trust, Inc. (ABT), an entity to be formed as a subsidiary of BHG Investments. BHG Investments will then distribute the stock of ABT up to BHG the parent company of BHG Investments, which will then transfer such Stock to The Four Sisters Protectorate and the Protectorate Family Trusts, trusts for the benefit of Mr. Griffin, III's four sisters and their lineal descendants, so as to cause control of Alico to shift from Mr. Griffin, III to such trusts.

The Company is not a party to any of this litigation.

The Company is also involved in certain other claims and legal actions arising in the ordinary course of its business. The ultimate disposition of all such matters is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders.

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None.

PART II

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Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

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Common Stock Prices

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The common stock of Alico, Inc. is traded over-the-counter on the NASDAQ National Market System under the symbol ALCO. The high and low prices, by fiscal quarter, during the years ended August 31, 2003 and 2002 are presented below:

	2003 Bid Price		2002 Bid Price	
	High	Low	High	Low
First Quarter	28.80	22.25	30.21	24.90
Second Quarter	28.04	21.15	32.17	28.50
Third Quarter	27.30	21.00	29.70	28.20
Fourth Quarter	28.70	22.72	29.54	28.01

Approximate Number of Holders of Common Stock

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As of October 17, 2003, there were approximately 553 holders of record of the Company's Common Stock.

The closing price for the Company's stock was \$32.80 on November 13, 2003.

Dividend Information

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Only year-end dividends have been paid and during the last three fiscal years the dividends were as follows:

Record Date	Payment Date	Amount Paid Per Share
_____	_____	_____
October 13, 2000	October 27, 2000	\$1.00
October 12, 2001	October 26, 2001	\$1.00

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October 11, 2002

October 25, 2002

\$0.35

The Company's Board of directors, at its meeting on October 7, 2003, declared a dividend of \$.60 per share payable on October 31, 2003 to shareholders of record on October 17, 2003. Dividends are paid at the discretion of the Company's Board of Directors. The Company foresees no change in its ability to pay annual dividends in the immediate future; nevertheless, there is no assurance that dividends will be paid in the future since they are dependent upon earnings, the financial condition of the Company, and other factors.

### Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	149,401	\$15.34	412,356
Equity compensation plans not approved by security holders	-	-	-
Total	149,401	\$15.34	412,356

Item 6. Selected Financial Data.

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DESCRIPTION	Years Ended August 31,				
	2003	2002	2001	2000	1999
	(In Thousands, Except Per Share Amounts)				
Total Revenues	\$ 66,532	\$ 63,545	\$ 69,710	\$ 62,540	\$ 44,947
Costs and Expenses	47,448	53,752	49,598	41,965	37,886
Income Taxes	6,425	2,258	4,046	6,464	2,980
Net Income	12,659	7,535	16,066	14,111	4,081
Average Number of					
Shares Outstanding	7,106	7,070	7,033	7,028	7,028
Net Income Per Share	1.78	1.07	2.29	2.01	.58
Cash Dividend Paid per Share	0.35	1.00	1.00	.30	.50
Current Assets	90,204	66,267	61,345	56,578	45,182
Total Assets	212,748	191,910	179,134	176,876	156,922
Current Liabilities	10,722	9,543	7,691	12,346	8,738
Ratio-Current Assets					
to Current Liabilities	8.41:1	6.94:1	7.98:1	4.58:1	5.17:1
Working Capital	79,482	56,724	53,654	44,232	36,444
Long-Term Obligations	75,844	69,149	58,818	60,985	56,789
Total Liabilities	86,566	78,692	66,508	73,331	65,527
Stockholders' Equity	126,182	113,218	112,625	103,545	91,395

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations.

### Cautionary Statement

Readers should note, in particular, that this document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend", "expect" and other words of similar meaning, are likely to address the Company's growth strategy, financial results and/or product development programs. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. The considerations listed herein represent certain important factors the Company believes could cause such results to differ. These considerations are not intended to represent a complete list of the general or specific risks that may affect the Company. It should be recognized that other risks, including general economic factors and expansion strategies, may be significant, presently or in the future, and the risks set forth herein may affect the Company to a greater extent than indicated.

The following discussion focuses on the results of operations and the financial condition of the Company.

This section should be read in conjunction with the consolidated financial statements and notes.

### Liquidity and Capital Resources

The Company had cash and marketable securities of \$55.2 million at August

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31, 2003, compared with \$31.6 million at August 31, 2002. Working capital was \$79.5 million and \$56.7 million at August 31, 2003 and August 31, 2002 respectively.

Cash outlay for land, equipment, buildings, and other improvements totaled \$7.3 million during fiscal 2003, compared to \$9.3 million during fiscal 2002 and \$8.5 million during fiscal 2001, respectively. Land preparation for citrus re-development and capital maintenance continued, as did expenditures for replacement equipment and raising of breeding cattle.

Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds. Management expects several real estate transactions to close in fiscal 2004. Additionally, Management expects continued profitability from its agricultural operations in fiscal 2004. The outlook is for gross profits from citrus operations to decline due to a large crop forecast for the industry as a whole and substantial carryover inventories for the industry. Management also expects gross profits from sugarcane to decline as the Company's current crop is expected to be smaller in fiscal 2004 than in fiscal 2003. Gross profits from the Company's cattle operations are expected to increase due to reduced beef supplies creating favorable market conditions beef and an increase in the number of cattle sold.

In addition, the Company has credit commitments which provide for revolving credit of up to \$54.0 million, of which \$10.2 million was available for the Company's general use at August 31, 2003 (see Note 6 of Notes to consolidated financial statements).

### Results of Operations

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Summary of results (in thousands):

	Years Ended August 31,		
	2003	2002	2001
Operating revenue	\$48,285	\$49,185	\$51,533
Gross profit	11,022	9,678	11,921
General & administrative expenses	6,319	10,806	5,471
Income (loss) from operations	4,703	(1,128)	6,450
Profit on sale of real estate	14,994	11,641	11,354
Interest and investment income	1,201	1,471	2,124
Interest expense	2,081	2,421	3,029
Other income	267	230	3,213
Provision for income taxes	6,425	2,258	4,046

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Effective income tax rate	33.7%	23.1%	20.1%
Net income	12,659	7,535	16,066

### Operating Revenue

Operating revenues for fiscal 2003 decreased compared to fiscal 2002. A decrease in revenues from agricultural activities was the most significant factor in the decline.

Operating revenues for fiscal 2002 decreased when compared to those of fiscal 2001. A decrease in revenues from agricultural activities was the most significant factor in the decline.

### Income (loss) from Operations

Earnings from operations increased significantly during fiscal 2003 when compared to the prior year ( \$ 4,703 in fiscal 2003 vs. \$(1,128) in fiscal 2002). The improvement in earnings was largely impacted by the Company's fiscal 2002 commitment to donate \$5.0 million to Florida Gulf Coast University (the University) in December 2001, for a new athletic complex, scholarships and athletic programs. In accordance with the Company's agreement with the University, \$1.0 million was paid in fiscal 2002, \$800 thousand was paid in fiscal 2003, and \$800 thousand will be paid each year over the next four years. The entire donation was accrued and included in general and administrative expenses during fiscal 2002. The remaining increase in income from operations was due to an increase in earnings from agricultural activities.

Income from operations decreased 112% during fiscal 2002 when compared to fiscal 2001, primarily due to increased general and administrative expenses resulting from the accrued University donation.

### Interest and Investment Income

Interest and investment income is generated principally from investments in marketable equity securities, corporate and municipal bonds, mutual funds, U.S. Treasury securities and mortgages held on real estate sold on the installment basis. Realized investment earnings were reinvested throughout fiscal 2003, 2002 and 2001, increasing investment levels during each year. The decrease in fiscal 2003, 2002 and 2001, interest and realized and unrealized investment income resulted from unfavorable conditions in the financial markets.

### Interest Expense

Interest expense declined during fiscal 2003 when compared to fiscal 2002, as interest rates on borrowings have declined.

Interest expense decreased during fiscal 2002, compared to fiscal 2001. This was due to a decline in interest rates on borrowings.

Individual Operating Divisions

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Gross profits for the individual operating divisions, for fiscal 2003, 2002 and 2001, are presented in the following schedule and are discussed in subsequent sections:

	Years Ended August 31, (in thousands)		
	2003	2002	2001
CITRUS			
Revenues:			
Sales	\$24,107	\$25,105	\$27,570
Cost and expenses:			
Harvesting & marketing	8,910	9,364	10,046
Direct production**	7,671	8,594	8,932
Allocated cost*	3,525	3,463	3,472
Total	20,106	21,421	22,450
Gross profit, citrus	4,001	3,684	8,088
SUGARCANE			
Revenues:			
Sales	13,373	11,789	12,450
Costs and expenses:			
Harvesting & hauling	2,915	2,239	2,516
Direct production	3,844	3,965	4,094

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Allocated cost*	3,429	3,253	3,018
	<hr/>	<hr/>	<hr/>
Total	10,188	9,457	9,628
	<hr/>	<hr/>	<hr/>
Gross profit, sugarcane	3,185	2,332	2,822
	<hr/>	<hr/>	<hr/>

	Years Ended August 31,		
	(in thousands)		
	2003	2002	2001
	<hr/>	<hr/>	<hr/>
RANCH			
Revenues:			
Sales	7,175	9,102	8,788
Costs and expenses:			
Direct production	4,937	6,087	5,287
Allocated cost*	1,853	2,428	2,107
	<hr/>	<hr/>	<hr/>
Total	6,790	8,515	7,394
	<hr/>	<hr/>	<hr/>
Gross profit, ranch	385	587	1,394
	<hr/>	<hr/>	<hr/>
Total gross profit, agriculture	7,571	6,603	9,336
	<hr/>	<hr/>	<hr/>
OTHER OPERATIONS			
Revenues:			
Rock products and sand	2,154	1,999	1,726
Oil leases and land rentals	973	721	770
Forest products	292	355	91
Recovery of citrus eradication costs	-	-	2,968
Other	267	230	245
	<hr/>	<hr/>	<hr/>
Total	3,686	3,305	5,800
	<hr/>	<hr/>	<hr/>
Costs and expenses:			
Allocated cost*	882	735	604
General and administrative, all operations	5,437	10,071	4,867
	<hr/>	<hr/>	<hr/>
Total	6,319	10,806	5,471
	<hr/>	<hr/>	<hr/>



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Gross (loss) income, other operations	(2,633)	(7,501)	329
	<hr/>	<hr/>	<hr/>
Total gross profit (loss)	4,938	(898)	9,665
	<hr/>	<hr/>	<hr/>
INTEREST & DIVIDENDS			
Revenue	1,201	1,471	2,124
Expense	2,081	2,421	3,029
	<hr/>	<hr/>	<hr/>
Interest & dividends, net	(880)	(950)	(905)
	<hr/>	<hr/>	<hr/>

	Years Ended August 31, (in thousands)		
	2003	2002	2001
	<hr/>	<hr/>	<hr/>
REAL ESTATE			
Revenue:			
Sale of real estate	16,990	12,773	12,978
Expenses:			
Cost of sales	1,925	1,076	1,393
Other Costs	39	56	233
	<hr/>	<hr/>	<hr/>
Total	1,964	1,132	1,626
	<hr/>	<hr/>	<hr/>
Gain on sale of real estate	15,026	11,641	11,352
	<hr/>	<hr/>	<hr/>
Income before income taxes	\$19,084	\$ 9,793	\$20,112
	<hr/>	<hr/>	<hr/>

\* Allocated cost includes ad valorem and payroll taxes, depreciation and insurance.

\*\* Excludes capitalized maintenance cost of groves less than five years of age consisting of \$2.3 million on 1,617 acres in 2003, \$2.5 million on 1,326 acres in 2002, and \$200 thousand on 570 acres in 2001.

Citrus

Gross profit was \$4.0 million in fiscal 2003, \$3.7 million in fiscal 2002, and \$5.1 million for fiscal 2001.

Revenue from citrus sales decreased 4% during fiscal 2003, compared to fiscal 2002 (\$24.1 million during fiscal 2003 vs. \$25.1 million during fiscal 2002).

Pounds of fruit solids per box decreased during fiscal 2003, compared to fiscal 2002, and was the primary cause of the decline.

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Harvesting and marketing costs decreased when compared to fiscal 2002 due to procedural efficiencies that resulted in a decrease in the per box rate during the year. Direct production and allocated costs decreased 7% due to a decrease in the costs of cultivation and irrigation impacted by improved weather conditions.

Revenue from citrus sales decreased 9% during fiscal 2002, compared to fiscal 2001 (\$25.1 million during fiscal 2002 vs. \$27.6 million during fiscal 2001). Additionally, during fiscal 2001 \$2.9 million was recognized from the recovery of citrus eradication costs in excess of basis (see note 14 to the consolidated financial statements).

Production decreased during fiscal 2002, compared to fiscal 2001 and was the primary cause of the decline.

Harvesting and marketing costs decreased in fiscal 2002 compared to fiscal 2001, corresponding to a decrease in boxes harvested. Direct production and allocated costs decreased 3% due to a decline in the number of producing acres.

The final returns from citrus pools are not precisely determinable at year end. Returns are estimated each year based on the most current information available. Differences between the estimates and the final realization of revenues can be significant. Revenues collected in excess of prior year and year end estimates were \$198 thousand, \$568 thousand, and \$617 thousand during fiscal 2003, 2002 and 2001, respectively.

### Sugarcane

---

Gross profit for fiscal 2003 was \$3.2 million, compared to \$2.3 million in fiscal 2002 and \$2.8 million in fiscal 2001.

Sales revenue from sugarcane increased 13% during fiscal 2003, compared to fiscal 2002 (\$13.4 million vs. \$11.8 million, respectively). The increase was the result of an improvement in the yield per acre brought about by favorable weather conditions during the growing season. Total sugarcane yields were 523,000, 466,000, and 507,000 standard tons for the fiscal years ended August 31, 2003, 2002 and 2001, respectively. Yields per acre were 45.51, 41.37 and 44.33 for the 2003, 2002 and 2001 fiscal years, respectively.

Direct production costs decreased 3% during fiscal 2003, compared to fiscal 2002. This was offset by a 5% rise in allocated costs during 2003, compared to 2002 levels, due to increases in insurance costs and ad valorem taxes.

Sales revenues from sugarcane decreased 5% during fiscal 2002, compared to fiscal 2001 (\$11.8 million vs. \$12.5 million, respectively). The decrease in revenue and related costs was the result of lower yields resulting from a drought.

### Ranching

---

The gross profit from ranch operations for fiscal 2003, 2002 and 2001 was \$385 thousand, \$587 thousand, and \$1.4 million, respectively.

Revenues from cattle sales decreased 21% during fiscal 2003, compared to fiscal 2002 (\$7.2 million in fiscal 2003 vs. \$9.1 million in fiscal 2002). Direct and allocated production costs decreased by 20% during fiscal 2003, as compared to fiscal 2002 (\$6.8 million in fiscal 2003 vs. \$8.5 million in fiscal 2002). The decline in revenue and total production costs primarily resulted from a corresponding decrease in the total number of cattle sold

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during fiscal 2003 when compared to fiscal 2002. Less animals of the age and size required by meat packers were available for sale in fiscal 2003 than in 2002 because of the timing of placements into western feedlots. Total head sold was 9,062, 12,166 and 12,362 for 2004, 2003 and 2002.

Revenues from cattle sales increased 3% during fiscal 2002, compared to fiscal 2001 (\$9.1 million in fiscal 2002 vs. \$8.8 million in fiscal 2001) due to increased sales of feeder cattle during the year.

Direct and allocated costs increased 15% when compared to the prior year (\$8.5 million during fiscal 2002 and \$7.4 million during fiscal 2001) due to the increase in the number of animals sold from feedlots.

The Company's cattle marketing activities include retention of calves in western feedlots, contract and auction sales, and risk management contracts.

### Other Operations

---

Returns from rock products and sand were \$2.2 million for fiscal 2003, \$2.0 million for 2002 and \$1.7 million during 2001. Rock and sand supplies are sufficient to meet current demand, and no major price changes have occurred over the past 3 years.

Revenues from oil royalties and land rentals were \$973 thousand in fiscal 2003 as compared to \$721 thousand in fiscal 2002 and \$770 thousand for fiscal 2001. The fiscal 2003 improvement is primarily due to an increase in the amount of land leased for farming.

Profits from the sale of sabal palms and other horticultural items, for landscaping purposes, during fiscal 2003 were \$292 thousand compared to \$355 thousand and \$91 thousand for fiscal years 2002 and 2001, respectively.

Direct and allocated expenses charged to the "Other" operations category included general and administrative and other costs not charged directly to the citrus, ranching or sugarcane divisions. These expenses totaled \$6.3 million during fiscal 2003, compared to \$10.8 million during fiscal 2002 and to \$5.5 million during fiscal 2001. In December 2001, the Company agreed to donate \$5.0 million to the Florida Gulf Coast University for a new athletic complex, scholarships and athletic programs. As per the agreement with the University, \$1.0 million was paid in fiscal 2002, \$800 thousand was paid in fiscal 2003 and \$800 thousand will be paid each year over the next four years. The net present value of the total donation was accrued and included in general and administrative expenses in fiscal 2002 and was the primary cause for the increase in general and administrative expenses that year.

### Profit on Sale of Real Estate

---

Profit from retail land sales, made through Saddlebag, were \$32 thousand in fiscal 2003, vs. breaking even during fiscal 2002. Profit from bulk land sales, increased from \$11.6 million in fiscal 2002 to \$15.0 million in fiscal 2003. As discussed below, sales contracts are in place for all of the Lee County property totaling \$171.8 million. These sales are expected to close over the next two year period. When or if all these sales do close, they are expected to result in gains in excess of \$132 million. The Board of Directors has not specified how these excess funds will be used if received.

Real estate profits increased from \$11.4 million in fiscal 2001 to \$11.6

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million during fiscal 2002.

### General Corporate

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The Company is continuing its marketing and permitting activities for its land which surrounds Florida Gulf Coast University in Lee County, Florida. There are sales contracts in place for all this property, totaling \$171.8 million. The agreements are at various stages in the due diligence process with closing dates expected over the next three years.

During January 2002, the Company acquired 40 acres of Lee County, Florida property for \$9.5 million. The property is located near one of the interstate highway access ramps to Florida Gulf Coast University and the Southwest Florida International Airport. During the third quarter of fiscal 2003, Agri announced a contract to sell the 40 acres. The contract price is \$13.1 million and the closing may occur by December 10, 2004.

During the second quarter of fiscal 2003, Agri contracted to sell an additional 53 acres in Lee County, Florida to the Ginn Company. The contract price is \$10.6 million. Agri also announced an addition to the original Ginn Company contract, adding 555 acres for a price of \$13.3 million. This amendment brought the total acreage of the contract to 5,060.

During the third quarter of fiscal 2003, the Company entered into a limited partnership with its wholly owned subsidiary, Agri-Insurance Company, Ltd. The partnership was created to manage Agri's real estate holdings. Agri transferred all of the Lee County property and associated sales contracts to the limited partnership, Alico-Agri, Ltd (Alico-Agri) in return for a 99% partnership interest. Alico, Inc. transferred \$1.2 million cash for a 1% interest. The creation of the partnership allows Agri to concentrate solely on insurance matters while utilizing Alico's knowledge of real estate management. The partnership will pay Alico a management fee for real estate management and administrative services.

In the fourth quarter of fiscal 2003, the Company, through Alico-Agri, completed the sale of 313 acres in Lee County, Florida to Airport Interstate Associates, LLC. The sales price was \$9.7 million and resulted in a gain of \$8.7 million. Additionally, Alico-Agri completed the sale of 40 acres in Lee County, Florida to University Club Apartments/Gulf Coast, LLC. The sales price of the property was \$5.5 million and generated a gain of \$4.7 million.

During the fourth quarter of fiscal 2003, the Company sold 358 acres in Hendry County, Florida for \$669 thousand. The sale generated a gain of \$335 thousand. Additionally, the Company sold 266 acres in Polk County, Florida for \$617 thousand, generating a gain of \$612 thousand.

The Company announced the formation of Agri-Insurance Company, Ltd. (Agri) a wholly owned subsidiary, during July of 2000. The insurance company was initially capitalized by transferring cash and approximately 3,000 acres of the Lee County property. Through Agri, the Company has been able to underwrite previously uninsurable risk related to catastrophic crop and other losses. The

coverages currently underwritten by Agri will indemnify insured's for the loss of the revenue stream resulting from a catastrophic event that would cause a grove to be replanted. To expedite the creation of the capital liquidity necessary to underwrite the Company's exposure to catastrophic losses, another 5,600 acres was transferred during fiscal 2001. Agri underwrote a limited amount of coverage for Ben Hill Griffin, Inc. during fiscal 2003, 2002 and 2001 and in August 2002 began insuring the Alico, Inc., citrus groves. As Agri gains underwriting experience and increases its

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liquidity, it will be able to increase its insurance programs. Agri is a recently created entity. It would be difficult, if not impossible, to speculate about the impact that Agri could have on the Company's financial position, results of operations and liquidity in future periods. Since the coverages that have been written, as liquidity has been generated, are primarily for the benefit of Alico, the financial substance of this venture is to insure risk that is inherent in the Company's existing operations.

### Critical Accounting Policies and Estimates

The preparation of the Company's financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. The following critical accounting policies have been identified that affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

The Company records inventory at the lower of cost or market. Management regularly assesses estimated inventory valuations based on current and forecasted usage of the related commodity and any other relevant factors that affect the net realizable value.

Based on fruit buyers' and processors' advances to growers, stated cash and futures markets combined experience in the industry, management reviews the reasonableness of the citrus revenue accrual. Adjustments are made throughout the year to these estimates as relevant information regarding the citrus market becomes available. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from prior years' crop totaling \$198 thousand, \$568 thousand, and \$617 thousand during fiscal 2003, 2002, and 2001, respectively.

In accordance with Statement of Position 85-3 "Accounting by Agricultural Producers and Agricultural Cooperatives", the cost of growing crops (citrus and sugarcane) are capitalized into inventory until the time of harvest. Once a given crop is harvested, the related inventoried costs are recognized as a cost of sale to provide an appropriate matching of costs incurred with the related revenue earned.

Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda) ("Agri") in June of 2000. Agri was formed in response to the lack of insurance availability, both in the traditional commercial insurance markets and governmental sponsored insurance programs, suitable to provide coverages for the increasing number and potential severity of agricultural related events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only prefunding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it is successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners. Alico primarily utilized its inventory of land and additional contributed capital to bolster the underwriting capacity of Agri. As Agri has converted certain of the assets contributed by Alico to cash, book and tax differences have arisen resulting from differing viewpoints related to the tax treatment of insurance companies for federal

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and state tax purposes. Due to the historic nature of the primary assets contributed as capital to Agri and the timing of the sales of certain of those assets by Agri, management has decided to record a contingent liability, providing for potential differences in the tax treatment of sales of Agri's assets. Management's decision has been influenced by perceived changes in the regulatory environment.

### Off-Balance Sheet Arrangements

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The Company is not involved in any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Item 7(a). Quantitative and Qualitative Disclosure About Market Risk

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Alico's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. There are no derivative financial instruments in the investment portfolio. Investments are placed with high quality issuers and, by policy, limit the amount of credit exposure to any one issuer. Alico is adverse to principal loss and ensures the safety and preservation of invested funds by limiting default, market and reinvestment risk. The Company classifies cash equivalents and short-term investments as fixed-rate if the rate of return on such instruments remains fixed over their term. These fixed-rate investments include fixed-rate U.S. government securities, municipal bonds, time deposits and certificates of deposit. Cash equivalents and short-term investments are classified as variable-rate if the rate of return on such investments varies based on the change in a predetermined index or set of indices during their term. These variable-rate investments primarily include money market accounts, mutual funds and equities held at various securities brokers and investment banks.

The table below presents the amounts (in thousands) and related weighted interest/dividend yield rates of the investment portfolio at August 31, 2003:

Marketable Securities and Short-term Investments (1)	Average Interest Rate/Dividend Yield	Cost	Estimated Fair Value
Fixed Rate	5.38%	\$ 14,423	\$ 14,259
Variable Rate	2.93%	\$ 23,013	\$ 24,561

(1) See definition in Notes 1 and 2 to our Notes to Consolidated Financial Statements.

The aggregate fair value of investments in debt instruments (net of mutual funds of \$8,435) as of August 31, 2003, by contractual maturity date, consisted of the following:

	Aggregate Fair Values
	(in thousands)
Due in one year or less	\$ 8,115
Due between one and five years	4,454
Due between five and ten years	1,335
Due thereafter	355

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\$14,259

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The Company has debt which has interest rates that vary with the LIBOR and prime rate. A 1% change in these rates would impact the Company's annual interest expense by approximately \$438 thousand based on the Company's outstanding debt under these agreements as of August 31, 2003.

Item 8. Financial Statements and Supplementary Data.

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Independent Auditors' Report

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The Stockholders and Board of Directors  
Alico, Inc.:

We have audited the consolidated balance sheets of Alico, Inc. and subsidiaries as of August 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended August 31, 2003. In connection with our audits of the consolidated financial statements, we also have audited the related consolidated financial statement schedules as listed in Item 15(a)(2) herein. These consolidated financial statements and financial statements schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alico, Inc. and subsidiaries at August 31, 2003 and 2002, and the results of their

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operations and their cash flows for each of the years in the three-year period ended August 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related consolidated financial statement schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP  
(Signature)

Orlando, Florida  
October 10, 2003

### CONSOLIDATED BALANCE SHEETS (in thousands)

	August 31,	
	2003	2002
ASSETS		
Current assets:		
Cash, including time deposits and other cash investments of \$16,303 in 2003 and \$10,028 in 2002	\$ 16,352	\$ 10,140
Marketable securities available for sale, at estimated fair value in 2003 and in 2002 (Note 2)	38,820	21,417
Accounts receivable (\$6,470 in 2003 and \$6,457 in 2002 due from affiliate) (Note 12)	9,680	9,461
Mortgages and notes receivable, current portion (Note 3)	2,534	2,451
Inventories (Note 4)	21,845	21,672
Income tax refund receivable	229	271
Other current assets	744	855
	90,204	66,267
Other assets:		
Land inventories	16,587	16,787
Mortgages and notes receivable, net of current portion (Note 3)	234	2,693
Investments	886	908
	17,707	20,388
Property, buildings and equipment (Note 5)	144,578	142,355
Less accumulated depreciation	(39,741)	(37,100)
	104,837	105,255



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Total assets	\$ 212,748	\$ 191,910
	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>

See accompanying Notes to Consolidated Financial Statements.

	August 31,	
	2003	2002
	<u>                    </u>	<u>                    </u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,110	\$ 1,438
Due to profit sharing plan (Note 10)	350	285
Accrued ad valorem taxes	1,519	1,524
Current portion of notes payable (Note 6)	3,321	3,318
Accrued expenses	988	1,169
Deferred income taxes (Note 11)	1,680	1,038
Donation payable	754	771
	<u>                    </u>	<u>                    </u>
Total current liabilities	10,722	9,543
Deferred revenue	91	113
Notes payable (Note 6)	54,127	52,658
Deferred income taxes (Note 11)	9,668	9,728
Deferred retirement benefits (Note 10)	120	119
Other non-current liability (Note 8)	9,609	3,641
Donation payable	2,229	2,890
	<u>                    </u>	<u>                    </u>
Total liabilities	86,566	78,692
	<u>                    </u>	<u>                    </u>
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; issued, none	-	-
Common stock, \$1 par value. Authorized 15,000,000 shares; issued and outstanding 7,116,070 in 2003 and 7,080,344 in 2002	7,116	7,080
Additional paid in capital	3,074	1,716
Accumulated other comprehensive income (loss)	961	(432)
Retained earnings	115,031	104,854
	<u>                    </u>	<u>                    </u>
Total stockholders' equity	126,182	113,218
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders' equity	\$ 212,748	\$ 191,910
	<u>                    </u>	<u>                    </u>

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See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands except per share data)

	Years Ended August 31,		
	2003	2002	2001
Revenue:			
Citrus, including revenues from affiliate (Note 12)	\$ 24,107	\$25,105	\$27,570
Sugarcane	13,373	11,789	12,450
Ranch	7,175	9,102	8,788
Forest products	292	355	91
Rock and sand royalties	2,154	1,999	1,726
Oil lease and land rentals	973	721	770
Retail land sales	211	114	138
	<hr/>	<hr/>	<hr/>
Operating revenue	48,285	49,185	51,533
	<hr/>	<hr/>	<hr/>
Costs of sales:			
Citrus production, harvesting and marketing (including charges from affiliate (Note 12))	20,106	21,421	22,450
Sugarcane production, harvesting and hauling	10,188	9,457	9,628
Ranch	6,790	8,515	7,394
Retail land sales	179	114	140
	<hr/>	<hr/>	<hr/>
Total costs of sales	37,263	39,507	39,612
	<hr/>	<hr/>	<hr/>
Gross profit	11,022	9,678	11,921
General and administrative expenses	6,319	10,806	5,471
	<hr/>	<hr/>	<hr/>
Income (loss) from operations	4,703	(1,128)	6,450
Other income (expenses):			
Profit on sales of real estate:			
Sales	16,779	12,659	12,840
Cost of sales	1,785	1,018	1,486
	<hr/>	<hr/>	<hr/>

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Profit on sales of real estate, net	14,994	11,641	11,354
Interest and investment income	1,201	1,471	2,124
Recovery of citrus eradication costs in excess of basis (note 14)	-	-	-
Interest expense (Note 6)	(2,081)	(2,421)	(3,029)
Other	267	230	245
	<hr/>	<hr/>	<hr/>
Total other income, net	14,381	10,921	13,662
	<hr/>	<hr/>	<hr/>
Income before income taxes	19,084	9,793	20,112
Provision for income taxes (Note 11)	6,425	2,258	4,046
	<hr/>	<hr/>	<hr/>
Net Income	12,659	\$ 7,535	\$ 16,066
	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>
Weighted-average number of shares outstanding	7,106	7,070	7,033
	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>
Weighted-average number of shares outstanding assuming dilution	7,256	7,188	7,057
	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>
Per share amounts:			
Basic	\$ 1.78	\$ 1.07	\$ 2.29
Diluted	\$ 1.74	\$ 1.05	\$ 2.28
Dividends	\$ 0.35	\$ 1.00	\$ 1.00

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
(in thousands)

	Common Stock	Additional	Accumulated Other	Retained	Total
	Shares	Paid in	Comprehensive	Earnings	
	Issued	Capital	Income		
	Amount				
Balances, August 31,	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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2000	7,028	\$	7,028	\$	18	\$	1,159	\$95,340	\$	103,545	
<hr/>											
Comprehensive income:											
Net income for the year ended											
August 31, 2001	-		-		-		-	16,066		16,066	
Unrealized gains on securities, net of taxes of \$(174) of and reclassification adjustment											
	-		-		-		(288)	-		(288)	
Total comprehensive income:											
										15,778	
Dividends paid	-		-		-		-	(7,028)		(7,028)	
Stock options											
Exercised	17		17		227		-	-		244	
Stock based compensation											
	-		-		86		-	-		86	
<hr/>											
Balances, August 31, 2001											
	7,045	\$	7,045	\$	331	\$	871	\$	104,378	\$	112,625
<hr/>											
Comprehensive income:											
Net income for the year ended											
August 31, 2002	-		-		-		-	7,535		7,535	
Unrealized gains on securities net of taxes of \$(622) and reclassification adjustment											
	-		-		-		(1,303)	-		(1,303)	
Total comprehensive income:											
										6,232	
Dividends paid	-		-		-		-	(7,059)		(7,059)	
Stock options exercised											
	35		35		494		-	-		529	
Stock based compensation											
	-		-		891		-	-		891	
<hr/>											
Balances, August 31, 2002											
	7,080	\$	7,080	\$	1,716	\$	(432)	\$	104,854	\$	113,218
<hr/>											
Comprehensive income:											
Net income for the year ended											
August 31, 2003	-		-		-		-	12,659		12,659	
Unrealized gains (losses) on securities, net of taxes of \$552											
	-		-		-		1,393	-		1,393	

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of and reclass- ification adjustment						14,052
Total comprehensive income:						(2,482)
Dividends paid	-	-	-	-	(2,482)	(2,482)
Stock options exercised	36	36	519	-	-	555
Stock based compensation	-	-	839	-	-	839
Balances, August 31, 2003	7,116	\$ 7,116	\$ 3,074	\$ 961	\$115,031	\$ 126,182

  

Disclosure of reclassification amount:	2003	2002	2001
Unrealized holding gains (losses) arising during the period	\$ 2,651	\$ (1,774)	\$ (207)
Less: reclassification adjustment for gains (losses) included in net income	1,258	(471)	81
Net unrealized gains (losses) on securities	\$ 1,393	\$ (1,303)	\$ (288)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Years Ended August 31,		
	2003	2002	2001
Increase (Decrease) in Cash and Cash Investments:			
Cash flows from operating activities:			
Net income	\$ 12,659	\$ 7,535	\$ 16,066
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	6,723	6,982	6,946
(Gain) loss on breeding herd sales	(16)	(84)	(77)
Deferred income tax expense, net	582	1,263	1,179
Deferred retirement benefits	1	(31)	(102)
Net (gain) loss on sale of marketable securities	(691)	381	(160)
(Gain) Loss on sale of property and equipment	606	(150)	1,642
Gain on real estate sales	(15,026)	(11,758)	(11,586)

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Stock options granted below fair market value	839	891	86
Cash provided by (used for) changes in:			
Accounts receivable	(218)	692	1,847
Inventories	(173)	1,059	(1,702)
Other assets	111	57	(600)
Accounts payable and accrued expenses	5,840	2,944	(112)
Income taxes payable	42	(294)	(4,147)
Deferred revenues	(23)	48	53
Net cash provided by operating activities	11,256	9,535	9,333
Cash flows from investing activities:			
Increase in land inventories	(684)	(9,785)	(925)
Purchases of property and equipment	(7,325)	(9,270)	(8,502)
Proceeds from disposals of property and equipment	431	1,257	959
Proceeds from sale of real estate	15,911	12,789	2,880
Purchases of investments	-	(126)	(212)
Purchases of marketable securities	(20,257)	(8,047)	(3,013)
Proceeds from sales of marketable securities	4,958	3,673	2,039
Issuances of mortgages and notes receivable	-	(79)	(381)
Collection of mortgages and notes receivable	2,377	2,528	2,630
Net cash used for investing activities	(4,589)	(7,060)	(4,525)
	Years Ended August 31,		
	2003	2002	2001
Cash flows from financing activities:			
Proceeds from exercising stock options	555	529	244
Proceeds from bank loans	33,169	43,597	43,194
Repayment of bank loans	(31,697)	(35,627)	(36,789)
Dividends paid	(2,482)	(7,059)	(7,028)
Net cash provided by (used for) financing activities	(455)	1,440	(379)
Net increase (decrease) in cash and cash investments	6,212	3,915	4,429
Cash and cash investments:			
At beginning of year	10,140	6,225	1,796
At end of year	\$ 16,352	\$ 10,140	\$ 6,225

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Supplemental disclosures of cash flow information:

Cash paid for interest, net of amount capitalized	\$	1,767	\$	2,124	\$	3,102
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Cash paid for income taxes, including related interest (Note 11)	\$	1,060	\$	943	\$	3,116
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Noncash investing activities:

Fair value adjustments to securities available for sale	\$	1,945	\$	(1,925)	\$	(462)
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Income tax effect related to fair value adjustments	\$	552	\$	(622)	\$	(174)
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Reclassification of breeding herd to Property & Equipment	\$	700	\$	515	\$	370
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See accompanying Notes to Consolidated Financial Statements.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Years Ended August 31, 2003, 2002 and 2001

(1) Summary of Significant Accounting Policies

(a) Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of Alico, Inc. (the Company) and its wholly owned subsidiaries, Saddlebag Lake Resorts, Inc. (Saddlebag), Agri-Insurance Company, Ltd. (Agri), and Alico-Agri, Ltd. after elimination of all significant intercompany balances and transactions.

(b) Revenue Recognition

Income from the sale of citrus is recognized at the time the crop is harvested. Based on fruit buyers' and processors' advances to growers, stated cash and futures markets, management reviews the reasonableness of the citrus revenue accrual. Adjustments are made throughout the year to these estimates as relevant information regarding the citrus market becomes available. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from the prior year's crop totaling \$198 thousand, \$568 thousand, and \$617 thousand during fiscal years 2003, 2002 and 2001, respectively.

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Income from sugarcane under a pooled agreement is recognized at the time the crop is harvested. Based on the processor's advance payment, management reviews the reasonableness of the sugarcane revenue accrual. Adjustments are made as additional relevant information regarding the sugar market becomes available. Market price increases to the sugar pool have caused the Company to recognize additional revenue from the prior year's crop totaling \$356 thousand, \$318 thousand and \$49 thousand during the fiscal year's 2003, 2002, and 2001, respectively.

The Company recognizes revenue from cattle sales at the time the cattle are sold at auction.

(c) Real Estate

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Real estate sales are recorded under the accrual method of accounting. Residential retail land sales made through Saddlebag are not recognized until the buyer's initial investment or cumulative payments of principal and interest equal or exceed 10 percent of the contract sales price. Commercial or bulk land sales, made mostly through Alico-Agri, Ltd. are not recognized until payments received for property to be developed within two years after the sale equal 20%, or property to be developed after two years equal 25%, of the contract sales price. At August 31, 2000,

the Company did not recognize gross profit totaling \$9,540,000 related to commercial real estate which was sold subject to a mortgage note receivable (note 3). The terms of the sale called for 10% of the contract price of \$10,600,000 to be paid at closing. The \$1,060,000 less the land basis and closing costs was recognized as a gain on the sale of real estate totaling \$287,880 during the year ended August 31, 2000.

During the year ended August 31, 2001, the purchaser made the first of four equal annual installments, required in the mortgage, totaling \$2,385,000, plus interest. The deferred profit on the sale was then recognized as 32.5 percent of the contract price was received and the buyer's continuing investment became adequate to demonstrate its commitment to pay for the property.

Profits from commercial real estate sales are discounted to reflect the market rate of interest where the stated rate is less than the market rate. The recorded valuation discounts are realized as the balances due are collected. In the event of early liquidation, interest is recognized on the simple interest method.

Tangible assets that are purchased during the period to aid in the sale of the project as well as costs for services performed to obtain regulatory approval of the sales are capitalized as land and land improvements to the extent they are estimated to be recoverable from the sale of the property. Land and land improvement costs are allocated to individual parcels on a per lot basis using the relative sales value method.

The Company has entered into an agreement with a real estate consultant to assist in obtaining the necessary regulatory approvals for the development and marketing of a tract of raw



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land. The marketing costs under this agreement are being expensed as incurred. The costs incurred to obtain the necessary regulatory approvals are capitalized into land costs when paid. These costs will be expensed as cost of sales when the underlying real estate is sold.

(d) Marketable Securities Available for Sale

Marketable securities available for sale are carried at their estimated fair value. Net unrealized investment gains and losses are recorded net of related deferred taxes in accumulated other comprehensive income within stockholders' equity until realized.

Fair value for debt and equity investments is based on quoted market prices at the reporting date for those or similar investments. The cost of all marketable securities available for sale are determined on the specific identification method.

(e) Inventories

The costs of growing crops are capitalized into inventory until the time of harvest. Once a given crop is harvested, the related inventoried costs are recognized as a cost of sale to provide an appropriate matching of costs incurred with the related revenue earned.

Beef cattle inventories are stated at the lower of cost or market. The cost of the beef cattle inventory is based on the accumulated cost of developing such animals for sale.

Unharvested crops are stated at the lower of cost or market. The cost for unharvested crops is based on accumulated production costs incurred during the eight month period from January 1 through August 31.

(f) Property, Buildings and Equipment

Property, buildings and equipment are stated at cost. Properties acquired from the Company's predecessor corporation in exchange for common stock issued in 1960, at the inception of the Company, are stated on the basis of cost to the predecessor corporation. Property acquired as part of a land exchange trust is valued at the carrying value of the property transferred to the trust.

All costs related to the development of citrus groves, through planting, are capitalized. Such costs include land clearing, excavation and construction of ditches, dikes, roads, and reservoirs, etc. After the planting, caretaking costs or pre-productive maintenance costs are capitalized for four years. After four years, a grove is considered to have reached maturity and the accumulated costs, except for land excavation become the depreciable basis of a grove and are written off over 25 years.

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Development costs for sugarcane are capitalized the same as citrus. However, sugarcane matures in one year and the Company is able to harvest an average of 3 crops (1 per year) from one planting. As a result, cultivation/caretaking costs are expensed as the crop is harvested, while the appropriate development and planting costs are depreciated over 3 years.

The breeding herd consists of purchased animals and animals raised on the ranch. Purchased animals are stated at cost. The cost of animals raised on the ranch is based on the accumulated cost of developing such animals for productive use.

Depreciation for financial reporting purposes is computed on straight-line or accelerated methods over the estimated useful lives of the various classes of depreciable assets.

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

This Statement requires long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### (g) Land Inventories

Land inventories are carried at cost and consist of property located in Lee County, Florida and owned by Alico-Agri, Ltd., and residential lots in Polk County, Florida and owned by Saddlebag. The Lee County property is held for sale as commercial real estate.

### (h) Other Investments

Other investments are carried at cost which primarily includes stock owned in agricultural cooperatives. The Company uses cooperatives to process and sell sugarcane and citrus. Cooperatives typically require members to acquire ownership as a term of use of its services.

### (i) Income Taxes

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The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable

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income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### (j) Net Earnings Per Share

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Outstanding stock options issued by the Company represent the only dilutive effect reflected in the computation of weighted average shares outstanding assuming dilution. Options do not impact the numerator of the earnings per share computation.

There were no stock options that could potentially dilute basic earnings per share in the future that were not included in the computation of earnings per share assuming dilution.

### (k) Cash Flows

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For purposes of the cash flows, cash and cash investments include cash on hand and amounts due from financial institutions with an original maturity of less than three months.

### (l) Use of Estimates

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In preparing the consolidated financial statements, management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities. Actual results could differ significantly from those estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The valuation of the Company's inventories and the recognition of citrus and sugarcane revenues are two of the more significant estimates made by Management.

### (m) Financial Instruments and Accruals

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The carrying amounts in the consolidated balance sheets for accounts receivable, mortgage and notes receivable, accounts payable and accrued expenses approximate fair value, because of the immediate or short term maturity of these items. The carrying amounts reported for the Company's long-term debts approximate fair value because they are arms length transactions with commercial lenders at market interest rates.

### (n) Derivative and Hedging Instruments

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The Company engages in cattle futures trading activities for the purpose of economically hedging against price fluctuations. The Company records gains and losses related to economic hedges in costs of goods sold. At August 31, 2003 and 2002, the Company had no open positions.

### (o) Accumulated Other Comprehensive Income

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Comprehensive income is defined as the change in equity of

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a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes both net income and other comprehensive income. Items included in other comprehensive income are classified based on their nature. The total of other comprehensive income for a period has been transferred to an equity account and displayed as "accumulated other comprehensive income".

### (p) Stock-Based Compensation

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The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) for stock options and other stock-based awards while disclosing pro forma net income and net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" (SFAS 123) and amended by Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure".

### (q) Reportable Segments

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The Company has three reportable segments: citrus, sugarcane, and ranch. The citrus segment produces fruit for both the fresh fruit and processed juice markets. The sugarcane segment produces sugarcane for processing. The ranch segment raises beef cattle to be sold in the wholesale market.

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different operating strategies.

### (r) Reclassifications

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Certain amounts from 2002 and 2001 have been reclassified to conform to the 2003 presentation.

## (2) Marketable Securities Available for Sale

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The Company has classified 100% of its investments in marketable securities as available for sale and, as such, the securities are carried at estimated fair value. Any unrealized gains and losses, net of related deferred taxes, are recorded as a net amount in a separate component of stockholders' equity until realized.

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The cost and estimated fair values of marketable securities available for sale at August 31, 2003 and 2002 (in thousands) were as follows:

	2003				2002			
	Cost	Gross Unrealized Gains	Estimated Fair Losses	Value	Cost	Gross Unrealized Gains	Estimated Fair Losses	Value
Equity securities:								
Preferred stocks	\$ 2,504	\$ 85	\$ (65)	\$ 2,524	\$ 3,160	\$ 65	\$ (79)	\$ 3,146
Common stocks	1,893	221	(306)	1,808	1,734	135	(242)	1,627
Mutual funds*	10,181	1,801	-	11,982	9,908	479	(147)	10,240
Total equity securities	14,578	2,107	(371)	16,314	14,802	679	(468)	15,013
Debt securities:								
Municipal bonds	515	28	-	543	559	36	-	595
Mutual funds	8,435	421	(609)	8,247	5,418	232	(882)	4,768
Fixed maturity funds	11,146	-	(31)	11,115	282	15	(1)	296
Corporate bonds	2,762	22	(183)	2,601	882	14	(151)	745
Total debt securities	22,858	471	(823)	22,506	7,141	297	(1,034)	6,404
Marketable securities available for sale	37,436	2,578	(1,194)	38,820	21,943	976	(1,502)	21,417

\* Includes shares held by regulated investment companies as well as a limited partnership hedge fund primarily investing in marketable equity securities.

At August 31, 2003, debt instruments (net of mutual funds of \$8,435) are collectible as follows: \$8,115 within one year, \$4,454 between one and five years, \$1,335 between five and ten years, and \$519 there after.

(3) Mortgage and Notes Receivable

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Mortgage and notes receivable arose from real estate sales. The balances (in thousands) are as follows:

	August 31, 2003	August 31, 2002
Mortgage notes receivable on retail land sales	\$ 235	\$ 193
Mortgage notes receivable on bulk land sales	2,420	4,926
Other notes receivable	113	25
	2,768	5,144
Total mortgage and notes receivable	\$ 2,768	\$ 5,144
Less current portion	2,534	2,451
	234	2,693
Non-current portion	\$ 234	\$ 2,693

In July 2000, the Company received a mortgage note in exchange for land sold. The note totaled \$9,540,000 and principal payments of \$2,385,000 are due annually on July 14, bearing interest at LIBOR, over four years.

#### (4) Inventories

A summary of the Company's inventories (in thousands) at August 31, 2003 and 2002 is shown below:

	2003	2002
Unharvested fruit crop on trees	\$ 8,135	\$ 8,599
Unharvested sugarcane	5,159	5,274
Beef cattle	7,892	7,507
Sod	659	292
	21,845	21,672
Total inventories	\$21,845	\$21,672

#### (5) Property, Buildings and Equipment

A summary of the Company's property, buildings and equipment (in thousands) at August 31, 2003 and 2002 is shown below:

Estimated

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	2003	2002	Useful Lives
Breeding herd	\$12,711	\$12,618	5-7 years
Buildings	3,875	3,945	5-40 years
Citrus trees	31,109	28,555	22-40 years
Sugarcane	8,350	8,360	4-15 years
Equipment and other facilities	29,526	29,996	3-40 years
	85,571	83,474	
Total depreciable properties	85,571	83,474	
Less accumulated depreciation	39,741	37,100	
	45,830	46,374	
Net depreciable properties	45,830	46,374	
Land and land improvements	59,007	58,881	
	\$104,837	\$105,255	
Net property, buildings and equipment	\$104,837	\$105,255	

The Company's unharvested sugarcane and cattle are partially uninsured.

### (6) Indebtedness

The Company has financial agreements with commercial banks that permit the Company to borrow up to \$54.0 million. The financing agreements allow the Company to borrow up to \$41.0 million which is due in 2005 and up to \$3.0 million which is due on demand. In December 2001, the Company entered into an additional financing agreement to borrow \$10.0 million to be paid in equal principal installments over five years with interest to be paid quarterly. The outstanding debt under these agreements was \$43.8 million and \$41.0 million at August 31, 2003 and 2002, respectively.

In March 1999, the Company mortgaged 7,680 acres for \$19.0 million in connection with a \$22.5 million acquisition of producing citrus and sugarcane operations. The outstanding debt under the mortgage was \$13.4 million and \$14.7 million as of August 31, 2003 and 2002, respectively. The total long-term portion of the Company's indebtedness at August 31, 2003 and 2002 was \$54.1 million and \$52.7 million, respectively.

Maturities of the indebtedness of the Company over the next five years (in thousands) are as follows: 2004- \$3,321; 2005- \$36,264; 2006- \$3,312; 2007- \$3,315; 2008- \$1,318 and \$9,918 thereafter.

Interest cost expensed and capitalized (in thousands) during the three years ended August 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Interest expense	\$2,081	\$2,421	\$3,029
Interest capitalized	267	322	175
	\$2,348	\$2,743	\$3,204
Total interest cost	\$2,348	\$2,743	\$3,204

(7) Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. Additionally, the Company, through Agri during fiscal 2002, supplied reinsurance to an independent underwriter who insured catastrophic business interruption coverage for Ben Hill Griffin, Inc. The total coverage under the policy was \$3.5 million and the premium charged was \$138 thousand. The coverage term was from December 2002 to December 2003. The Company is not aware of any outstanding claims or losses existing with respect to this policy at August 31, 2003 or 2002. Agri is required to maintain liquidity equal to its outside underwriting risk. As of August 31, 2003, Agri's liquidity was sufficient to cover its underwriting risk. The policy described above is the only underwriting exposure at August 31, 2003. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operation or liquidity.

(8) Other non-current liability

Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda) ("Agri") in June of 2000. Agri was formed in response to the lack of insurance availability, both in the traditional commercial insurance markets and governmental sponsored insurance programs, suitable to provide coverages for the increasing number and potential severity of agricultural related events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only prefunding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it is successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners. Alico primarily utilized its inventory of land and additional contributed capital to bolster the underwriting capacity of Agri.

Alico capitalized Agri by contributing real estate located in Lee County Florida. The real estate was transferred at its historical cost basis. Agri received a determination letter from the Internal Revenue Service (IRS) stating that Agri was exempt from taxation provided that net premium levels, consisting only of premiums with third parties, were below an annual stated level (\$350 thousand). Third party premiums have remained below the stated annual level. As the Lee county real estate was sold, substantial gains were generated in Agri, creating permanent book/tax differences.

Since receiving the favorable IRS determination letter, certain transactions, entered into by other taxpayers under the same IRS Code Section came under scrutiny and criticism by the news media. In reaction, Management has recorded a contingent liability of \$9.6 million for income taxes in the event of an IRS challenge. Management's decision has been influenced by perceived changes in the regulatory environment. The Company believes that it can successfully defend any such challenge, however, because it is probable that a challenge will be made and possible that it may be successful, Management



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has provided for the contingency.

The Internal Revenue Service has notified the Company of its intent to examine the Company tax returns for the years ended August 31, 2001 and 2002. Any adjustments resulting from the examination will be currently due and payable. No adjustments have been proposed to date.

### (9) Stock Option Plan

On November 3, 1998, the Company adopted the Alico, Inc., Incentive Equity Plan ("The Plan") pursuant to which the Board of Directors of the Company may grant options, stock appreciation rights, and/or restricted stock to certain directors and employees. The Plan authorizes grants of shares or options to purchase up to 650,000 shares of authorized but unissued common stock. Stock options have vesting schedules which are at the discretion of the Board of Directors and determined on the effective date of the grant.

	Shares Under Option	Weighted average exercise price	Weighted average remaining contractual Life (in years)
Balance outstanding, August 31, 2001	84,080	\$14.62	7
Granted	69,598	\$15.68	_____
Exercised	35,831	\$14.76	_____
Balance outstanding, August 31, 2002	117,847	15.20	7
Granted	67,280	15.68	_____
Exercised	35,726	15.53	_____
Balance outstanding, August 31, 2003	149,401	\$15.34	9

On August 31, 2003 and 2002, there were 412,356 and 479,636 shares available for grant, respectively.

The fair value of stock options granted was \$845 thousand in 2003 and \$819 thousand in 2002 on the date of the grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2003	2002
Volatility	8.39%	8.39%
Dividend paid	2.23%	6.38%
Risk-free interest rate	4.75%	4.75%
Expected life in years	1	1

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All stock options granted, except as noted in the paragraph below, have been granted to directors or employees with an exercise price

equal to the fair value of the common stock at the date of the grant, and a vesting period of one year.

The Company applies APB Opinion No. 25 for issuances to directors and employees in accounting for its Plan. No compensation cost was recognized in the consolidated financial statements through August 31, 2001, as options were issued at or above fair value. On September 9, 1999, the Company granted 14,992 stock options with an exercise price of \$14.62 and a fair value of \$15.813. The Company recorded \$18 thousand of unearned compensation at the date of the grant. On September 12, 2000, the Company granted an additional 51,074 stock options with an exercise price of \$14.62 and a fair value of \$16.313. The Company recorded \$86 thousand of unearned compensation at the date of the grant.

On September 11, 2001, the Company granted an additional 69,598 stock options with an exercise price of \$15.68 and a fair value of \$28.48. The Company recorded \$891 thousand of unearned compensation at the date of the grant. On September 10, 2002, the Company granted an additional 67,280 stock options with an exercise price of \$15.68 and a fair value of \$28.15. The Company recorded \$839 thousand of unearned compensation at the date of the grant.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have changed to the pro forma amounts indicated below (in thousands):

	2003	2002
	——	——
Net income as reported	\$ 12,659	\$ 7,535
Pro forma net income	\$ 12,653	\$ 7,607
Basic earnings per share, as reported	\$ 1.78	\$ 1.07
Pro forma basic earnings per share	\$ 1.78	\$ 1.08

### (10) Employee Benefit Plans

The Company has a profit sharing plan covering substantially all employees. The plan was established under Internal Revenue Code Section 401(k). Contributions made to the profit sharing plan (in thousands) were \$350, \$285 and \$444 for the years ended August 31, 2003, 2002 and 2001, respectively.

Additionally, the Company has a nonqualified defined benefit retirement plan covering the officers and other key management personnel of the Company. Details concerning this plan are as follows:

	August 31,	
2003		2002

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Beginning benefit obligation	3,785		2,446	
Service cost		626	714	
Interest cost			234	185
Benefits paid			(132)	(79)
Actuarial losses		-		517
Other			2	2
		-----	-----	
Ending benefit obligation		4,515	3,785	
Changes in plan assets			-----	-----
Beginning plan assets		3,666	2,299	
Return on plan assets		109	834	
Employer contributions		39	545	
Plan participant contributions		115	67	
Benefits paid			(132)	(79)
			-----	-----
Ending plan assets		3,797	3,666	
Net pension liability		718	119	
Less: current payable		(598)		-
			-----	-----
Long term portion			120	119
			-----	-----
Components of net pension cost				
Service cost, net of participant contributions	511		301	
Interest cost			234	185
Expected return on plan assets		-	-	
Prior service cost amortization		2	2	
			-----	-----
Net pension cost for defined benefit plan		747	488	
			-----	-----
The net benefit obligation was computed using a discount rate of 6.25%.				

(11) Income Taxes

The provision for income taxes (in thousands) for the years ended August 31, 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
	-----	-----	-----
Current:			
Federal income tax	\$5,872	\$3,713	\$2,428
State income tax	628	396	439
	-----	-----	-----
	6,500	4,109	2,867
	-----	-----	-----
Deferred:			
Federal income tax	(68)	(1,673)	1,058
State income tax	(7)	(178)	121

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	(75)	(1,851)	1,179
Total provision for income taxes	\$6,425	\$2,258	\$4,046

Following is a reconciliation of the expected income tax expense computed at the U.S. Federal statutory rate of 34% and the actual income tax provision (in thousands) for the years ended August 31, 2003, 2002 and 2001:

	2003	2002	2001
Expected income tax	\$6,489	\$3,330	\$6,838
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	410	144	328
Nontaxable interest and dividends	(97)	(102)	(113)
Internal Revenue Service examinations	14	11	479
Income from Agri- Insurance Company, Ltd.	(752)	(1,156)	(3,829)
Other reconciling items, net	361	31	343
Total provision for income taxes	\$6,425	\$2,258	\$4,046

Some items of revenue and expense included in the statement of operations may not be currently taxable or deductible on the income tax returns. Therefore, income tax assets and liabilities are divided into a current portion, which is the amount attributable to the current year's tax return, and a deferred portion, which is the amount attributable to another year's tax return. The revenue and expense items not currently taxable or deductible are called temporary differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	2003	2002
Deferred Tax Assets:		
Contribution carry forward	(1,632)	(1,698)
Pension	(183)	(168)
Prepaid sales commissions	(802)	(789)
Land inventories	(488)	(480)
Deferred retirement benefits	(749)	(502)
Other	(1,256)	(1,380)
Total gross deferred		

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tax assets	(5,110)	(5,017)
	<hr/>	<hr/>
Deferred Tax Liabilities:		
Revenue recognized from citrus and sugarcane	607	458
Property and equipment (principally due to depreciation and soil and water deductions)	12,981	12,645
Mortgage notes receivable	11	10
Inventories	1,205	886
Deferred real estate gains	1,625	1,600
Other	29	184
	<hr/>	<hr/>
Total gross deferred tax liabilities	16,458	15,783
	<hr/>	<hr/>
Net deferred income tax liabilities	\$11,348	\$10,766
	<hr/>	<hr/>
	<hr/>	<hr/>

Based on the Company's history of taxable earnings and its expectations for the future, management has determined that its taxable income will more likely than not be sufficient to fully recognize all deferred tax assets.

Agri Insurance Company, Ltd. (Agri), a wholly owned insurance company subsidiary of Alico, is treated as a U.S. taxpayer, pursuant to an election under Internal Revenue Code Section 953 (d), for all purposes except for consolidating an operating loss by virtue of the dual consolidated loss rules. (Dual consolidated losses prevent operating losses (not capital losses) from occurring in insurance companies domiciled outside of the United States from offsetting operating income irrespective of the fact that the insurance company is a member of the consolidated return group.)

Agri was established to provide agricultural insurance that falls outside of the Federal Crop Insurance Program, for catastrophic perils. Agri was domiciled in Bermuda because it offers easy access to reinsurance markets.

Agri issued its initial policy in August 2000 to a third party. Agri's ability to underwrite insurance risks has been limited to its operational liquidity, by the Registrar of Companies in Bermuda. Agri will be able to underwrite additional insurance as its liquidity is increased from additional asset sales and as payments are received on prior sales. For Federal income tax purposes, only premiums received by Agri from policies of insurance issued to parties other than its parent, Alico, are considered insurance premiums. The preceding limiting factors resulted in Agri not incurring a tax liability on underwriting profits or investment income. Agri's tax status resulted in it filing its Federal tax return on a stand alone basis for the calendar year periods ending December 31, 2002, 2001 and 2000.

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The Internal Revenue Service has notified the Company of its intent to examine the Company tax returns for the years ended August 31, 2001 and 2002. Any adjustments resulting from the examination will be currently due and payable. No adjustments have been proposed to date.

### (12) Related Party Transactions

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#### Citrus

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Citrus revenues of \$17.7 million, \$19.1 million and \$19.9 million were recognized for a portion of citrus crops sold under a marketing agreement with Ben Hill Griffin, Inc. (Griffin) for the years ended August 31, 2003, 2002 and 2001, respectively. Griffin and its subsidiaries is the owner of approximately 49.52 percent of the Company's common stock. Accounts receivable, resulting from citrus sales, include amounts due from Griffin totaling \$6.5 million at both August 31, 2003 and 2002. These amounts represent estimated revenues to be received periodically under pooling agreements as sale of pooled products is completed.

Harvesting, marketing, and processing costs, related to the citrus sales noted above, totaled \$6.6 million, \$7.1 million, and \$7.6 million for the years ended August 31, 2003, 2002 and 2001, respectively. In addition, Griffin provided the harvesting services for citrus sold to unrelated processors. The aggregate cost of these services was \$2.1 million, \$2.0 million and \$2.2 million for the years ended August 31, 2003, 2002 and 2001, respectively. The accompanying consolidated balance sheets include accounts payable to Griffin for citrus production, harvesting and processing costs in the amount of \$435 thousand and \$594 thousand at August 31, 2003 and 2002, respectively.

#### Other Transactions

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The Company purchased fertilizer and other miscellaneous supplies, services, and operating equipment from Griffin, on a competitive bid basis, for use in its cattle, sugarcane, sod and citrus operations. Such purchases totaled \$6.4 million, \$6.2 million and \$6.0 million during the years ended August 31, 2003, 2002 and 2001, respectively.

Griffin purchased catastrophic business interruption coverage from Agri during fiscal 2003, 2002 and 2001. The total coverage under the policy was \$3.5 million, \$3.2 million and \$3.2 million for the fiscal years 2003, 2002 and 2001, respectively. The policy renews annually in December for a one year term. The premiums charged under this policy were \$138 thousand, \$128 thousand and \$114 thousand for 2003, 2002 and 2001, respectively.

### (13) Future Application of Accounting Standards

---

In May 2003 the FASB issued SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities

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and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this Statement is not expected to have a significant impact on the financial position or results of operations of the Company.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of Interpretation No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest after that date, and for variable interest entities created before that date, the provisions are effective July 1, 2003. The adoption of Interpretation No. 46 is not expected to have a material effect on the financial condition, results of operations, or liquidity of the Company.

(14) Recovery of Citrus Canker Eradication Costs in Excess of Basis

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The Company incurred losses during the year ended August 31, 2001 related to citrus canker eradication. The eradication program called for the removal of 507 acres of citrus trees from a grove in Hendry County, Florida. While the trees were insured under the Federal Crop Insurance Program, additional relief funding was available and secured by the Company from both Federal and State government sources. A summary of the recovery sources, related basis of the trees removed and the crop inventory losses are summarized (in thousands) as follows:

	2003	2002	2001
Recovery Sources			
Federal	\$ -	\$ -	\$2,830
State	-	-	157
Insurance	-	-	219
	-	-	3,206
Total Recovery			

Loss Basis

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Net Book Value of Trees	-	-	238
Fruit Inventory	-	-	-
	-----	-----	-----
Total Basis	-	-	238
	-----	-----	-----
Excess of Recovery over Basis	\$ -	\$ -	\$ 2,968
	-----	-----	-----
	-----	-----	-----

### 15) Reportable Segment Information

The Company is primarily engaged in agricultural operations, which are subject to risk, including market prices, weather conditions and environmental concerns. The Company is also engaged in retail land sales and, from time to time, sells real estate considered surplus to its operating needs. Information about the Company's reportable segments (in thousands) for the years ended August 31, 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
	-----	-----	-----
Revenues			
Agriculture:			
Citrus	\$ 24,107	\$ 25,105	\$ 27,570
Sugarcane	13,373	11,789	12,450
Ranch	7,175	9,102	8,788
	-----	-----	-----
Total revenues from external customers for reportable segments	44,655	45,996	48,808
Other revenues from external customers	3,630	3,189	2,725
	-----	-----	-----
Total operating revenue	\$ 48,285	\$ 49,185	\$ 51,533
	-----	-----	-----
Costs of sales:			
Citrus	\$ 20,106	\$ 21,421	\$ 22,450
Sugarcane	10,188	9,457	9,628
Ranch	6,790	8,515	7,394
	-----	-----	-----
Total costs of sales for reportable segments	37,084	39,393	39,472
Other costs of sales	179	114	140
	-----	-----	-----



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Total consolidated costs of sales	\$ 37,263	\$ 39,507	\$ 39,612
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>
	2003	2002	2001
	<u>          </u>	<u>          </u>	<u>          </u>
Gross profit:			
Agriculture:			
Citrus	\$ 4,001	\$ 3,684	\$ 5,120
Sugarcane	3,185	2,332	2,822
Ranch	385	587	1,394
	<u>          </u>	<u>          </u>	<u>          </u>
Total profit for reportable segments	7,571	6,603	9,336
Other gross profit	3,451	3,075	2,585
	<u>          </u>	<u>          </u>	<u>          </u>
Consolidated gross profit	11,022	9,678	11,921
	<u>          </u>	<u>          </u>	<u>          </u>
Other income (expense):			
Citrus (Note 14)	-	-	2,968
Sugarcane	-	-	-
Ranch	-	-	-
Unallocated amounts:			
Profit on sale of bulk real estate	14,994	11,641	11,354
Other corporate expense	(6,932)	(11,526)	(6,131)
	<u>          </u>	<u>          </u>	<u>          </u>
Income before income taxes	\$ 19,084	\$ 9,793	\$ 20,112
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>
Capital expenditures:			
Agriculture:			
Citrus	\$ 3,216	\$ 4,704	\$ 3,310
Sugarcane	1,451	1,293	2,632
Ranch	2,245	3,240	2,157
	<u>          </u>	<u>          </u>	<u>          </u>

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	2003	2002	2001
	<u>          </u>	<u>          </u>	<u>          </u>
Total agriculture capital expenditures for reportable segments	6,912	9,237	8,099
Other capital expenditures	1,113	548	773
Cattle transferred from inventory held for sale into breeding stock	(700)	(515)	(370)
	<u>          </u>	<u>          </u>	<u>          </u>
Total consolidated capital expenditures	\$ 7,325	\$ 9,270	\$ 8,502
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>
Depreciation, depletion and amortization:			
Agriculture:			
Citrus	\$ 2,354	\$ 2,394	\$ 2,405
Sugarcane	2,414	2,527	2,587
Ranch	1,474	1,573	1,456
	<u>          </u>	<u>          </u>	<u>          </u>
Total depreciation, depletion and amortization for reportable segments	6,242	6,494	6,448
Other depreciation, depletion, and amortization	481	488	498
	<u>          </u>	<u>          </u>	<u>          </u>
Total consolidated depreciation, depletion and amortization	\$ 6,723	\$ 6,982	\$ 6,946
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>
Assets:			
Agriculture:			
Citrus	\$ 54,549	\$ 53,876	\$ 53,266
Sugarcane	52,283	52,015	51,678
Ranch	22,430	21,920	22,205
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets for reportable segments	129,262	127,811	127,149
Other assets	83,486	64,099	51,985
	<u>          </u>	<u>          </u>	<u>          </u>
Total consolidated assets	\$212,748	\$191,910	\$179,134
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>

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Identifiable assets represent assets on hand at year-end which are allocable to a particular segment either by their direct use or by allocation when used jointly by two or more segments. Other assets consist principally of cash, temporary investments, mortgage notes receivable, bulk land inventories, and property and equipment used in general corporate business.

SELECTED QUARTERLY FINANCIAL DATA

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(UNAUDITED)

Summarized quarterly financial data (in thousands except for per share amounts) for the years ended August 31, 2003 and August 31, 2002, is as follows:

	Quarters Ended							
	November 30, 2002    2001		Feb. 28, 2003    2002		May 31, 2003    2002		August 31, 2003    2002	
<b>Revenue:</b>								
Citrus	\$ 1,621	\$ 1,506	\$ 9,774	\$ 7,689	\$ 9,247	\$ 9,889	\$ 3,465	\$ 6,021
Sugarcane	2,748	2,255	5,212	6,978	4,977	1,883	436	673
Ranch	2,118	3,590	1,146	2,013	3,086	2,536	825	963
Property sales	535	2,819	134	8,547	178	252	16,143	1,155
Interest	276	497	245	336	229	403	451	235
Other revenues	957	879	942	569	703	983	1,084	874
<b>Total revenue</b>	<b>8,255</b>	<b>11,546</b>	<b>17,453</b>	<b>26,132</b>	<b>18,420</b>	<b>15,946</b>	<b>22,404</b>	<b>9,921</b>
<b>Costs and expenses:</b>								
Citrus	1,580	1,485	9,405	7,348	7,385	7,605	1,736	4,983
Sugarcane	2,224	1,855	4,062	5,497	3,476	1,864	426	241
Ranch	2,214	3,010	1,025	1,857	2,658	2,434	893	1,214
Interest	541	514	483	531	518	682	539	694
Other	1,347	1,401	1,398	5,888	1,436	1,341	4,102	3,308
<b>Total costs and expenses</b>	<b>7,906</b>	<b>8,265</b>	<b>16,373</b>	<b>21,121</b>	<b>15,473</b>	<b>13,926</b>	<b>7,696</b>	<b>10,440</b>
<b>Income (loss) before income taxes</b>	<b>349</b>	<b>3,281</b>	<b>1,080</b>	<b>5,011</b>	<b>2,947</b>	<b>2,020</b>	<b>14,708</b>	<b>(519)</b>
<b>Provision for income taxes</b>	<b>91</b>	<b>277</b>	<b>290</b>	<b>295</b>	<b>882</b>	<b>1,589</b>	<b>5,162</b>	<b>97</b>
<b>Net income (loss)</b>	<b>\$ 258</b>	<b>\$ 3,004</b>	<b>\$ 790</b>	<b>\$ 4,716</b>	<b>\$ 2,065</b>	<b>\$ 431</b>	<b>\$ 9,546</b>	<b>(616)</b>
<b>Basic earnings (loss) per share</b>	<b>\$ .04</b>	<b>\$ .43</b>	<b>\$ .11</b>	<b>\$ .66</b>	<b>\$ .29</b>	<b>\$ .06</b>	<b>\$ 1.34</b>	<b>\$ (.08)</b>
<b>Weighted average Shares outstanding</b>	<b>7,097</b>	<b>7,056</b>	<b>7,108</b>	<b>7,065</b>	<b>7,110</b>	<b>7,073</b>	<b>7,111</b>	<b>7,070</b>

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

None

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Item 9 (a) Controls and Procedures.

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Evaluation of disclosure controls and procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive and chief financial officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

Changes in internal controls

The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers.

### PART III

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Item 10. Directors and Executive Officers of the Registrant.

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Executive Officers of the Company

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Information with respect to Directors and Executive Officers may be found under the captions "Nomination for Election as Directors" and "Executive Officers" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held December 4, 2003 (the "Proxy Statement"). Such information is incorporated herein by reference.

Section 16 (a) - Beneficial Ownership Reporting Compliance

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Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company pursuant to Rule 16a-3(e) during the 2003 fiscal year and certain written representations, if any, made to the Company, no officer, director or beneficial owners of 10% or more of the Company's common stock has failed to file on a timely basis any reports required by Section 16(a) of the Exchange Act to be filed during fiscal 2003, with the following two exceptions. William L. Barton filed one late Form 4

related to the sale of shares in the Company and Amy Gravina filed one late Form 3 related to the initial acquisition of shares in the Company by a family member.

For information with respect to the executive officers of the registrant, see "Executive Officers of the Registrant" at the end of Part I of this report.

The information called for regarding directors is incorporated by reference to the Company's Proxy Statement dated November 10, 2003.

Code of Ethics

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The Company adopted a code of Business Conduct and Ethics during fiscal 2003. This Code of Ethics applies to all directors, officers and employees and includes a "Whistleblower Policy" with procedures for the submission of complaints or concerns regarding financial statement disclosures and other matters. A copy of the Code of Ethics is attached as an Exhibit to this annual Report on Form 10-K, and is also posted on the Company's website. Any person will be provided with a copy of such Code of Ethics without charge upon written request to the Company's address, attention: Denise Plair, Corporate Secretary.

Item 11. Executive Compensation.

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The information in the Proxy Statement set forth under the captions "Executive Compensation" and "Directors' Compensation, Committees of the Board of Directors and certain meetings" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

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Information called for by Items 12 is incorporated by reference to the Company's Proxy Statement dated November 10, 2003.

Item 13. Certain Relationships and Related Transactions.

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Information called for by Items 13 is incorporated by reference to the Company's Proxy Statement dated November 10, 2003.

Item 14. Principal Accountant's Fees and Services.

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Information called for by Items 14 is incorporated by reference to the Company's Proxy Statement dated November 10, 2003.

### PART IV

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Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

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(a)1. Financial Statements:

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Included in Part II, Item 8 of this Report

Report of Independent Auditors'

Consolidated Balance Sheets - August 31, 2003 and 2002

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Consolidated Statements of Operations - For the Years Ended August 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity and Comprehensive Income (loss) - For the Years Ended August 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows - For the Years Ended August 31, 2003, 2002 and 2001

(a)2. Financial Statement Schedules:

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Selected Quarterly Financial Data - For the Years Ended August 31, 2003 and 2002 - Included in Part II, Item 8

Schedule I - Marketable Securities and Other Investments - at August 31, 2003

Schedule V - Property, Plant and Equipment - For the Years Ended August 31, 2003, 2002 and 2001

Schedule VI - Reserves for Depreciation, Depletion and Amortization of Property, Plant and Equipment - For the Years Ended August 31, 2003, 2002 and 2001

Schedule IX - Supplementary Income Statement Information - For the Years Ended August 31, 2003, 2002 and 2001

All other schedules not listed above are not submitted because they are not applicable or not required or because the required information is included in the financial statements or notes thereto.

(a)3. Exhibits:

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(3) Articles of Incorporation: \*

Schedule I - Restated Certificate of Incorporation, Dated February 17, 1972

Schedule II - Certificate of Amendment to Certificate of Incorporation, Dated January 14, 1974

Schedule III - Amendment to Articles of Incorporation, Dated January 14, 1987

Schedule IV - Amendment to Articles of Incorporation, Dated December 27, 1988

Schedule V - By-Laws of Alico, Inc., Amended to September 13, 1994

(4) Instruments Defining the Rights of Security Holders, Including Indentures - Not Applicable

(10) Material Contracts - Citrus Processing and Marketing Agreement with Ben Hill Griffin, Inc., dated November 2,

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1983, a Continuing Contract. \*

- (11) Statement - Computation of Weighted Average Shares Outstanding and Per Share Earnings.
- (12) Statement - Computation of Ratios
- (14) Code of ethics
- (19) Annual Report to Security Holders - By Reference
- (21) Subsidiaries of the Registrant - Sadddlebag Lake Resorts, Inc. (incorporated in 1971) and Agri-Insurance Company, Ltd. (incorporated in 2000).
- (22) Published Report Regarding Matters Submitted to Vote of Security Holders - Not Applicable
- (31.1) Rule 13a-14(a) certification
- (31.2) Rule 13a-14(a) certification
- (32.1) Section 1350 certification
- (32.2) Section 1350 certification
- (99) Additional Exhibits - None

(b) Reports on Form 8-K:

Form 8-K dated August 12, 2003 regarding settlement agreement proceedings.

Form 8-K dated July 15, 2003 regarding land sale.

Form 8-K dated June 12, 2003 regarding land sale.

Form 8-K dated April 8, 2003 regarding settlement agreement enforceability.

Form 8-K dated March 26, 2003 regarding land sale.

Form 8-K dated March 12, 2003 regarding land sale.

Form 8-K dated February 24, 2003 regarding settlement agreement enforceability.

Form 8-K dated December 10, 2002 regarding land sale.

Form 8-K dated December 6, 2002 regarding re-election of directors, Officers, and additional comments by the chairman.

Form 8-K dated September 17, 2002 regarding land sale.



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Form 8-K dated September 16, 2002 announcing new director.

\*Material has been filed with Securities and Exchange Commission and NASDAQ and may be obtained upon request.

### ALICO, INC.

#### SCHEDULE I

#### Marketable Securities and Other Investments (in thousands)

August 31, 2003

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
Name of Issuer and Title of Each Issue	Number of Shares or Units-Principal Amounts of Bonds and Notes	Cost of Each Issue	Market Value of Each Issue at Balance Sheet Date	Amount of Which Each Portfolio of Equity Secu- rity Issues and Each Other Se- curity Issue Carried in the Balance Sheet
Municipal Bonds	500	\$ 515	\$ 543	\$ 543
Corporate Bonds	2,557	2,762	2,601	2,601
Mutual-Debt	8,435	8,435	8,247	8,247
Preferred Stocks	99	2,504	2,524	2,524

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Common Stocks	67	1,893	1,808	1,808
Mutual Equity	10,181	10,181	11,982	11,982
Fixed maturity Funds	11,146	11,146	11,115	11,115
		<hr/>	<hr/>	<hr/>
Total:		\$ 37,436	\$ 38,820	\$ 38,820
		<hr/>	<hr/>	<hr/>
		<hr/>	<hr/>	<hr/>

See accompanying independent auditors report

ALICO, INC.  
SCHEDULE V  
(In Thousands)

PROPERTY, PLANT AND EQUIPMENT

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Description	Balance Beginning of Period	Additions at Cost	Retire- ments or Sales	Other Changes Debit and/or Credit- Describe	Balance at Close of Period
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
For Year Ended August 31, 2003					
Land	\$ 31,542	\$ 126	\$ 374	\$	\$ 31,294
Roads	2,247	33			2,280
Agricultural Land Preparation	10				10
Forest Improvements	100				100
Pasture Improvements	3,174	154			3,328
Buildings	3,927	168	238		3,857
Feeding and Watering Facilities for Cattle Herd	23				23
Water Control Facilities	5				5
Fences	303	9	39		273
Cattle Pens	167	10	29		148
Interest-Ranch	34	4			38
Irrigation System- Ranch	676				676
Citrus Groves,					

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Including Irrigation Systems	47,881	2,709	374	50,216
Equipment	9,358	761	470	9,649
Breeding Herd	12,618	1,859	1,766	12,711
Sugarcane-Land Preparation, Etc.	26,853	1,256	1,812	26,297
Sod Land-Preparation, Etc.	1,583	193		1,776
Farm Land Preparation, Etc.	1,854	43		1,897
	<u>\$ 142,355</u>	<u>\$ 7,325</u>	<u>\$ 5,102</u>	<u>\$ 144,578</u>

See accompanying independent auditors report

ALICO, INC.  
SCHEDULE V  
(In thousands)

PROPERTY, PLANT AND EQUIPMENT

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes Debit and/or Credit- Describe	Balance at Close of Period
For Year Ended August 31, 2002					
Land	\$ 31,624	\$ 51	\$ 133	\$	\$ 31,542
Roads	2,189	58			2,247
Agricultural Land Preparation	10				10
Forest Improvements	100				100
Pasture Improvements	3,039	135			3,174
Buildings	3,789	138			3,927
Feeding and Watering Facilities for Cattle Herd	18	7	2		23
Water Control Facilities	5				5
Fences	286	18	1		303
Cattle Pens	176		9		167
Interest-Ranch	17	17			34
Irrigation System-Ranch	330	346			676
Citrus Groves, Including Irrigation Systems	45,112	4,065	1,296		47,881
Equipment	9,447	1,316	1,405		9,358
Breeding Herd	12,465	1,723	1,570		12,618
Sugarcane-Land Preparation					

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aration, Etc.	27,039	1,180	1,366		26,853
Sod-Land Preparation, Etc.	858	725			1,583
Farm Land Preparation	1,848	6			1,854
	<u>\$ 138,352</u>	<u>\$ 9,785</u>	<u>\$ 5,782</u>	<u>\$</u>	<u>\$ 142,355</u>

See accompanying independent auditors report

ALICO, INC.  
SCHEDULE V  
(In thousands)

PROPERTY, PLANT AND EQUIPMENT

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes Debit and/or Credit- Describe	Balance at Close of Period

For the Year Ended August 31, 2001

Land	\$ 32,396	\$ 42	\$ 814	\$	\$ 31,624
Roads	2,157	32			2,189
Agricultural Land Preparation	10				10
Forest Improvements	100				100
Pasture Improvements	3,012	51	24		3,039
Buildings	3,554	235			3,789
Feeding and Watering Facilities for Cattle Herd	23		5		18
Water Control Facilities	5				5
Fences	277	10	1		286
Cattle Pens	187		11		176
Interest-Ranch	0	17			17
Irrigation System-Ranch	0	330			330
Citrus Groves, Including Irrigation Systems	44,327	2,818	2,033		45,112
Equipment	8,956	1,101	610		9,447
Breeding Herd	13,714	1,531	2,780		12,465
Sugarcane-Land Prep., Etc.	25,991	2,112	1,064		27,039
Sod-Land Preparation, Etc.	271	587			858
Farm Land Prep-					

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aration	1,842	6			1,848
	<u>136,822</u>	<u>8,872</u>	<u>7,342</u>	<u>0</u>	<u>138,352</u>

\* Reclassification from other assets.  
See accompanying independent auditors report

ALICO, INC.  
SCHEDULE VI  
(In thousands)

Reserves for Depreciation, Depletion and Amortization  
of Property, Plant and Equipment

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions Charged To Profit & Loss of Income	Retire- ments	Other Changes Add(Deduct) Describe	Balance at Close Of Period
<u>For Year Ended August 31, 2003</u>					
Buildings	\$ 1,833	\$ 181	\$ 238	\$ 0	\$ 1,776
Feeding and Watering Facilities for Cattle Herd	3	2			5
Fences	186	30	32		184
Cattle Pens	106	12	29		89
Interest-Ranch	3	3			6
Irrigation System- Ranch	28	34			62
Citrus Groves, Including Irriga- tion Systems	15,765	1,867	374		17,258
Equipment	5,352	1,071	470		5,953
Breeding Herd	4,760	1,242	1,127		4,875
Roads	411	127			538
Sugarcane Lane Prep- aration, Etc.	8,376	2,058	1,812		8,622
Sod Land Prepara- tion, Etc.	49	57			106
Farm Land Preparation	228	39			267
	<u>\$ 37,100</u>	<u>\$ 6,723</u>	<u>\$ 4,082</u>	<u>\$ 0</u>	<u>\$ 39,741</u>

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ALICO, INC.  
SCHEDULE VI  
(In thousands)

Reserves for Depreciation, Depletion and Amortization  
of Property, Plant and Equipment

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions Charged To Profit & Loss of Income	Retire- ments	Other Changes Add(Deduct) Describe	Balance at Close Of Period
For Year Ended August 31, 2002					
Buildings	\$ 1,663	\$ 170	\$	\$	\$ 1,833
Feeding and Watering Facilities for Cattle Herd	5	1	3		3
Fences	158	29	1		186
Cattle Pens	102	13	9		106
Interest- Ranch	1	2			3
Irrigation System- Ranch	4	24			28
Citrus Groves, Including Irriga- tion Systems	14,835	1,922	992		15,765
Equipment	5,622	1,081	1,351		5,352
Breeding Herd	4,467	1,332	1,039		4,760
Roads	288	123			411
Sugarcane-Land Prep- aration, Etc.	7,520	2,221	1,365		8,376
Sod-Land Prepara- tion, Etc.	24	25			49
Farm Land Preparation	189	39			228
	\$ 34,878	\$ 6,982	\$ 4,760	\$ 0	\$ 37,100

See accompanying independent auditors report

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ALICO, INC.  
SCHEDULE VI  
(In thousands)

Reserves for Depreciation, Depletion and Amortization  
of Property, Plant and Equipment

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Description	Balance Beginning of Period	Additions Charged To Profit & Loss of Income	Retire- ments	Other Changes Add(Deduct) Describe	Balance at Close of Period
For the Year Ended August 31, 2001					
Buildings	\$ 1,503	\$ 160	\$	\$	\$ 1,663
Feeding and Watering Facilities for Cattle Herd	9	1	5		5
Fences	130	28	0		158
Cattle Pens	99	14	11		102
Citrus Groves, Interest-Ranch	0	1			1
Irrigation System- Ranch Including Irrigation Systems	0	4	828		4
Equipment	13,714	1,949	504		14,835
Breeding Herd	5,089	1,037	1,941		5,622
Roads	5,133	1,275			4,467
Sugarcane-Land Prep., Etc.	172	116			288
Sod-Land Prep- aration, Etc.	5,951	2,314	745		7,520
Farm Land Preparation	16	8			24
	150	39			189
	\$ 31,966	\$ 6,946	\$ 4,034	\$ 0	\$ 34,878

See accompanying independent auditors report

ALICO, INC.

SCHEDULE IX

SUPPLEMENTARY INCOME STATEMENT INFORMATION

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COLUMN A	COLUMN B		
	Charged to Costs and Expenses		
	(In thousands)		
	Years Ended August 31,		
Item	2003	2002	2001
1. Maintenance and repairs	\$ 1,156	\$ 862	\$ 1,476
2. Taxes, other than payroll and income taxes	2,081	2,054	1,617

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALICO, INC.  
(Registrant)

December 7, 2004  
Date

John R. Alexander  
Chairman and Director

/s/ John R. Alexander



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December 7, 2004  
Date

W. Bernard Lester  
President, Chief Executive  
Officer and Director

/s/ W. Bernard Lester

December 7, 2004  
Date

L. Craig Simmons  
Vice President and  
Chief Financial Officer

/s/ L. Craig Simmons

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

John R. Alexander  
Director

Richard C. Ackert  
Director

/s/ John R. Alexander

/s/ Richard C. Ackert

J.D. Alexander  
Director

William L. Barton  
Director

/s/ J.D. Alexander

/s/ William L. Barton

Larry A. Carter  
Director

W. Bernard Lester  
Director

/s/ Larry A. Carter

/s/ W. Bernard Lester

Stephen M. Mulready  
Director

Thomas E. Oakley  
Director

/s/ Stephen M. Mulready

/s/ Thomas E. Oakley

Baxter G. Troutman  
Director

/s/ Baxter G. Troutman

December 7, 2004  
Date