

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarterly period ended May 31, 2004.

OR

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

For the transition period from _____ to _____.

Commission file number 0-261.

ALICO, INC.

(Exact name of registrant as specified in its charter)

Florida

59-0906081

(State or other jurisdiction of
incorporation of organization)

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

P. O. Box 338, La Belle, FL

33975

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (863) 675-2966

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 7,284,755 shares of common stock, par value \$1.00 per share, outstanding at June 30, 2004.

Explanatory note

This Amendment on Form 10-Q/A constitutes Amendment No. 2 to the Quarterly Report on Form 10-Q for the nine months ended May 31, 2004 which was previously filed with the Securities and Exchange Commission (the "SEC") on July 14, 2004 and amended July 26, 2004. This report is amended for changes to 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 Quarterly Report as specified above and does not reflect events occurring after the original filing date of the Quarterly Report on July 14, 2004.

PART 1. FINANCIAL INFORMATION

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Item 1. Financial Statements

ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

| | Three months ended May 31, | | Nine months ended May 31, | |
|--|-------------------------------|----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenue: | | | | |
| Citrus | \$ 9,686 | \$ 9,247 | \$ 19,579 | \$ 20,641 |
| Sugarcane | 3,459 | 4,977 | 11,665 | 12,937 |
| Ranch | 4,650 | 3,086 | 9,074 | 6,350 |
| Rock & sand royalties | 1,036 | 392 | 2,600 | 1,472 |
| Oil lease & land rentals | 259 | 155 | 952 | 690 |
| Forest products | 168 | 94 | 342 | 222 |
| Retail land sales | 90 | 36 | 285 | 153 |
| Operating revenue | 19,348 | 17,987 | 44,497 | 42,465 |
| Cost of sales: | | | | |
| Citrus production, harvesting & marketing | 8,081 | 7,385 | 18,368 | 18,371 |
| Sugarcane production, harvesting and hauling | 2,932 | 3,476 | 9,475 | 9,762 |
| Ranch | 4,045 | 2,658 | 7,656 | 5,897 |
| Retail land sales | 61 | 33 | 191 | 131 |
| Total costs of sales | 15,119 | 13,552 | 35,690 | 34,161 |
| Gross profit | 4,229 | 4,435 | 8,807 | 8,304 |
| General & administrative expenses | 1,243 | 1,403 | 5,337 | 4,050 |
| Income (loss) from operations | 2,986 | 3,032 | 3,470 | 4,254 |

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| | | | | |
|---|------------|-------------|---------------|------------|
| Other income (expenses): | | | | |
| Profit on sales of real estate, net | 824 | 141 | 20,296 | 695 |
| Interest & investment income | 748 | 229 | 2,002 | 750 |
| Interest expense | (406) | (518) | (1,385) | (1,542) |
| Other | (173) | 63 | 81 | 219 |
| Total other income, net | 993 | (85) | 20,994 | 122 |
| | | | | |
| Income before income taxes | 3,979 | 2,947 | 24,464 | 4,376 |
| Provision for income taxes | 1,639 | 882 | 9,331 | 1,263 |
| | | | | |
| Net income | \$ 2,340 | \$ 2,065 | \$ 15,133 | \$ 3,113 |
| | | | | |
| Weighted-average number of shares outstanding | 7,263 | 7,110 | 7,195 | 7,105 |
| | | | | |
| Per share amounts: | | | | |
| Basic | \$ 0.32 | \$ 0.29 | \$ 2.10 | \$ 0.44 |
| Fully diluted | \$ 0.32 | \$ 0.28 | \$ 2.07 | \$ 0.43 |
| Dividends | \$ - | \$ - | \$ 0.60 | \$ 0.35 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(See Accountants' Review Report)

| ASSETS | May 31, 2004 (unaudited) | August 31, 2003 |
|--------------------------------|---|----------------------------|
| Current assets: | | |
| Cash and cash investments | \$ 21,028 | \$ 16,352 |
| Marketable securities | 54,447 | 38,820 |
| Accounts receivable | 10,373 | 9,680 |
| Mortgages and notes receivable | 12,314 | 2,534 |
| Inventories | 16,073 | 21,845 |
| Other current assets | 351 | 973 |
| Total current assets | 114,586 | 90,204 |
| Other assets: | | |

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| | | |
|--|-------------------|-------------------|
| Mortgages and note receivable | 646 | 234 |
| Land held for development and sale | 5,418 | 16,587 |
| Investments | 856 | 886 |
| Total other assets | 6,920 | 17,707 |
| Property, buildings and equipment | 147,822 | 144,578 |
| Less: accumulated depreciation | (42,256) | (39,741) |
| Net property, buildings and equipment | 105,566 | 104,837 |
| Total assets | \$ 227,072 | \$ 212,748 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(See Accountants' Review Report)

| | May 31, 2004 | | August 31, 2003 |
|---|-------------------------|----|----------------------------|
| | (unaudited) | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,413 | \$ | 2,110 |
| Accrued ad valorem taxes | 984 | | 1,519 |
| Current portion of notes payable | 3,320 | | 3,321 |
| Accrued expenses | 1,060 | | 988 |
| Income taxes payable | 702 | | - |
| Deferred income taxes | 1,321 | | 1,680 |
| Due to profit sharing | - | | 350 |
| Other current liabilities | 743 | | 754 |
| Total current liabilities | 9,543 | | 10,722 |
| Deferred revenue | 29 | | 91 |

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| | | |
|---|-------------------|-------------------|
| Notes payable | 45,516 | 54,127 |
| Deferred income taxes | 10,895 | 9,668 |
| Deferred retirement benefits | 578 | 120 |
| Other non-current liability | 16,717 | 9,609 |
| Donation payable | 1,514 | 2,229 |
| Total liabilities | 84,792 | 86,566 |
| Stockholders' equity: | | |
| Common stock | 7,272 | 7,116 |
| Additional paid in capital | 7,154 | 3,074 |
| Accumulated other comprehensive income | 1,974 | 961 |
| Retained earnings | 125,880 | 115,031 |
| Total stockholders' equity | 142,280 | 126,182 |
| Total liabilities and stockholders' equity | \$ 227,072 | \$ 212,748 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Nine months ended May 31, | |
|--|---------------------------|------------------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net cash provided by operating activities | \$ 12,447 | \$ 10,746 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,829) | (5,647) |
| Proceeds from sale of real estate | 20,327 | 822 |
| Proceeds from sales of property and equipment | 1,650 | 740 |
| Purchases of marketable securities | (17,964) | (2,524) |
| Proceeds from sales of marketable securities | 4,170 | 3,512 |
| Note receivable collections | 299 | 56 |

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| | | | | |
|--|-----------|-----------------|-----------|----------------|
| Net cash provided by (used for) investing activities | | 2,653 | | (3,041) |
| Cash flows from financing activities: | | | | |
| Repayment of bank loan | | (26,062) | | (26,290) |
| Proceeds from bank loan | | 17,450 | | 25,274 |
| Proceeds from exercising stock options | | 2,473 | | 454 |
| Dividends paid | | (4,285) | | (2,483) |
| Net cash used for financing activities | | (10,424) | | (3,045) |
| Net increase in cash and cash investments | \$ | 4,676 | \$ | 4,660 |
| Cash and cash investments: | | | | |
| At beginning of year | \$ | 16,352 | \$ | 10,140 |
| At end of period | \$ | 21,028 | \$ | 14,800 |
| Non cash investing activities: | | | | |
| Issuance of mortgage notes | | 10,491 | | - |
| Fair value adjustments to securities available for sale net of tax effects | | 1,013 | | 1,126 |
| Reclassification of breeding herd to property and equipment | | 599 | | 700 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | | | |

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ALICO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands except for per share data)

1. Basis of financial statement presentation:

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

The accompanying unaudited condensed consolidated financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the Company's annual report for the year ended August 31,

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2003. In the opinion of Management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of its consolidated financial position at May 31, 2004 and the consolidated results of operations and cash flows for the three and nine month periods ended May 31, 2004 and May 31, 2003.

The basic business of the Company is agriculture, which is of a seasonal nature and subject to the influence of natural phenomena and wide price fluctuations. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from the prior year's crop of \$541 and \$728 during the three and nine months ended May 31, 2004, respectively and \$0 and \$282 during the three and nine months ended May 31, 2003, respectively. The results of operations for the stated periods are not necessarily indicative of results to be expected for the full year. Certain items from 2003 have been reclassified to conform to the 2004 presentation.

2. Real Estate:

Real estate sales are recorded under the accrual method of accounting. Under this method, a sale is not recognized until certain criteria is met including whether the profit is determinable, collectibility of the sales price is reasonably assured and whether the earnings process is complete.

3. Marketable Securities Available for

Sale:

The Company has classified 100% of 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 stockholder's equity until realized. The cost and estimated fair value of marketable securities available for sale at May 31, 2004 and August 31, 2003 were as follows:

| | May 31, 2004 | | | August 31, 2003 | | |
|--------------------------------|------------------|----------------------------------|-------------------------|------------------|----------------------------------|-------------------------|
| | Cost | Net Unrealized gain (loss) | Estimated Fair value | Cost | Net Unrealized gain (loss) | Estimated Fair value |
| Equity | | | | | | |
| Securities: | | | | | | |
| Preferred stocks | \$ 1,613 | \$ 30 | \$ 1,643 | \$ 2,504 | \$ 20 | \$ 2,524 |
| Common stocks | 5,638 | (152) | 5,486 | 1,893 | (85) | 1,808 |
| Mutual funds | 22,182 | 2,770 | 24,952 | 10,181 | 1,801 | 11,982 |
| Total equity securities | 29,433 | 2,648 | 32,081 | 14,578 | 1,736 | 16,314 |
| Debt securities: | | | | | | |
| Municipal bonds | 1,364 | 17 | 1,381 | 515 | 28 | 543 |
| Corporate bonds | 13,975 | (128) | 13,847 | 2,762 | (161) | 2,601 |
| Mutual funds | 4,465 | 148 | 4,613 | 8,435 | (188) | 8,247 |
| Fixed maturity instruments | 2,577 | (52) | 2,525 | 11,146 | (31) | 11,115 |
| Total debt securities | 22,381 | (15) | 22,366 | 22,858 | (352) | 22,506 |
| Total | \$ 51,814 | \$ 2,633 | \$ 54,447 | \$ 37,436 | \$ 1,384 | \$ 38,820 |

4. Mortgages and notes receivable:

Mortgages and notes receivable arose from real estate sales. The balances at May 31, 2004 and August 31, 2003 are as follows:

| | May 31, 2004 (Unaudited) | Aug. 31, 2003 |
|--|---|----------------------|
| Mortgage notes receivable on retail land sales | \$ 298 | \$ 235 |
| Mortgage notes receivable on bulk land sales | 12,642 | 2,420 |
| Other notes receivable | 20 | 113 |
| Total mortgages and notes receivable | 12,960 | 2,768 |
| Less current portion | 12,314 | 2,534 |
| Non-current portion | \$ 646 | \$ 234 |

5. Inventories:

A summary of the Company's inventories is shown below:

| | May 31, 2004 (Unaudited) | Aug. 31, 2003 |
|---------------------------------|---|----------------------|
| Unharvested fruit crop on trees | \$ 6,161 | \$ 8,135 |
| Unharvested sugarcane | 3,403 | 5,159 |
| Beef cattle | 5,742 | 7,892 |
| Sod | 767 | 659 |
| Total inventories | \$ 16,073 | \$ 21,845 |

Subject to prevailing market conditions, the Company may hedge a portion of its beef inventory by entering into cattle futures contracts to reduce exposure to changes in market prices. The Company classifies these contracts as fair value hedges. The contracts are recorded at fair market value, with any resulting gains or losses added to the cost of cattle sold. The Company had no open positions at May 31, 2004.

6. Income taxes:

The provision for income taxes for the three and nine months ended May 31, 2004 and May 31, 2003 is summarized as follows:

| | Three months ended May 31, | Nine months ended May 31, |
|--|-----------------------------------|----------------------------------|
| | 2004 | 2003 |
| | 2003 | 2004 |
| | 2003 | 2003 |

Current:

| | |
|--------------------|----------|
| Federal income tax | \$ 2,001 |
| | \$ 478 |
| | \$ 8,231 |
| | \$ 781 |

State income tax

214
52
879
84
2,215
530
9,110
865

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Deferred:

| | | | | |
|---|-----------------|---------------|-----------------|-----------------|
| Federal income tax | (520) | 317 | 200 | 359 |
| State income tax | (56) | 35 | 21 | 39 |
| | (576) | 352 | 221 | 398 |
| Total provision for income taxes | \$ 1,639 | \$ 882 | \$ 9,331 | \$ 1,263 |

The Internal Revenue Service has begun its examination of the Company tax returns for the years ended August 31, 2000, 2001, 2002 and 2003, and Agri tax returns for calendar years 2000, 2001 and 2002. No adjustments have been proposed to date.

7. 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). No contributions were made during the first nine months of fiscal 2004 or 2003, respectively. Contributions are made annually to the profit sharing plan and were \$350 and \$285 for the years ended August 31, 2003 and 2002, 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:

| | Three Months ended May 31, | | Nine Months ended May 31, | |
|--|-----------------------------------|-------------|----------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Components of net pension cost: | | | | |
| Service cost, net of participant contributions | \$ 35 | \$ 127 | \$ 148 | \$ 383 |
| Interest cost | 70 | 59 | 209 | 176 |
| Expected return on plan assets | 39 | (91) | (117) | (230) |
| Prior service cost amortization | 1 | 1 | 2 | 2 |
| Net pension cost for defined | | | | |

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benefit plan \$ 145 \$ 96 \$ 242 \$ 331

The net benefit obligation was computed using a discount rate of 6.25%. Employer contributions to the plan for the first nine months of fiscal 2004 and 2003 were \$419 and \$29, respectively.

8. Indebtedness:

The Company has financing agreements with commercial banks that permit the Company to borrow up to \$54 million. The outstanding debt under these agreements was \$36.1 million and \$43.8 million at May 31, 2004 and August 31, 2003 respectively. In March 1999, the Company mortgaged 7,680 acres for \$19 million in connection with a \$22.5 million acquisition of producing citrus and sugarcane operations. The long-term portion of debt at May 31, 2004 and August 31, 2003 was \$45.5 million and \$54.1 million respectively.

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Maturities of the indebtedness of the Company over the next five years are as follows: 2004- \$3,320; 2005- \$33,449; 2006- \$3,312; 2007- \$1,315; 2008- \$1,318; and \$6,122 thereafter.

Interest cost expensed and capitalized during the periods presented was as follows:

| | Three Months ended May 31, | | Nine Months ended May 31, | |
|----------------------------|-----------------------------------|---------------|----------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Interest expensed | \$ 406 | \$ 518 | \$ 1,385 | \$ 1,542 |
| Interest capitalized | 70 | 68 | 199 | 191 |
| Total interest cost | \$ 476 | \$ 586 | \$ 1,584 | \$ 1,733 |

9. 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 \$16.7 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 has provided for the contingency.

The Internal Revenue Service has begun its examination of the Company tax returns for the years ended August 31, 2000, 2001, 2002 and 2003, and Agri tax returns for calendar years 2000, 2001 and 2002. No adjustments have been proposed to date.

10. Dividends:

On October 7, 2003 the Company declared a year-end dividend of \$.60 per share, which was paid on October 31, 2003.

11. Disclosures about reportable segments:

Alico, Inc. has three reportable segments: citrus, sugarcane, and ranching. The commodities produced by these segments are sold to wholesalers and processors who prepare the products for consumption. The Company's operations are located in Florida.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's 10K. Alico, Inc. evaluates performance based on profit or loss from operations before income taxes. Alico, Inc.'s reportable segments are strategic business units that offer different products. They are managed separately because each segment requires different management techniques, knowledge and skills.

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The following table presents the results from operations before income taxes for each of the Company's operating segments for the three and nine month periods ended May 31, and the segment assets as of May 31.

| | Three months ended May 31, | | Nine months ended May 31, | |
|-------------------------------|----------------------------|----------|---------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Citrus: | | | | |
| Revenue | \$ 9,686 | \$ 9,246 | \$ 19,579 | \$ 20,641 |
| Cost and expenses | 8,081 | 7,386 | 18,368 | 18,371 |
| Segment profit | 1,605 | 1,860 | 1,211 | 2,270 |
| Depreciation and amortization | 583 | 582 | 1,769 | 1,761 |
| Segment assets | | | 53,358 | 53,939 |
| Sugarcane: | | | | |
| Revenue | 3,459 | 4,977 | 11,665 | 12,937 |

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| | | | | |
|-------------------------------|-------|-------|--------|--------|
| Cost and expenses | 2,932 | 3,476 | 9,475 | 9,762 |
| Segment profit | 527 | 1,501 | 2,190 | 3,175 |
| Depreciation and amortization | 534 | 602 | 1,684 | 1,817 |
| Segment assets | | | 50,049 | 48,163 |
| Ranching: | | | | |
| Revenue | 4,650 | 3,087 | 9,074 | 6,350 |
| Cost and expenses | 4,045 | 2,659 | 7,656 | 5,897 |
| Segment profit | 605 | 428 | 1,418 | 453 |
| Depreciation and amortization | 357 | 386 | 1,071 | 1,152 |
| Segment assets | | | 20,654 | 23,728 |

| | Three months ended May 31, | | Nine months ended May 31, | |
|-------------------------------|----------------------------|----------|---------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Other* | | | | |
| Revenue | \$ 2,952 | \$ 1,111 | \$ 26,558 | \$ 4,201 |
| Cost and expenses | 1,710 | 1,953 | 6,913 | 5,723 |
| Segment profit (loss) | 1,242 | (842) | 19,645 | (1,522) |
| Depreciation and amortization | 115 | 121 | 307 | 361 |
| Segment assets | | | 103,011 | 68,407 |
| Total | | | | |
| Revenue | 20,747 | 18,421 | 66,876 | 44,129 |
| Cost and expenses | 16,768 | 15,474 | 42,412 | 39,753 |
| Segment profit | \$ 3,979 | \$ 2,947 | 24,464 | 4,376 |
| Depreciation and amortization | 1,589 | 1,691 | 4,831 | 5,091 |
| Segment assets | | | \$ 227,072 | \$ 194,237 |

*Consists of rent, investments, real estate activities and other such items of a general corporate nature.

12. 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 granted have a strike price and vesting schedules that are at the discretion of the Board of Directors and determined on the effective date of the grant. The strike price cannot be less than 55% of the market price.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net income would have changed to the proforma amounts indicated below:

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| | Three months ended May 31, | | Nine months ended May 31, | |
|--|-----------------------------------|-------------|----------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income as reported | \$ 2,340 | \$ 2,065 | \$ 15,133 | \$ 3,113 |
| Add: Stock based employee compensation expense included in reported net income net of related tax effects | - | 131 | 1,100 | 393 |
| Deduct: Total stock based employee compensation determined under the Black Scholes Model for all awards net of related tax effects | - | (132) | (1,063) | (395) |
| Proforma net income | \$ 2,340 | \$ 2,064 | \$ 15,170 | \$ 3,111 |
| Basic earnings per share reported | \$ 0.32 | \$ 0.29 | \$ 2.10 | \$ 0.44 |
| Proforma basic earnings per share | \$ 0.32 | \$ 0.29 | \$ 2.11 | \$ 0.44 |
| Fully diluted earnings per share reported | \$ 0.32 | \$ 0.28 | \$ 2.07 | \$ 0.43 |
| Proforma fully diluted earnings per share | \$ 0.32 | \$ 0.28 | \$ 2.08 | \$ 0.43 |

| | Options | Weighted average exercise price | Weighted average remaining contractual Life (in years) |
|--------------------------------------|----------------|--|---|
| Balance outstanding, August 31, 2002 | 117,847 | \$ 15.20 | 10 |
| Granted | 67,280 | 15.68 | |
| Exercised | 35,726 | 15.53 | |

| | | | |
|---|---------|----------|---|
| Balance outstanding, August 31, 2003 | 149,401 | 15.34 | 9 |
| Granted | 119,462 | 18.42 | |
| Exercised | 156,135 | 14.83 | |
| Balance outstanding, May 31, 2004 | 112,728 | \$ 17.66 | 9 |

On May 31, 2004, there were 112,728 shares exercisable and 292,844 shares available for grant.

13. Other Comprehensive Income

Other comprehensive income (loss), arising from market fluctuations in the Company's securities portfolio, was as follows:

ALICO, INC.
Schedule of Other Comprehensive Income
(in thousands)

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|-----------------|---------------------------|-----------------|
| | May 31, 2004 | May 31, 2003 | May 31, 2004 | May 31, 2003 |
| Balance of Other Comprehensive Income (loss) at beginning of period | \$ 2,747 | \$ (785) | \$ 961 | \$ (432) |
| Unrealized Security gains (losses) | (1,054) | 2,171 | 1,269 | 1,617 |
| Taxes provided for unrealized (gains) losses | 281 | (693) | (256) | (492) |
| Net change in Other Comprehensive Income | (773) | 1,478 | 1,013 | 1,125 |
| Other Comprehensive Income at end of period | \$ 1,974 | \$ 693 | \$ 1,974 | \$ 693 |

14. Future application of Accounting Standards

In November 2003, the EITF reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF Issue No. 03-1 provides guidance on other-than-temporary impairment and its application to debt and equity investments. The requirements apply to investments in debt and marketable equity securities that are accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The provisions of Issue No. 03-1 are effective for reporting periods beginning after June 15, 2004. The Company evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and business outlook for the investment, including factors such as industry and sector performance; changes in technology, operational and financing cash flow; the investment's financial position, including its appraisal and net asset value; market prices; and the Company's intent and ability to hold the investment. In the opinion of management, the adoption of this statement will not have a significant impact on the Company's consolidated financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

LIQUIDITY AND CAPITAL RESOURCES:

Working capital increased to \$105.0 million at May 31, 2004, from \$79.5 million at August 31, 2003. As of May 31, 2004, the Company had cash and cash investments of \$21.0 million compared to \$16.4 million at August 31, 2003. Marketable securities increased to \$54.4 million from \$38.8 million during the same period. The ratio of current assets to current liabilities increased to 12.00 to 1 at May 31, 2004 up from 8.41 to 1 at August 31, 2003. Total assets increased by \$14.3 million to \$227.0 million at May 31, 2004, compared to \$212.7 million at August 31, 2003.

Management expects continued profitability from 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 for beef and an increase in the number of cattle sold.

Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds. In addition, the Company has credit commitments that provide for revolving credit of up to \$54.0 million, of which \$17.9 million was available for the Company's general use at May 31, 2004 (see Note 8 to condensed consolidated financial statements).

RESULTS OF OPERATIONS:

The basic business of the Company is agriculture, which is of a seasonal nature and is subject to the influence of natural phenomena and wide price fluctuations. The results of operations for the stated periods are not necessarily indicative of results to be expected for the full year.

Net income for the nine months ended May 31, 2004 increased by \$12.0 million when compared to the first nine months of the prior year. This was primarily due to an increase in **income** from real estate sales for the nine months ended May 31, 2004 when compared to the nine months ended May 31, 2003 (\$20.3 million vs. \$0.7 million before tax during the first nine months of fiscal 2004 and 2003, respectively).

Income from operations decreased to \$3.5 million for the first nine months of fiscal 2004, compared to \$4.3 million for the first nine months of fiscal 2003. The decrease was largely due to an increase in general and administrative expenses due to \$1.4 million of stock options vesting in the second quarter commensurate with a change in control.

Gross profits from agricultural activities were below the prior year (\$2.9 million vs. \$3.9 million for the third quarter, and \$5.1 million during the first nine months of fiscal 2004 vs. \$6.1 million for the first nine months of fiscal 2003). **For a detailed discussion of agricultural operating results please see below.**

Citrus

The citrus division reported a profit of \$1.6 million for the third quarter of fiscal 2004, vs. a profit of \$1.9 million for the third quarter of fiscal 2003. The Citrus division recorded a profit of \$1.2 million for the first nine months of fiscal 2004, compared to \$2.3 million during the first nine months of fiscal 2003. The current year's Florida orange crop is the largest on record and, as a result, citrus prices have declined **(\$4.83 vs. \$5.38 per box average in fiscal 2004 and 2003, respectively).**

Sugarcane

Sugarcane earnings were \$527 thousand for the third quarter of fiscal 2004 as compared to \$1.5 million for the third quarter of fiscal 2003. Sugarcane earnings were \$2.2 million for the nine months ending May 31, 2004 and \$3.2 million for the nine months ended May 31, 2003. Less tons were harvested during the current year **(465,000 vs. 522,000 standard tons in fiscal 2004 and 2003, respectively).**

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Ranching

Ranch earnings during the third quarter of fiscal 2004 were slightly higher than those of the third quarter of prior year (\$605 thousand vs. \$428 thousand for the third quarter of fiscal 2004 and 2003, respectively). For the first nine months of fiscal 2004, ranch earnings have increased when compared to the same period a year ago (\$1.4 million vs. \$453 thousand for the nine months ended May 31, 2004 and May 31, 2003 respectively). Cattle prices have averaged significantly higher during fiscal 2004 than in fiscal 2003, and is the primary cause for the increase **(\$.93 vs. \$.69 per pound in fiscal 2004 and 2003, respectively).** **Additionally, more cattle have been sold in the first nine months of fiscal 2004 (9,992 head) than in the comparable period in fiscal 2003 (7,801 head).** **More animals of the age and size required by meat packers were available for sale in fiscal 2004 than in 2003 because of the timing of placements into western feedlots.**

During December 2003, a cow in Washington State tested positive for bovine spongiform encephalopathy (BSE a/k/a "mad cow disease"). This has caused some foreign countries to ban beef imports from the United States. Although there have been price declines since the BSE discovery, the incident appears to be isolated and beef prices are still well above prior year levels. The Company has no reason to believe its beef herd is subject to any risk from this disease.

General Corporate

The Company is continuing its marketing and permitting activities for its land that surrounds Florida Gulf Coast University in Lee County, Florida. There are sales contracts in place for all this property, totaling \$138.4 million. The agreements are at various stages in the due diligence process with closing dates expected over the next two years. The

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contracts are subject to various contingencies and there is no assurance that they will close.

The Company formed 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 its insureds 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 were transferred during fiscal 2001. Agri underwrote a limited amount of coverage for Ben Hill Griffin, Inc. during fiscal years 2001 - 2004, and in August 2002, Agri began insuring the Alico, Inc., citrus groves. As Agri gains underwriting experience and increases its liquidity, it will be able to increase its insurance programs. Due to Agri's limited operating history, 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.

During the third quarter of fiscal 2003, the Company entered into a limited partnership with Agri 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.

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 to Troy Weekly for \$669 thousand. The sale generated a gain of \$335 thousand. Additionally, the Company sold 266 acres in Polk County, Florida to the State of Florida for \$617 thousand, generating a gain of \$612 thousand.

During the second quarter of fiscal 2004, the Company, through Alico-Agri, completed the sale of 244 acres in Lee County, Florida. The sales price was \$30.9 million and resulted in a gain of \$19.7 million. The sale generated \$20.9 million cash with the remaining \$10 million held in the form of a mortgage receivable due in December 2004.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements that have, or are reasonably likely to have any material impact on the Company's current or future financial condition, revenues, or results of operations.

Disclosure of Contractual Obligations

Contractual obligations of the Company are outlined below:

May 31, 2004

(in
thousands)

| Contractual obligations | Total | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
|---------------------------------|---------------|-----------------------------|----------------------|----------------------|---------------------|
| Long-term debt | \$ 48,836 | \$ 3,320 | \$ 36,761 | \$ 2,633 | \$ 6,122 |
| Leases (Operating & capital) | 0 | 0 | 0 | 0 | 0 |
| Purchase obligations (donation) | 2,257 | 743 | 1,514 | 0 | 0 |
| Other long-term liabilities | 28,219 | 134 | 16,924 | 80 | 11,081 |
| TOTAL | 79,312 | 4,197 | 55,199 | 2,713 | 17,203 |

August 31, 2003
(in
thousands)

| Contractual obligations | Total | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
|---------------------------------|------------------|-----------------------------|----------------------|----------------------|---------------------|
| Long-term debt | 57,448 | 3,321 | 39,576 | 4,633 | 9,918 |
| Leases (Operating & capital) | 0 | 0 | 0 | 0 | 0 |
| Purchase obligations (donation) | 2,983 | 754 | 1,459 | 770 | 0 |
| Other long-term liabilities | 19,488 | 0 | 9,820 | 180 | 9,488 |
| TOTAL | \$ 79,919 | \$ 4,075 | \$ 50,855 | \$ 5,583 | \$ 19,406 |

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 that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements are discussed below.

Alico 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 the prior year's crop totaling \$728 thousand during fiscal 2004 and \$282 thousand in fiscal 2003.

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 cost of sales to provide an appropriate matching of costs incurred with the related revenue earned. The inventoried cost of each crop is then compared with the estimated net realizable value (NRV) of the crop and any costs in excess of the NRV are immediately recognized as cost of sales.

Cautionary Statement

Readers should note, in particular, that this Form 10-Q 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" 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 effect 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.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

No changes since registrant's disclosure of this item in its last annual report on Form 10-K.

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ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of May 31, 2004 pursuant to Exchange Act Rule 13a-15 and 15d-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission filings. No significant deficiencies or material weaknesses in the

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Company's disclosure controls and procedures were identified in the evaluation and therefore, no corrective actions were taken.

Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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FORM 10-Q PART II. OTHER INFORMATION

ITEMS 1-5 have been omitted, as there are no items to report during this interim period.

ITEM 6. Exhibits and reports on Form 8-K.

a) Exhibits:

Exhibit 3.1 Corporate By-laws

Exhibit 10.1. Fruit Marketing Contract with Ben Hill Griffin Inc.

Exhibit 10.2 Agreement for Purchase and sale and subsequent amendments.

Exhibit 11. Computation of Earnings per share May 31, 2004.

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) certification.

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) certification.

Exhibit 32.1 Section 1350 certification.

Exhibit 32.2 Section 1350 certification.

(b) Reports on Form 8-K.

March 4, 2004 announcing change in control of Alico, Inc. and change of directors

June 8, 2004 announcing change in Certified Public Accountants

June 14, 2004 announcing promotion of W. Bernard Lester as CEO

SIGNATURES

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

ALICO, INC.

(Registrant)

/S/ W. BERNARD LESTER

December 7, 2004 W. Bernard Lester

Date President

Chief Executive Officer

(Signature)

/S/ L. CRAIG SIMMONS

December 7, 2004 L. Craig Simmons
Date Vice President
 Chief Financial Officer
 (Signature)

/S/ PATRICK W. MURPHY

December 7, 2004 Patrick W. Murphy
Date Controller
 (Signature)
