

ALICO INC
Form 10-Q
July 10, 2006

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, 2006

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 or organization) *(I.R.S. Employer Identification No.)*

P.O. Box 338, LaBelle, FL **33975**

(Address of principal executive offices) *(Zip Code)*

Registrant's telephone number, including area code: **863-675-2966**

N/A

(Former name, former address and former fiscal year, if changed since last report.)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated file ☐ **Accelerated filer** ☒ Non-accelerated filer ☐

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

There were 7,371,582 shares of common stock, par value \$1.00 per share, outstanding at June 19, 2006.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

| | Three months ended May 31, | | Nine months ended May 31, | |
|--|-------------------------------|--------|------------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenue: | | | | |
| | \$ | \$ | \$ | \$ |
| Citrus | 28,276 | 10,246 | 42,250 | 20,711 |
| Sugarcane and sod | 2,792 | 1,902 | 9,922 | 9,641 |
| Cattle | 758 | 4,660 | 3,408 | 8,979 |
| Plants, vegetables and trees | 2,302 | 832 | 5,384 | 2,413 |
| Rock & sand royalties | 170 | 869 | 662 | 2,596 |
| Oil lease & land rentals | 302 | 345 | 1,095 | 1,253 |
| Retail land sales | 81 | 458 | 113 | 755 |
| Operating revenue | 34,681 | 19,312 | 62,834 | 46,348 |
| Cost of sales: | | | | |
| Citrus production, harvesting & marketing | 23,886 | 6,622 | 35,435 | 15,431 |
| Sugarcane and sod production, harvesting & hauling | 1,866 | 1,763 | 9,327 | 9,100 |
| Cattle | 671 | 3,558 | 2,700 | 7,169 |
| Plants, vegetables and trees | 2,162 | 551 | 5,159 | 1,950 |
| Retail land sales | 42 | 165 | 58 | 306 |
| Casualty loss | 2 | - | 2,768 | 408 |
| Total costs of sales | 28,629 | 12,659 | 55,447 | 34,364 |
| Gross profit | 6,052 | 6,653 | 7,387 | 11,984 |
| General & administrative expenses | 3,109 | 2,454 | 7,556 | 7,905 |
| Income (loss) from operations | 2,943 | 4,199 | (169) | 4,079 |
| Other income (expenses): | | | | |
| Sale of real estate | - | 31 | 5,555 | 31 |
| Cost of real estate sold | - | - | 1,162 | - |
| Net profit on the sale of real estate | - | 31 | 4,393 | 31 |
| Interest & investment income | 1,651 | 169 | 8,135 | 2,738 |
| Interest expense | (1,055) | (694) | (2,839) | (1,762) |

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| | | | | |
|---|----------|----------|----------|----------|
| Other | 93 | 519 | 231 | 531 |
| Total other income, net | 689 | 25 | 9,920 | 1,538 |
| Income before income taxes | 3,632 | 4,224 | 9,751 | 5,617 |
| Provision for income taxes | 1,092 | 1,609 | 3,391 | 2,048 |
| Net income | \$ 2,540 | \$ 2,615 | \$ 6,360 | \$ 3,569 |
| Weighted-average number of shares outstanding | 7,366 | 7,327 | 7,366 | 7,318 |
| Per share amounts: | | | | |
| Basic | \$ 0.34 | \$ 0.36 | \$ 0.86 | \$ 0.49 |
| Fully diluted | \$ 0.34 | \$ 0.36 | \$ 0.86 | \$ 0.49 |
| Dividends declared | \$ 0.25 | \$ - | \$ 0.75 | \$ - |

See accompanying Notes to Condensed Consolidated Financial Statements.

ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | May 31, 2006 (unaudited) | August 31, 2005 |
|---|--------------------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,055 | \$ 13,384 |
| Marketable securities available for sale | 51,410 | 70,824 |
| Accounts receivable | 15,503 | 11,216 |
| Mortgages and notes receivable, current portion | 51 | 2,370 |
| Inventories | 19,603 | 20,902 |
| Deposits in escrow | - | 6,812 |
| Land held for development and sale | 1,261 | 1,809 |
| Prepaid expenses | 439 | 1,660 |
| Total current assets | 109,322 | 128,977 |
| Mortgages and notes receivable, net of current portion | 10,771 | 6,395 |
| Investments and deposits | 3,088 | 692 |
| Cash surrender value of life insurance | 5,766 | 5,676 |
| Property, buildings and equipment | 177,855 | 150,997 |
| Less: accumulated depreciation | (46,510) | (45,043) |
| Total assets | \$ 260,292 | \$ 247,694 |

See accompanying Notes to Condensed
Consolidated Financial Statements.

ALICO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | May 31, 2006 (unaudited) | August 31, 2005 |
|---|---|----------------------------|
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,262 | \$ 2,180 |
| Current portion of notes payable | 3,312 | 3,309 |
| Accrued expenses | 3,770 | 3,588 |
| Insurance claims payable | - | 1,404 |
| Dividend payable | 1,842 | 1,842 |
| Accrued ad valorem taxes | 1,301 | 2,008 |
| Retirement benefits payable | 637 | 432 |
| Deferred income taxes | 2,928 | 2,280 |
| Current portion of donation payable | 781 | 776 |
| Total current liabilities | 20,833 | 17,819 |
| Notes payable, net of current portion | 59,845 | 48,039 |
| Deferred income taxes | 12,941 | 13,424 |
| Deferred retirement benefits | 4,162 | 4,376 |
| Commissions payable | 2,833 | 2,125 |
| Other non-current liability | 16,954 | 16,954 |
| Donation payable | - | 771 |
| Total liabilities | 117,568 | 103,508 |
| Stockholders' equity: | | |
| Common stock | 7,376 | 7,369 |
| Additional paid in capital | 9,369 | 9,183 |
| Treasury stock | (217) | - |
| Accumulated other comprehensive income (loss) | (112) | 2,195 |
| Retained earnings | 126,308 | 125,439 |
| Total stockholders' equity | 142,724 | 144,186 |
| Total liabilities and stockholders' equity | \$ 260,292 | \$ 247,694 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Nine months ended | |
|--|-------------------|------------------|
| | May 31, 2006 | May 31, 2005 |
| Cash flows from operating activities: | | |
| Net cash provided by operating activities | \$ 8,679 | \$ 6,602 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (31,422) | (11,633) |
| Proceeds from sale of real estate | 5,122 | 31 |
| Proceeds from sales of property and equipment | 685 | 858 |
| Purchases of marketable securities | (113,098) | (24,815) |
| Proceeds from sales of marketable securities | 130,953 | 5,996 |
| Note receivable collections | 494 | 10,212 |
| Net cash used for investing activities | (7,266) | (19,351) |
| Cash flows from financing activities: | | |
| Repayment of bank loan | (45,605) | (14,829) |
| Proceeds from bank loan | 57,414 | 14,834 |
| Proceeds (used for) provided by stock transactions | (24) | 1,024 |
| Dividends paid | (5,527) | - |
| Net cash provided by financing activities | 6,258 | 1,029 |
| Net increase (decrease) in cash and cash equivalents | \$ 7,671 | \$ (11,720) |
| Cash and cash equivalents: | | |
| At beginning of period | \$ 13,384 | \$ 24,299 |
| At end of period | \$ 21,055 | \$ 12,579 |

| | Nine months ended | |
|---|--------------------------|----------------|
| | May 31, | May 31, |
| | 2006 | 2005 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest, net of amount capitalized | \$ 2,009 | \$ 1,516 |
| Cash paid for income taxes | \$ 924 | \$ 2,425 |
| Net cash investing activities: | | |
| Issuance of mortgage notes | \$ 92 | \$ 580 |
| Fair value adjustments to securities available for sale net of tax effects | \$ (2,307) | \$ 1,528 |
| Reclassification of breeding herd to property and equipment | \$ 516 | \$ 562 |

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") and its wholly owned subsidiaries, Saddlebag Lake Resorts, Inc. ("Saddlebag"), Agri-Insurance Company, Ltd. ("Agri"), Alico-Agri, Ltd., Alico Plant World, LLC and Bowen Brothers Fruit, LLC ("Bowen") (collectively referred to as the "Company") 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, 2005. 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, 2006 and August 31, 2005 and the consolidated results of operations for the three and nine month periods ended May 31, 2006 and 2005, and the consolidated cash flows for the nine month periods ended May 31, 2006 and 2005.

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 totaling \$164 thousand for the quarter ended May 31, 2006, \$839 thousand for the nine months ended May 31, 2006, \$326 thousand for the quarter ended May 31, 2005 and \$357 thousand for the nine months ended May 31, 2005.

Alico, through its newly formed subsidiary Bowen Brothers Fruit, LLC (Bowen), purchased the assets of Bowen Brothers Fruit Co., Inc. for \$1.9 million in February 2006. The purchase was made in order to provide Alico with additional marketing expertise and with the ability to harvest its own fruit crop. Bowen's operations generated revenues of \$25.5 million and expenses of \$25.5 million from the date of acquisition to May 31, 2006. Bowen's operations are seasonal in nature and the results of operations for the stated periods are not necessarily indicative of results to be expected for the full year.

The results of operations for the stated periods are not necessarily indicative of results to be expected for the full year. Certain items from 2005 have been reclassified to conform to the 2006 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 are met including whether the profit is determinable, collectibility of the sales price is reasonably assured and the earnings process is complete.

In October 2005, the Company through Alico-Agri Ltd., purchased 291 acres of lake-front property in Polk County, Florida, for \$9.2 million.

In November 2005, the Company sold approximately 280 acres of citrus grove land located south of LaBelle, Florida in Hendry County for \$5.6 million cash in escrow. The Company will retain operating rights to the grove until residential development begins. The Company recognized a net profit on the sale of \$4.4 million.

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In May 2006, the Company purchased a 523 acre riverfront mine site for rock and fill for \$10.6 million cash. The Company has allocated approximately 54% of the purchase price to the rock and sand reserves with the remaining 46% of the purchase price allocated as residual land value based on the present value of the expected rock royalties over 20 years and the expected residual value of the property after that time. Rock and sand reserves will be depleted and charged to cost of goods sold proportionately as the property is mined. No depletion expense was recognized during the nine months ended May 31, 2006 or 2005.

A portion of the proceeds used to acquire the mine were from escrowed proceeds from the sale of the 280 acre orange grove which sold in November 2005 in order to complete a 1031 exchange.

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. Unrealized gains and losses determined to be temporary are recorded as other comprehensive income, net of related deferred taxes, until realized. Unrealized losses determined to be other than temporary are recognized in the period the determination is made.

The cost and estimated fair values of marketable securities available for sale at May 31, 2006 and August 31, 2005 were as follows:

| | May 31, 2006 (Unaudited) | | | | August 31, 2005 | | | |
|--|-----------------------------|------------------------------|----------|----------------------------|-----------------|------------------------------|----------|----------------------------|
| | Cost | Gross Unrealized Gains | Losses | Estimated Fair Value | Cost | Gross Unrealized Gains | Losses | Estimated Fair Value |
| Equity securities: | | | | | | | | |
| Preferred stocks | \$ - | \$ - | \$ - | \$ - | \$ 1,363 | \$ 81 | \$ (17) | \$ 1,427 |
| Common stocks | 69 | | (4) | 65 | 6,483 | 1,066 | (218) | 7,331 |
| Mutual funds | 150 | - | - | 150 | 17,029 | 2,846 | (86) | 19,789 |
| Total equity securities | 219 | - | (4) | 215 | 24,875 | 3,993 | (321) | 28,547 |
| Debt securities | | | | | | | | |
| Municipal bonds | 19,010 | - | (28) | 18,982 | 20,548 | 74 | - | 20,622 |
| Mutual funds | 220 | - | (7) | 213 | 4,344 | 155 | (76) | 4,423 |
| Fixed maturity funds | 22,367 | 73 | (61) | 22,379 | 2,799 | - | (41) | 2,758 |
| Corporate bonds | 9,773 | - | (152) | 9,621 | 14,897 | 12 | (435) | 14,474 |
| Total debt securities | 51,370 | 73 | (248) | 51,195 | 42,588 | 241 | (552) | 42,277 |
| Marketable securities available for sale | \$ 51,589 | \$ 73 | \$ (252) | \$ 51,410 | \$ 67,463 | \$ 4,234 | \$ (873) | \$ 70,824 |

The aggregate fair value of investments in debt instruments with a cost basis of \$51,150 (net of mutual funds of \$220) as of May 31, 2006 by contractual maturity date, consisted of the following:

8

Fair Value

| | | |
|---------------------------|----|--------|
| Due within 1 year | \$ | 26,996 |
| Due between 1 and 2 years | | 6,743 |
| Due between 2 and 3 years | | 144 |
| Due between 3 and 4 years | | 261 |
| Due between 4 and 5 years | | 199 |
| Due beyond five years | | 16,639 |
| Total | \$ | 50,982 |

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at May 31, 2006.

May 31, 2006 (unaudited)

| | Less than 12 months | | 12 months or greater | | Total | |
|----------------------|----------------------------|-------------------|-----------------------------|-------------------|--------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Common stocks | 65 | 4 | - | - | 65 | 4 |
| Municipal bonds | 2,882 | 28 | - | - | 2,882 | 28 |
| Debt mutual funds | 213 | 7 | - | - | 213 | 7 |
| Fixed maturity funds | 12,656 | 61 | - | - | 12,656 | 61 |
| Corporate bonds | 2,638 | 41 | 6,983 | 111 | 9,621 | 152 |
| Total | \$ 18,454 | \$ 141 | \$ 6,983 | \$ 111 | \$ 25,437 | \$ 252 |

Net realized gains on the sale of securities for the nine months ended May 31, 2006 and 2005 were \$3.7 million and \$0.6 million, respectively.

Equity securities and funds. During the first quarter of fiscal 2006, Management sold equity investments and reinvested in liquid debt securities. As of May 31, 2006, total equity investments had been reduced to a fair value of \$215 thousand.

Debt instruments and funds. The unrealized losses on municipal bonds and corporate bonds were primarily due to changes in interest rates. At May 31, 2006 the Company held loss positions in 149 debt instruments. Because the decline in market values of these securities is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not believe any of the unrealized losses represent other than temporary impairment based on the evaluation of available evidence as of May 31, 2006.

4. Mortgages and notes receivable:

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

| | May 31, 2006 (unaudited) | August 31, 2005 |
|--|---|----------------------------|
| | \$ | \$ |
| Mortgage notes receivable on retail land sales | 459 | 580 |
| Mortgage notes receivable on bulk land sales | 56,610 | 56,976 |
| Other notes receivable | 3 | 10 |
| Total mortgage and notes receivable | 57,072 | 57,566 |
| Less: Deferred revenue | (43,656) | (46,207) |
| Discount on note to impute market interest | (2,594) | (2,594) |
| Current portion | (51) | (2,370) |
| Non-current portion | \$ 10,771 | \$ 6,395 |

Real estate sales are recorded under the accrual method of accounting. Gains from commercial or bulk land sales 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 according to the installment sales method. At May 31, 2006 and August 31, 2005, the Company had deferred revenue of \$43.7 million and \$46.2 million related to commercial real estate, which was sold subject to a mortgage note receivable.

Profits from commercial real estate sales are discounted to reflect the market rate of interest where the stated rate of the mortgage note is less than the market rate. The recorded imputed interest discounts are realized as the balances due are collected. In the event of early liquidation, interest is recognized on the simple interest method. At May 31, 2006 and August 31, 2005, the Company had an imputed interest discount of \$2.6 million recorded in mortgages and notes receivable.

5. Inventories:

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

| | May 31, 2006 (unaudited) | August 31, 2005 |
|---------------------------------|---|----------------------------|
| | \$ | \$ |
| Unharvested fruit crop on trees | 8,201 | 8,176 |
| Unharvested sugarcane | 3,234 | 5,691 |
| Beef cattle | 7,247 | 5,024 |
| Unharvested sod | 865 | 831 |
| Plants and vegetables | 56 | 1,180 |
| Total inventories | \$ 19,603 | \$ 20,902 |

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

Hurricane Wilma, a category three hurricane swept through southwest Florida in October 2005. The hurricane caused extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. During August and September of 2004 a series of three hurricanes struck a portion of the Company's citrus groves in Polk County Florida.

Crop damages estimated during the first quarter as a result of hurricane Wilma were replaced by actual results as harvests were completed. The Company recognized casualty losses resulting from damages to inventory from the hurricanes as follows: (see also note 15)

Inventory damages

| | Three months ended | | Nine months ended | |
|------------------------|---|---|---|---|
| | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) |
| | \$ | \$ | \$ | \$ |
| Unharvested citrus | 40 | - | 3,629 | 408 |
| Unharvested sugarcane | - | - | 313 | - |
| Unharvested vegetables | - | - | 147 | - |
| Total inventories | \$ 40 | \$ - | \$ 4,089 | \$ 408 |

The Company records its inventory at the lower of cost or net realizable value. At May 31, 2006 and May 31, 2005 the cost bases for all inventories were below estimated net realizable value.

6. Income taxes:

The provision for income taxes for the three and nine months ended May 31, 2006 and 2005 is summarized as follows:

| | Three months ended | | Nine months ended | |
|----------------------------------|---------------------------|--------------------|--------------------------|--------------------|
| | May 31, | May 31, | May 31, | May 31, |
| | 2006 | 2005 | 2006 | 2005 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Current: | | | | |
| | \$ | \$ | \$ | \$ |
| Federal income tax | 529 | 595 | 1,417 | 1,009 |
| State income tax | 57 | 64 | 151 | 108 |
| | 586 | 659 | 1,568 | 1,117 |
| Deferred: | | | | |
| Federal income tax | 457 | 858 | 1,647 | 841 |
| State income tax | 49 | 92 | 176 | 90 |
| | 506 | 950 | 1,823 | 931 |
| Total provision for income taxes | \$ 1,092 | \$ 1,609 | \$ 3,391 | \$ 2,048 |

The Internal Revenue Service is examining the Company's tax returns for the years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. The examinations began in October 2003. Any assessments resulting from the examinations will be currently due and payable. A revenue agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify an adjustment or assessment proposed. Agri responded with a written report that disputed the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. After reviewing the proposed TAM request from the IRS, Agri responded with a written report that disputed the facts the IRS cited in its request. Due to the breadth and substantial nature of the dispute, the IRS has chosen not to pursue the TAM.

In June 2006 the IRS issued notices of proposed adjustments that take the position that the determination letter issued to Agri should be retroactively revoked, and the value of the assets contributed from Alico to Agri should be taxed at their fair market value at the date of transfer. Additionally, the notices allege that Alico expensed certain fees and expenses that should have been capitalized. Although the proposed adjustments do not quantify the tax, penalty or interest proposed, the total proposed adjustments would result in additional taxable income to the Company of \$0.3 million, \$76.6 million and \$42.8 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively. The notices of proposed adjustments also contain an alternative IRS position alleging that even if the determination letter was valid, that under the Code Section 482, Alico, Inc. remains liable for tax on the sale of the real estate transferred. This alternative proposed adjustment does not quantify the tax, penalty or interest proposed, but the proposed adjustment would result in additional taxable income to the Company of \$19.4 million, \$13.4 million, \$11.1 million, \$1.4 million and \$10.3 million for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, respectively. A third and fourth alternative position taken by the IRS alleges that Alico acted as Agri's agent or that two real estate sales be taxable to Alico under the assignment of income doctrine. These alternative positions do not quantify the adjustment to income, tax, penalty or interest proposed, but the Company estimates that the adjustment under either of these alternative positions would result in additional taxable income to the Company of approximately \$0.3 million, \$1.2 million, and \$10.3 million for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. The

Company does not agree with the proposed adjustments and plans to defend against the challenges vigorously. See also footnote 8 to the condensed consolidated financial statements.

Since January 1, 2004 Agri has been filing as a taxable entity as a result of changes in the Internal Revenue Code.

7. Indebtedness:

In October 2005, Alico, Inc. entered into a Credit Facility with a commercial lender. The Credit Facility provided the Company with a \$175 million revolving line of credit until August 1, 2010 to be used for general corporate purposes including: (i) the normal operating needs of the Company and its operating divisions, (ii) to refinance existing lines of credit and (iii) to finance the Ginn Receivable (as defined in the Loan Agreement). The terms also allowed an annual extension at the lender's option.

In May 2006 the above Credit Facility was amended "Amended Credit Facility" and restated to modify certain terms. Per the amended Credit Facility the \$175 million revolving line of credit, which matures on August 1, 2010, may be used for general corporate purposes including: (i) the normal operating needs of the Company and its operating divisions, (ii) the purchase of capital assets and (iii) the payment of dividends. The Amended Credit Facility also allows for an annual extension at the lender's option.

Under the Amended Credit Facility, revolving borrowings require quarterly interest payments at LIBOR plus a variable rate between 0.8% and 1.5% depending on the Company's debt ratio. The Amended Credit Facility is partially collateralized by mortgages on two parcels of agricultural property located in Hendry County, Florida consisting of 7,672 acres and 33,700 acres.

Under the Amended Credit Facility an event of default occurs if the Company fails to make the payments required of it or otherwise fails to fulfill the provisions and covenants applicable to it. In the event of default, the Amended Credit Facility shall bear an increased interest rate of 2% in addition to the then-current rate specified in the Amended Credit Facility. In the event of default, the lender may alternatively at its option, terminate its revolving credit commitment and require immediate payment of the entire unpaid principal amount of the Amended Credit Facility, accrued interest and declare all other obligations immediately due and payable. The Company is currently in compliance with all of the covenants and provisions of the Amended Credit Facility.

The Amended Credit Facility also contains numerous restrictive covenants including those requiring the Company to maintain minimum levels of net worth, retain certain debt, current and fixed charge coverage ratios, and sets limitations on the extension of loans or additional borrowings by the Company or any subsidiary.

Outstanding debts under the Company's various loan agreements were as follows at May 31, 2006 and August 31, 2005:

13

May 31, 2006

| | Principal Balance | Additional Credit Available | Interest Rate (h) | Collateral |
|------------------------------|------------------------------|--|------------------------------|-------------------|
| | \$ | \$ | | |
| a) Revolving credit facility | 51,089 | 123,911 | Libor +1% | Real estate |
| b) Term loan | 2,000 | - | 5.80% | Unsecured |
| c) Mortgage note payable | 9,922 | - | 6.68% | Real estate |
| d) Other | 146 | - | 7.00% | Real estate |
| | \$ | \$ | | |
| Total | 63,157 | 123,911 | | |

August 31, 2005

| | Principal Balance | Additional Credit Available | Interest Rate (h) | Collateral |
|--------------------------|------------------------------|--|------------------------------|-------------------|
| | \$ | | | |
| b) Term loan | 4,000 | - | 5.80% | Unsecured |
| c) Mortgage note payable | 10,872 | - | 6.68% | Real estate |
| d) Other | 146 | - | 7.00% | Real estate |
| | | | Libor | |
| e) Revolving credit line | 21,330 | 4,670 | +1% | Unsecured |
| | | | Libor | |
| f) Demand note | - | 3,000 | +1% | Unsecured |
| | | | Libor | |
| g) Revolving credit line | 15,000 | - | +1% | Unsecured |
| Total | \$ 51,348 | \$ 7,670 | | |

a) Terms described above.

b) 5-year fixed rate term loan with commercial lender. \$2 million principal due annually. Interest due quarterly.

c) First mortgage on 7,680 acres of cane, citrus, pasture and improvements in Hendry County, Florida with commercial lender. Monthly principal payments of \$106 thousand plus accrued interest.

d) First mortgage on a parcel of land in Polk County, Florida with private seller. Annual equal payments of \$55 thousand.

e) Line of credit with commercial bank, refinanced in October, 2005

f) Working capital loan with commercial bank, due on demand, refinanced in October, 2005

g) Line of credit with commercial lender, refinanced in October, 2005

h) The Libor rate was 5.11% at May 31, 2006 and 3.69% at August 31, 2005.

Maturities of the Company's debt at May 31, 2006 is as follows:

| | |
|---------------------------|-----------|
| Due within 1 year | \$ 3,312 |
| Due between 1 and 2 years | 1,315 |
| Due between 2 and 3 years | 1,318 |
| Due between 3 and 4 years | 1,267 |
| Due between 4 and 5 years | 52,356 |
| Due beyond five years | 3,589 |
| Total | \$ 63,157 |

Interest costs expensed and capitalized to property, buildings and equipment were as follows:

| | Three months ended | | Nine months ended | |
|----------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) |
| | \$ | \$ | \$ | \$ |
| Interest expense | 1,055 | 694 | 2,839 | 1,762 |
| Interest capitalized | 9 | 53 | 57 | 157 |
| Total interest cost | \$ 1,064 | \$ 747 | \$ 2,896 | \$ 1,919 |

8. Other non-current liability:

Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda) 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 coverage for the increasing number and potential severity of agricultural events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only pre-funding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it was successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners.

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 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 response, Management has recorded a contingent liability of \$17.0 million at May 31, 2006 and August 31, 2005 for income taxes in the event of an IRS challenge. Management's decision has been influenced by perceived changes in the regulatory environment. Because Management believes it is probable that a challenge will be made and that it may be successful as to some of the possible assertions, Management has provided for the contingency.

The Internal Revenue Service is examining the Company's tax returns for the years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. The examinations began in October 2003. Any assessments resulting from the examinations will be currently due and payable. A revenue agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputed the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. After reviewing the proposed TAM request from the IRS, Agri responded with a written report that disputed the facts the IRS cited in its request. Due to the breadth and substantial nature of the dispute, the IRS has chosen not to pursue the TAM.

In June 2006 the IRS issued notices of proposed adjustments that take the position that the determination letter issued to Agri should be retroactively revoked, and the value of the assets contributed from Alico to Agri should be taxed at their fair market value at the date of transfer. Additionally, the notices allege that Alico expensed certain fees and expenses that should have been capitalized. Although the proposed adjustments do not quantify the tax, penalty or interest proposed, the total proposed adjustments would result in additional taxable income to the Company of \$0.3 million, \$76.6 million and \$42.8 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively. The notices of proposed adjustments also contain an alternative IRS position alleging that even if the determination letter was valid, that under the Code Section 482, Alico, Inc. remains liable for tax on the sale of the real estate transferred. This alternative proposed adjustment does not quantify the tax, penalty or interest proposed, but the proposed adjustment would result in additional taxable income to the Company of \$19.4 million, \$13.4 million, \$11.1 million, \$1.4 million and \$10.3 million for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, respectively. A third and fourth alternative position taken by the IRS alleges that Alico acted as Agri's agent or that two real estate sales be taxable to Alico under the assignment of income doctrine. These alternative positions do not quantify the adjustment to income, tax, penalty or interest proposed, but the Company estimates that the adjustment under either of these alternative positions would result in additional taxable income to the Company of approximately \$0.3 million, \$1.2 million, and \$10.3 million for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. The Company does not agree with the proposed adjustments and plans to defend against the challenges vigorously.

Since January 1, 2004 Agri has been filing as a taxable entity as a result of changes in the Internal Revenue Code.

9. Dividends:

Quarterly dividends of \$0.25 per share were paid on October 15, 2005, January 15, 2006 and April 15, 2006 to stockholders of record as of September 30, 2005, December 31, 2005 and March 31, 2006, respectively. At its meeting on March 31, 2006 the Board of Directors declared a quarterly dividend of \$0.25 per share payable to stockholders of record as of June 30, 2006, with payment expected on or around July 15, 2006. At its meeting on June 30, 2006 the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of September 30, 2006 with payment expected on or around October 15, 2006.

10. Disclosures about reportable segments:

Alico has four reportable segments: Citrus groves, Citrus purchasing, harvesting and marketing (Bowen Brothers Fruit, LLC), Sugarcane and Sod and Cattle. Citrus groves and Citrus purchasing, harvesting and marketing are consolidated under the caption "citrus" on the Company's Statement of Operations. The goods and services produced by these segments are sold to wholesalers and processors who prepare the products for consumption. The Company's operations are located in Florida.

Alico, through its newly formed subsidiary Bowen Brothers Fruit, LLC (Bowen), purchased the assets of Bowen Brothers Fruit Co., Inc. for \$1.9 million in February 2006. The purchase was made in order to provide Alico with additional marketing expertise and with the ability to harvest its own fruit crop. Bowen is a citrus company that is a purchaser, harvester and marketer of citrus fruit. The revenue and expenses for Bowen are consolidated with the Company's citrus groves on the Statement of Operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's annual report on Form 10K filed for the fiscal year ended August 31, 2005. 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 and services. They are managed separately because each segment requires different management techniques, knowledge and skills.

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The following table presents information (unaudited) for each of the Company's operating segments:

| | Three months ended | | Nine months ended | |
|-----------------------------|--------------------|-----------------|-------------------|-----------------|
| | May 31, 2006 | May 31, 2005 | May 31, 2006 | May 31, 2005 |
| Citrus | | | | |
| Alico | | | | |
| | \$ | \$ | \$ | \$ |
| Revenue | 11,986 | 10,246 | 20,238 | 20,711 |
| Costs and expenses | 7,549 | 6,622 | 13,378 | 15,431 |
| Segment profit | 4,437 | 3,624 | 6,860 | 5,280 |
| | | | | \$ |
| Depreciation | \$ 632 | \$ 611 | \$ 1,906 | 1,826 |
| Segment assets | | | \$ 49,860 | \$ 55,212 |
| Bowen Brothers Fruit | | | | |
| | \$ | \$ | | \$ |
| Revenue | 19,751 | \$ - | 25,473 | - |
| Costs and expenses | 19,806 | - | 25,526 | - |
| Segment | (55) | - | (53) | - |
| Depr & Amortization | \$ 340 | \$ - | \$ 638 | \$ - |
| Segment assets | | | \$ 5,251 | \$ - |
| Total Citrus | | | | |
| Revenue | \$ 31,737 | \$ 10,246 | \$ 45,711 | \$ 20,711 |
| Less intersegment revenue | (3,461) | - | (3,461) | - |
| Consolidated revenue | 28,276 | 10,246 | 42,250 | 20,711 |
| Total costs and expenses | 27,355 | 6,622 | 38,904 | 15,431 |
| Less intersegment costs | (3,469) | - | (3,469) | - |
| Consolidated costs | 23,886 | 6,622 | 35,435 | 15,431 |
| Segment profit | 4,390 | 3,624 | 6,815 | 5,280 |
| Depr & Amortization | \$ 972 | \$ 611 | \$ 2,544 | \$ 1,826 |
| Segment assets | | | \$ 55,111 | \$ 55,212 |

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| | Three months ended | | Nine months ended | |
|--------------------------|---------------------------|----------------|--------------------------|----------------|
| | May 31, | May 31, | May 31, | May 31, |
| | 2006 | 2005 | 2006 | 2005 |
| Sugarcane and sod | | | | |
| | \$ | \$ | \$ | \$ |
| Revenue | 2,792 | 1,902 | 9,922 | 9,641 |
| Costs and expenses | 1,866 | 1,763 | 9,327 | 9,100 |
| Segment profit | 926 | 139 | 595 | 541 |
| Depreciation | \$ 526 | \$ 499 | \$ 1,474 | \$ 1,576 |
| Segment assets | | | \$ 49,010 | \$ 50,191 |
| Cattle | | | | |
| | \$ | \$ | \$ | \$ |
| Revenue | 758 | 4,660 | 3,408 | 8,979 |
| Costs and expenses | 671 | 3,558 | 2,700 | 7,169 |
| Segment profit | 87 | 1,102 | 708 | 1,810 |
| Depreciation | \$ 422 | \$ 375 | \$ 1,246 | \$ 1,128 |
| Segment assets | | | \$ 23,908 | \$ 20,885 |
| Other | | | | |
| | \$ | \$ | \$ | \$ |
| Revenue | 4,599 | 3,223 | 21,175 | 10,317 |
| Costs and expenses | 6,370 | 3,864 | 19,542 | 12,331 |
| Segment profit (loss) | (1,771) | (641) | 1,633 | (2,014) |
| Depreciation | \$ 329 | \$ 250 | \$ 896 | \$ 676 |
| Segment assets | | | \$ 132,263 | \$ 118,893 |
| Total | | | | |
| | \$ | \$ | \$ | \$ |
| Revenue | 36,425 | 20,031 | 76,755 | 49,648 |
| Costs and expenses | 32,793 | 15,807 | 67,004 | 44,031 |
| Segment profit (loss) | 3,632 | 4,224 | 9,751 | 5,617 |
| Depr & Amortization | \$ 2,249 | \$ 1,735 | \$ 6,160 | \$ 5,206 |
| Segment assets | | | \$ 260,292 | \$ 245,181 |

11. Stock Compensation Plans:

On November 3, 1998, the Company adopted the Alico, Inc., Incentive Equity Plan ("the Incentive 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 Incentive 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, which 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. No stock options were issued during the nine months ended May 31, 2006 and 2005.

In April 2006 the Company granted 20,000 restricted shares which vest 25% per year beginning in April 2010. The total fair market value of the 20,000 shares on the date of grant was \$908 thousand. Employee compensation expense will be recognized over the seven year period during which the employee is required to provide service. Compensation expense recorded during the three months ended May 31, 2006 was \$21 thousand.

At May 31, 2006 and August 31, 2005, there were 9,158 and 16,371 stock options, respectively, fully vested and exercisable and 272,844 and 292,844 shares, respectively, available for grant.

12. Other Comprehensive Income:

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

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

| | For the three months ended | | For the nine months ended | |
|--|-----------------------------------|----------------|----------------------------------|----------------|
| | May 31, | May 31, | May 31, | May 31, |
| | 2006 | 2005 | 2006 | 2005 |
| Accumulated Other Comprehensive Income (loss) at beginning of period | \$ (73) | \$ 3,252 | \$ 2,195 | \$ 1,529 |
| Unrealized Security gains (losses) | (68) | (1,187) | (2,374) | 1,548 |
| Taxes provided for unrealized (gains) losses | 29 | 439 | 67 | (573) |
| Net change in Other Comprehensive Income | (39) | (748) | (2,307) | 975 |
| Other Comprehensive Income at end of period | \$ (112) | \$ 2,504 | \$ (112) | \$ 2,504 |

13. New Accounting Pronouncements:

In May 2005 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 154, "Accounting Changes and Error Corrections". SFAS 154 replaces APB No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Changes in Interim Financial Statements". SFAS No. 154 changes the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires retrospective application to the prior period's

financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impractical to do so. SFAS No. 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Currently, the Company is not aware of any financial impact that the adoption of this statement will have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155 “Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements 133 and 140”. This Statement amends FASB Statements 133, *Accounting for Derivative Instruments and Hedging Activities*, and 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” The Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for an entity’s first fiscal year beginning after September 15, 2006. Currently, the Company is not aware of any financial impact that the adoption of this statement will have on its consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156 “Accounting for Servicing of Financial Assets - an amendment of FASB Statement 140”. This Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose from the Amortization method or the Fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity’s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value. SFAS also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS 156 is effective for an entity’s first fiscal year beginning after September 15, 2006. Currently, the Company is not aware of any financial impact that the adoption of this statement will have on its consolidated financial statements.

14. Treasury Stock

The following table provides information relating to purchases of the Company’s common shares by the Company on the open market pursuant to the Director Compensation Plan approved by the Company’s shareholders on June 10, 2005 for the first nine months of fiscal 2006:

| Date | Total Number of Shares Purchased | Average price paid per share | Total Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Total Dollar value of shares purchased |
|------------|--|---------------------------------|--|--|
| 11/28/2005 | 10,000 | \$ 43.30 | 10,000 | \$ 433,000 |
| 5/9/2006 | 3,000 | \$ 54.46 | 13,000 | \$ 163,380 |

(1) The Company may purchase an additional 17,000 shares pursuant to the approved Director Compensation Plan.
20

15. Casualty Losses:

Hurricane Wilma caused extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties during the first quarter of fiscal year 2006. Additionally, in fiscal year 2006, canker was confirmed in three groves totaling 420 acres. During August and September of 2004 a series of three hurricanes struck a portion of the Company's citrus groves in Polk County Florida. The Company recognized losses resulting from damages caused by the hurricanes and canker as follows:

| | Three months ended | | | |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) | May 31, 2006 (unaudited) | May 31, 2005 (unaudited) |
| Nine months ended | | | | |
| Inventoried costs | \$ 40 | \$ - | \$ 4,089 | \$ 408 |
| Basis of property and equipment | - | - | 875 | - |
| Insurance proceeds received | (38) | - | (2,196) | - |
| Total casualty losses to inventories | \$ 2 | \$ - | \$ 2,768 | \$ 408 |

Crop damages estimates during the three months ended November 30, 2005 as a result of hurricane Wilma were replaced by actual results as harvests were completed.

Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. Prior to January 10, 2006, Florida law required infected and exposed trees within 1,900 feet of the canker find to be removed and destroyed. The Company's traditional policy has been to recognize a loss estimate for the total destruction of all trees within 1,900 feet of the canker find as soon as canker was confirmed. This estimate of loss damage preceded the actual destruction of the trees. During the second quarter of fiscal year 2006, the USDA determined that due to the potential spread of canker from hurricanes they did not believe that canker eradication was feasible. Due to this determination, the rule requiring the destruction of citrus groves testing positive for canker was suspended. Upon suspension of the rule requiring the destruction of citrus groves, those portions of grove that were previously estimated as lost but had not yet been destroyed were reestablished, reducing the casualty loss accrued.

16. Subsequent Event:

At its meeting on June 30, 2006, the Board declared a regular quarterly dividend of \$0.275 per share payable to shareholders of record as of September 30, 2006 with payment expected on or about October 15, 2006.

ITEM 2.

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

Cautionary Statement

Some of the statements in this document include statements about future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. These forward-looking statements, which include references to one or more potential transactions, and strategic alternatives under consideration, are predictive in nature or depend upon or refer to future events or conditions, are subject to known, as well as, unknown risks and uncertainties that may cause actual results to differ materially from Company expectations. There can be no assurance that any future transactions will occur or be structured in the manner suggested or that any such transaction will be completed. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend", "expect", "should", "could" 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 or lesser extent than indicated.

LIQUIDITY AND CAPITAL RESOURCES:

Working capital decreased to \$88.5 million at May 31, 2006, from \$111.2 million at August 31, 2005. As of May 31, 2006, the Company had cash and cash equivalents of \$21.1 million compared to \$13.4 million at August 31, 2005. Marketable securities decreased to \$51.4 million from \$70.8 million during the same period. The ratio of current assets to current liabilities decreased to 5.25 to 1 at May 31, 2006 from 7.24 to 1 at August 31, 2005. Total assets increased by \$12.6 million to \$260.3 million at May 31, 2006, compared to \$247.7 million at August 31, 2005.

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 entered into a credit facility in fiscal year 2006 which increased its credit commitments to provide for revolving credit of up to \$175.0 million compared with credit commitments of \$44.0 million in fiscal year 2005. Of the \$175.0 million credit commitment, \$123.9 million was available for the Company's general use at May 31, 2006 (see Note 7 to condensed consolidated financial statements).

Hurricane Wilma, a category three hurricane, swept through southwest Florida in October 2005, causing extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. The Company has recorded an estimated casualty loss of \$2.8 million of damages to crop inventories and property and equipment resulting from the hurricane.

Management expects continued profitability from the Company's agricultural operations. Citrus operations are expected to remain profitable in fiscal year 2006. A smaller crop resulting from hurricanes, citrus canker and land development has caused the unit price of citrus products to increase and thus profits from the citrus division are expected to exceed those of the prior year.

Sugarcane and sod operations are expected to approximate prior year levels. The Company's cattle operations in fiscal year 2006 are expected to remain profitable but at lower levels than in fiscal year 2005. To take advantage of favorable market conditions in fiscal year 2005, the Company elected to sell a portion of its calves instead of delivering them to feedlots for later sale. This decision resulted in a decrease of beef cattle inventory at August 31, 2005 and in fewer cattle available for sale in fiscal year 2006 compared with fiscal year 2005.

Cash outlays for land, equipment, buildings, and other improvements totaled \$31.4 million during the nine months ended May 31, 2006, compared to \$11.6 million during the nine months ended May 31, 2005. In May 2006, Alico purchased 523 acres of riverfront mining property in Hendry County, Florida for \$10.6 million. In February 2006, Alico, through its newly formed subsidiary Bowen Brothers Fruit, LLC, purchased the assets of Bowen Brothers Fruit Co., Inc. for \$1.9 million. In October 2005, the Company through Alico-Agri, purchased 291 acres of lake-front property in Polk County, Florida, for \$9.2 million. In September 2004, the Company, through Alico-Agri Ltd., purchased the assets of La Belle Plant World, Inc. The purchase price was \$4.9 million for the land, office building, greenhouses and associated equipment.

In accordance with guidelines established by the Company's Board of Directors, the Company restructured its investment portfolio during the first quarter of fiscal 2006, focusing on high quality fixed income securities with original maturities of less than 12 months. As a result of staggered maturity dates, a greater portion of the Company's portfolio is classified as cash equivalents than under previous investment policies.

The sale of a Lee County parcel closed in escrow during July 2005. The sales price was \$62.9 million consisting of \$6.2 million in cash at closing with the balance held as a 2.5% mortgage note receivable of \$56.7 million payable in four equal principal installments together with accrued interest annually for the next four years after a final development order for the property is issued. The first principal and interest installment under the contract will not be due until 12 months after the order is issued. The development order has not yet been issued; however, in any event the first installment is due and payable in July 2008, if not paid before that date.

Another sale in Lee County is expected to close in fiscal year 2007. This contract is for a gross sales price of \$75.5 million, consisting of \$7.6 million in cash at closing with the balance payable as a 2.5% mortgage note receivable of \$67.9 million. The agreement is subject to various contingencies and there is no assurance that it will close or that it will close within the time period stated.

In November 2005, the Company sold approximately 280 acres of citrus grove land located south of LaBelle, Florida in Hendry County for \$5.6 million cash placed in escrow. The Company will retain operating rights to the grove until residential development begins. The Company used the proceeds from the sale as part of a section 1031 like kind exchange for the mining property acquired in May 2006.

The Company paid regular quarterly dividends of \$0.25 per share on October 15, 2005, January 15, 2006 and April 15, 2006. At its March Board meeting, the Board declared a regular quarterly dividend of \$0.25 per share payable to shareholders of record as of June 30, 2006 with payment expected on or about July 15, 2006. At its June Board meeting, the Board declared a regular quarterly dividend of \$0.275 per share payable to shareholders of record as of September 30, 2006 with payment expected on or about October 15, 2006.

The Internal Revenue Service is examining the Company's tax returns for the years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. The examinations began in October 2003. Any assessments resulting from the examinations will be currently due and payable. A revenue agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputed the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. After reviewing the proposed TAM request from the IRS, Agri responded with a written report that disputed the facts the IRS cited in its request. Due to the breadth and substantial nature of the dispute, the IRS has chosen not to pursue the TAM.

In June 2006 the IRS issued notices of proposed adjustments that take the position that the determination letter issued to Agri should be retroactively revoked, and the value of the assets contributed from Alico to Agri should be taxed at their fair market value at the date of transfer. Additionally, the notices allege that Alico expensed certain fees and expenses that should have been capitalized. Although the proposed adjustments do not quantify the tax, penalty or interest proposed, the total proposed adjustments would result in additional taxable income to the Company of \$0.3 million, \$76.6 million and \$42.8 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively. The notices of proposed adjustments also contain an alternative IRS position alleging that even if the determination letter was valid, that under the Code Section 482, Alico, Inc. remains liable for tax on the sale of the real estate transferred. This alternative proposed adjustment does not quantify the tax, penalty or interest proposed, but the proposed adjustment would result in additional taxable income to the Company of \$19.4 million, \$13.4 million, \$11.1 million, \$1.4 million and \$10.3 million for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, respectively. A third and fourth alternative position taken by the IRS alleges that Alico acted as Agri's agent or that two real estate sales be taxable to Alico under the assignment of income doctrine. These alternative positions do not quantify the adjustment to income, tax, penalty or interest proposed, but the Company estimates that the adjustment under either of these alternative positions would result in additional taxable income to the Company of approximately \$0.3 million, \$1.2 million, and \$10.3 million for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. The Company does not agree with the proposed adjustments and plans to defend against the challenges vigorously. See also footnote 8 to the 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 three and nine months ended May 31, 2006 was \$2.5 million and \$6.4 million respectively compared with net income of \$2.6 million and \$3.6 million for the three and nine months ended May 31, 2005, respectively. Increased earnings from bulk real estate sales (\$4.4 million compared with \$0.0 million for the nine months ended May 31, 2006 and May 31, 2005, respectively) and interest and investment income (\$8.1 million for the nine months ended May 31, 2006 compared with \$2.7 million for the nine months ended May 31, 2005) offset the casualty loss of \$2.8 million for the nine months ended May 31, 2006. The Company accrued interest on a mortgage note receivable of \$56.6 million during the nine months ended May 31, 2006 from the Lee County land sale in July 2005. This accrual combined with higher interest rates for investments and realized gains from the sale of equities, caused interest and investment income to exceed prior year results for the three and nine months ended.

Pretax income from operations was \$2.9 million for the quarter ended May 31, 2006 compared with \$4.2 million for the quarter ended May 31, 2005. The decrease was primarily due to lower pretax income from rock and sand royalties (\$0.2 million compared with \$0.9 million for the quarters ended May 31, 2006 and 2005, respectively) and increased general and administrative expenses (\$3.1 million compared with \$2.5 million for the quarter ended May 31, 2006 and 2005).

Operations reported a pretax loss of \$0.2 million for the nine months ended May 31, 2006, compared with a pretax profit of \$4.1 million for the nine months ended May 31, 2005. A casualty loss related to citrus canker and Hurricane damages of \$2.8 million coupled with decreased rock and sand royalties (\$0.7 million compared with \$2.6 million for the nine months

ended May 31, 2006 and 2005, respectively) caused the decrease. The property where a large rock mine was located was sold in July 2005. The Company has begun limited mining operations on a new site and recently purchased a 523 acre riverfront mine site suitable for mining operations.

Pretax income from agricultural operations (excluding casualty losses) were \$5.5 million compared with \$5.1 million for the quarters ended May 31, 2006 and 2005, respectively, and \$8.3 million compared with \$8.1 million for the nine months ended May 31, 2006 and 2005, respectively. The factors causing the increase in pretax income from agricultural operations excluding casualty losses are discussed in detail below.

Citrus

The Citrus division recorded pretax profits of \$4.4 million and \$6.8 million for the quarter and nine months ended May 31, 2006, respectively, compared with \$3.6 million and \$5.3 million for the quarter and nine months ended May 31, 2005. Hurricanes, citrus canker finds and increased real estate development in the central and southern portions of Florida where the majority of citrus is produced have combined to reduce the supply of citrus for the past two years, resulting in price increases for citrus products across the industry. During the first nine months of fiscal year 2006 the Company has averaged \$7.20 per box for its citrus products as compared with \$6.41 per box for the same period in the prior fiscal year, causing the current year profit to increase.

The price increase described above has served to more than offset the damages caused by hurricane Wilma. The hurricane caused extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. Due primarily to the damages caused by hurricane Wilma, the Company estimates its total citrus harvest for fiscal year 2006 at 3.2 million boxes, compared with 4.0 million for fiscal year 2005.

Alico, through its newly formed subsidiary Bowen Brothers Fruit, LLC (Bowen), purchased the assets of Bowen Brothers Fruit Co., Inc. for \$1.9 million in February, 2006. The purchase was made in order to provide Alico with additional marketing expertise and with the ability to harvest its own fruit crop. Bowen's operations generated revenues of \$19.8 million and expenses of \$19.8 million for the quarter ended May 31, 2006 and revenues of \$25.5 million and expenses of \$25.5 million for the period from the date of acquisition to May 31, 2006. A portion of the purchase price was allocated to intangible assets and generated an amortization cost of \$0.3 million and \$0.6 million for the quarter ended May 31, 2006 and the period from the date of acquisition to May 31, 2006, respectively, which was included in the total expenses reported for each respective period. Bowen's operations are seasonal in nature and the results of operations for the stated periods are not necessarily indicative of results to be expected for the full year. Due to the amortization discussed above, Management estimates that Bowen will breakeven during fiscal 2006.

Sugarcane and Sod

Sugarcane and sod generated a pretax profit of \$0.9 million for the three months ended May 31, 2006 compared with earnings of \$0.1 million for the three months ended May 31, 2005. For the nine months ended May 31, 2006 and 2005, the sugarcane and sod division generated pretax profits of \$0.6 million and a profit of \$0.5 million, respectively. Recent price increases in the price of raw sugar improved sugarcane profitability during the quarter ended May 31, 2006, and returned the division to its prior year profitability levels.

Cattle

Pretax profits from the sale of cattle were \$0.1 million and \$0.7 million for the three and nine months ended May 31, 2006, respectively, compared with \$1.1 million and \$1.8 million for the three and nine months ended May 31, 2005. The number of cattle sold was less during the first nine months of fiscal year 2006 than for the same period in the prior fiscal year (4,133 for the first nine months of fiscal year 2006 compared with 9,995 for the first nine months of fiscal year 2005). During fiscal year 2005, in order to take advantage of record high prices for calves, the Company sold a portion of its calf crop that would have normally been delivered to western feedlots. Calves delivered to western feedlots require an additional nine months of preparation before they are ready for sale. Due to the sale of the calves in the prior fiscal year as described above, fewer animals were available for sale in the current fiscal year.

Other Agricultural Operations

The Company also sells vegetable transplants through its subsidiary, Alico Plant World, LLC, as well as native plants from its ranch location, and grows and sells corn and beans. Pretax income from these operations totaled \$0.1 million and \$0.2 million for the three and nine months ended May 31, 2006, respectively. Income from plants, vegetables and trees was \$0.3 million and \$0.5 million for the three and nine month periods ended May 31, 2005, respectively.

General Corporate

In May 2006, the Company purchased a 523 acre riverfront mine site for rock and fill. The purchase price was \$10.6 million. The property was purchased in order to partially replace the revenue stream from the Lee County rock mine which was sold in fiscal year 2005. A portion of the purchase price was designated as like kind exchange property resulting from the sale of the citrus grove described below.

In November 2005, the Company sold approximately 280 acres of citrus grove land located south of Labelle, Florida in Hendry County for \$5.6 million cash placed in escrow and used as proceeds for a like kind exchange to acquire the mine site. The Company will retain operating rights to the grove until residential development begins.

The Company through Alico-Agri Ltd., purchased approximately 291 acres in Polk County, Florida in October 2005 for \$9.2 million. The property contains 2,100 feet of road frontage on U.S. 27 and 2,600 feet of road frontage on County road 640. The property also includes approximately 2,640 feet of lakefront along Crooked Lake, a 6,000 acre lake. The Company identified the property as an exchange property under section 1031 of the Internal Revenue Code and was able to defer tax on \$9.2 million of proceeds from the sale of a Lee County parcel that closed in escrow in July 2005 and is described below.

The sale of a Lee County parcel closed in escrow during July 2005. The sales price was \$62.9 million consisting of \$6.2 million in cash at closing with the balance held as a 2.5% mortgage note receivable of \$56.7 million payable in four equal principal installments together with accrued interest annually for the next four years after a final development order for the property is issued. The first principal and interest installment under the contract will not be due until 12 months after the order is issued. The development order has not yet been issued; however, in any event the first installment is due and payable in July 2008, if not paid before that date.

An agreement to sell the remaining property in Lee County is expected to close in fiscal year 2007. This contract is for a gross sales price of \$75.5 million, consisting of \$7.6 million in cash at closing with the balance payable as a 2.5% mortgage note receivable of \$67.9 million. The Company is exploring its options under the contract, including the possibility of a like-kind exchange. The agreement is subject to various contingencies and there is no assurance that it will close or that it will close within the time period stated.

Agri-Insurance, Co. Ltd., a wholly owned subsidiary of Alico, Inc., wrote an insurance policy in 2004 for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 51% of the Company's common stock. The coverage term was from August 2004 to July 2005. Total coverage under the policy was \$2.7 million and Agri charged a premium of \$45 thousand. Tri-County Grove LLC discovered citrus canker in their groves in 2005, requiring the total destruction of the majority of its citrus trees. Agri accrued a loss reserve in fiscal year 2005 equal to the total potential exposure under the policy for this claim of \$1.4 million. The claim was paid in full in March of 2006.

Premiums for coverages quoted are set by independent actuaries and underwriters hired by Agri based on underwriting considerations established by them. Premiums vary depending upon the size of the property, its age and revenue-producing history, as well as the proximity of the insured property to known disease-prone areas or other insured hazards.

In September 2004, the Company, through Alico-Agri Ltd., purchased the assets of La Belle Plant World, Inc., a wholesale grower and shipper of commercial vegetable transplants to commercial farmers. The purchase price was \$4.9 million for the land, office building, greenhouses and associated equipment. Alico Plant World, LLC ("Plant World") was set up as a wholly owned subsidiary of Alico-Agri, Ltd to operate these assets.

Off Balance Sheet Arrangements

The Company through its wholly owned subsidiary Bowen Brothers Fruit, LLC enters into forward purchase contracts for the purchase of citrus products during the normal course of its business. Typically, these purchases are covered by forward sales contracts. The total forward purchase contracts under these agreements totaled \$1.7 million at May 31, 2006. All of these purchases were covered by forward sales agreements. None of these agreements were in a net loss position as of May 31, 2006. All of these contracts will be fulfilled by the end of the fiscal year 2006. Additionally, the Company hedges its fuel requirements through the purchase of fuel stocks at fixed prices for future deliveries. The net obligations under these arrangement totaled \$480 thousand at May 31, 2006. Deliveries under these contracts will occur before October 31, 2006.

Disclosure of Contractual Obligations

The contractual obligations of the Company at May 31, 2006 are set forth in the table below:

May 31, 2006

(in thousands)

| Contractual obligations | Total | Less than 1 year | 1 - 3 years | 3-5 years | 5 + years |
|----------------------------------|------------|---------------------|----------------|--------------|--------------|
| Long-term debt | \$ 63,157 | \$ 3,312 | \$ 2,633 | \$ 53,623 | \$ 3,589 |
| Expected interest on debt | 17,187 | \$ 3,918 | \$ 7,341 | \$ 5,688 | \$ 240 |
| Commissions | 2,833 | - | 1,417 | 1,416 | - |
| Citrus purchase contracts | 1,692 | 1,692 | - | - | - |
| Retirement benefits | 4,799 | 637 | 688 | 688 | 2,786 |
| Deferred taxes | 15,869 | 2,928 | 3,800 | 3,800 | 5,341 |
| Other non-current liability (a) | 16,954 | - | 16,954 | - | - |
| Building & equipment additions | 1,634 | 1,634 | | | |
| Real Estate contract obligations | 726 | 726 | | | |
| Purchase obligations (donation) | 781 | 781 | - | - | - |
| Fuel purchase contract | 480 | 480 | - | - | - |
| Sugarcane harvesting obligation | 136 | 136 | | | |
| Leases (operating & capital) | 37 | 25 | 12 | - | - |
| Total | \$ 126,285 | \$ 16,269 | \$ 32,845 | \$ 65,215 | \$ 11,956 |

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 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, together with 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 \$839 thousand for the nine months ended May 31, 2006, and \$357 thousand for the nine months ended May 31, 2005.

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.

Hurricane Wilma caused extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. In calculating the estimated amount of loss resulting from the hurricane, Management estimated the amount of crop loss and property damage. The estimates were based on information obtained from observation, provided by insurance claims adjusters, and discussions with other industry experts. These estimates will continue to be revised as actual losses are confirmed.

In June of 2000, Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda), in response to the lack of available insurance, 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 typically include citrus canker, crop diseases, livestock related maladies and weather. By forming Agri, Alico hoped to prefund its potential exposures related to the referenced events, and also attract new underwriting capital to the extent that Agri is successful in profitably underwriting both its own potential risks, and those of its historic business partners.

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 and 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 \$17.0 million at May 31, 2006 and August 31, 2005 for income taxes in the event of an IRS challenge. Management's decision has been influenced by perceived changes in the regulatory environment. Because Management believes it is probable that a challenge will be made and that it may be successful as to some of the possible assertions, Management has provided for this contingency.

The Internal Revenue Service is examining the Company's tax returns for the years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. The examinations began in October 2003. Any assessments resulting from the examinations will be currently due and payable. A revenue agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputed the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. After reviewing the proposed TAM request from the IRS, Agri responded with a written report that disputed the facts the IRS cited in its request. Due to the breadth and substantial nature of the dispute, the IRS has chosen not to pursue the TAM.

In June 2006 the IRS issued notices of proposed adjustments that take the position that the determination letter issued to Agri should be retroactively revoked, and the value of the assets contributed from Alico to Agri should be taxed at their fair market value at the date of transfer. Additionally, the notices allege that Alico expensed certain fees and expenses that should have been capitalized. Although the proposed adjustments do not quantify the tax, penalty or interest proposed, the total proposed adjustments would result in additional taxable income to the Company of \$0.3 million, \$76.6 million and \$42.8 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively. The notices of proposed adjustments also contain an alternative IRS position alleging that even if the determination letter was valid, that under the Code Section 482, Alico, Inc. remains liable for tax on the sale of the real estate transferred. This alternative proposed adjustment does not quantify the tax, penalty or interest proposed, but the proposed adjustment would result in additional taxable income to the Company of \$19.4 million, \$13.4 million, \$11.1 million, \$1.4 million and \$10.3 million for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, respectively. A third and fourth alternative position taken by the IRS alleges that Alico acted as Agri's agent or that two real estate sales be taxable to Alico under the assignment of income doctrine. These alternative positions do not quantify the adjustment to income, tax, penalty or interest proposed, but the Company estimates that the adjustment under either of these alternative positions would result in additional taxable income to the Company of approximately \$0.3 million, \$1.2 million, and \$10.3 million for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. The Company does not agree with the proposed adjustments and plans to defend against the challenges vigorously. See also footnote 8 to the condensed consolidated financial statements.

Since January 1, 2004 Agri has been filing as a taxable entity as a result of changes in the Internal Revenue Code.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The table below provides information about the Company's investment in marketable debt securities and its loan obligations that are sensitive to changes in interest rates. The table also provides information about the Company's purchase and sales contracts that are sensitive to changes in the citrus juice prices.

Investments are placed with high quality issuers and, by policy, limit the amount of credit exposure to any one issuer. Alico is averse to principal loss and provides for the safety and preservation of invested funds by limiting default, market and reinvestment risk. The Company classifies cash equivalents and 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 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 debt instruments held at various securities brokers and investment banks.

Fixed rate securities tend to decline with market rate interest increases. Variable rate securities are generally affected more by general market expectations and conditions. Additionally, the Company has debt with interest rates that vary with the LIBOR. A 1% increase in this rate would impact the Company's annual interest expense by approximately \$511 thousand based on the Company's outstanding debt under these agreements at May 31, 2006.

The Company through its wholly owned subsidiary Bowen Brothers Fruit, LLC, purchases citrus from growers and resells the fruit to various processing plants. Both the purchase and sales prices may be fixed or variable. At May 31, 2006 all variable purchase contracts had been settled. The table below shows the total commitment for variable sales price contracts calculated using the base contract price. These variable price contracts were closed out in June for an additional \$108 thousand in revenue.

| | Expected Maturity Date | | | | | | | Fair Value |
|------------------------------------|------------------------|--------|--------|--------|--------|------------|--------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total | |
| Interest Rate Sensitivity | | | | | | | | |
| Assets | | | | | | | | |
| Marketable Debt Securities | | | | | | | | |
| Fixed Rate Securities | \$ 19,238 | 4,042 | 143 | 261 | 199 | 3,260 | | 27,143 |
| Average Interest Rate | 4.66% | 6.14% | 5.03% | 5.32% | 5.03% | 4.96% | | 4.92% |
| | | | | | | | | |
| Variable Rate Securities | \$ 7,759 | 2,700 | - | - | - | 13,380 | | 23,839 |
| Liabilities | | | | | | | | |
| Notes Payable | | | | | | | | |
| Fixed Rate Notes | \$ 3,312 | 1,315 | 1,318 | 1,267 | 1,267 | 3,589 | 12,068 | |
| Average Interest Rate | 6.16% | 6.69% | 6.69% | 6.68% | 6.68% | 6.68% | 6.54% | |
| | | | | | | | | |
| Variable Rate Notes | | | | | 51,089 | | 51,089 | |
| Average Interest Rate | | | | | 5.63% | | 5.63% | |
| Commodity Price Sensitivity | | | | | | | | |

**Variable Pricing
Contracts**

| | | |
|-------------------------------|----------|-------|
| Fruit Purchase Commitments | - | 0 |
| Fruit Sales Commitments | \$ 4,064 | 4,064 |

31

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company periodically reviews the design and effectiveness of its disclosure controls and internal control over financial reporting. The Company makes modifications to improve the design and effectiveness of its disclosure controls and internal control structure, and may take other corrective action if its reviews identify a need for such modifications or actions.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls could be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions. Additionally, the degree of compliance with the policies or procedures may deteriorate over time. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In connection with the preparation of the Company's Annual Report on Form 10-K, as of August 31, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). The Company concluded that control deficiencies in its internal control over financial reporting as of August 31, 2005 constituted a material weakness within the meaning of the Public Company Accounting Oversight Board's Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements.

The material weakness identified by the Company was disclosed in its Annual Report on Form 10-K, which was filed with the SEC on November 23, 2005. Based on that and subsequent evaluations, the Chief Executive Officer and Chief Financial Officer have concluded that, as of May 31, 2006, the Company's disclosure controls and procedures are not effective, for the reasons described above (relating to the previously-identified material weakness in internal control over financial reporting).

Changes in internal control over financial reporting

Management, with oversight from the Audit Committee of the Board of Directors, has been addressing the material weakness disclosed in its Form 10-K and is committed to effectively remediating known weaknesses as expeditiously as possible. Although the Company's remediation efforts are well underway, control weaknesses will not be considered remediated until new internal controls over financial reporting are implemented and operational for a sufficient period of time to allow for effective testing and are tested, and management and its independent registered certified public accounting firm conclude that these controls are operating effectively. Management has therefore concluded that there have been no changes made in the Company's internal controls over financial reporting in connection with its third quarter evaluation that would materially affect, or are reasonably likely to materially affect,

its internal control over financial reporting.

32

The current status of the Company's remediation efforts to address the material weakness in internal control over financial reporting identified in its Annual Report for the year ended August 31, 2005 is as follows:

Management assessed the effectiveness of the Company's internal control over financial reporting as of August 31, 2005. In making the assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework. Based upon this assessment and as more fully explained below, management identified a material weakness in Alico's internal control over financial reporting as of August 31, 2005. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management identified the following material weakness as of August 31, 2005:

A lack of qualified financial reporting personnel with sufficient depth, skills, and experience to apply generally accepted accounting principles to the Company's transactions and to prepare financial statements that comply with generally accepted accounting principles. Specifically, monitoring controls to ensure journal entries are posted accurately and in a timely fashion were ineffective during the fiscal 2005 closing process. This resulted in a missed elimination entry to inter-company accounts and an incorrect entry to deferred income taxes and other comprehensive income. Although the missed or incorrect entries were not prevented or detected by the Company's existing system of internal controls, the entries were identified by the Company's independent registered certified public accounting firm, and were corrected and properly reflected in the fiscal 2005 year end financial statements.

Although the Company does not believe that the material weakness identified impacted any previously filed financial statements, the existence of a material weakness or weaknesses is an indication that there is more than a remote likelihood that a material misstatement of the Company's financial statements will not be prevented or detected in a future period.

The Company has substantially completed implementation of the changes it believes are required to remediate the previously reported material weaknesses in internal control over financial reporting related to maintaining an effective control environment by: (i) adding a certified public accountant, a qualified and experienced financial reporting manager, to the Company's Accounting Department to ensure that the Company has sufficient depth, skills and experience within the department to prepare the Company's financial statements and disclosures in accordance with generally accepted accounting principles in the United States of America; (ii) hiring an assistant controller to process transactions and allowing the controller more time to perform in depth reviews of financial accounting information; (iii) enhancing and strengthening its written accounting and reporting policies pertaining to the elimination of inter-company balances and training employees with respect to the new policies; and (iv) purchasing accounting software specifically designed to handle consolidating entries, schedules and issues. All these changes have taken place subsequent to the year ended August 31, 2005. Management will continue to evaluate the progress and abilities of accounting personnel in order to assess whether weakness has been effectively remediated. While the remediation measures are expected to improve the design and effectiveness of the Company's internal control over financial reporting, certain of the corrective processes, procedures and controls have not been tested. In general, the controls have not yet operated effectively for a sufficient period of time to demonstrate operating effectiveness. Accordingly, the CEO and CFO have concluded that the Company's disclosure controls and procedures were not effective as of August 31, 2005 and May 31, 2006. Management is committed to correcting this material weakness.

As a result of the material weakness and factors identified above, we have concluded that as of August 31, 2005, and May 31, 2006, the Company did not maintain effective internal control over financial reporting.

FORM 10-Q**PART II. OTHER INFORMATION**

ITEM 1. Has been omitted as there are no items to report during this interim period.

ITEM 2. Unregistered sales of Equity Securities

On November 30, 2005 pursuant to the Director Compensation Plan approved by the Company's shareholders on June 10, 2005, the Company issued 6,447 of its common stock as restricted shares privately placed in reliance on rule 144 to the independent directors as follows:

| | |
|-------------------|--------------|
| Evelyn D'An | 725 shares |
| Phillip S. Dingle | 896 shares |
| Gregory T. Mutz | 2,809 shares |
| Charles L. Palmer | 923 shares |
| Gordon Walker | 1,094 shares |

The Directors received the shares in lieu of cash Director fees as provided under the Director Compensation Plan. The Company did not receive any cash for these transactions.

The following table provides information relating to purchases by Alico, Inc. of Alico, Inc. common shares on the open market pursuant to the Director Compensation Plan approved by the Company's shareholders on June 10, 2005 for the first nine months of fiscal 2006:

| Date | Total Number of Shares Purchased | Average price paid per share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs |
|------------|--|---------------------------------|---|---|
| | | \$ | | \$ |
| 11/28/2005 | 10,000 | 43.30 | 10,000 | 902,600 |
| 5/9/2006 | 3,000 | \$ 54.46 | 13,000 | \$ 925,820 |

ITEM 3. has been omitted as there are no items to report during this interim period.

ITEM 4. has been omitted as there are no items to report during this interim period.

ITEM 5 has been omitted as there are no items to report during this interim period.

ITEM 6. Exhibits

Exhibit 3.1 Restated Certificate of Incorporation, dated February 17, 1971, as amended (incorporated by reference to the Company's Registration Statement on form S-1, File No. 2-43156).

Exhibit 3.2 Bylaws of the Company, as amended (incorporated by reference to the Company's Registration Statement on form S-8, File No. 333-130575).

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Exhibit 10.1 Loan Agreement, dated October 11, 2005 (incorporated by reference to Exhibit 10.01 of the Company's Current Report on Form 8-K filed October 17, 2005).

Exhibit 10.2 Amended and Restated Loan Agreement, dated May 26, 2006 (incorporated by reference to Exhibit 10.01 of the Company's Current Report on Form 8-K filed June 1, 2006).

Exhibit 11 Computation of Earnings per share May 31, 2006.

Exhibit 31.1 Rule 13a-14(a) certification.

Exhibit 31.2 Rule 13a-14(a) certification.

Exhibit 32.1 Section 1350 certification.

Exhibit 32.2 Section 1350 certification.

34

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)

July 10, 2006
John R. Alexander
Chairman
Chief Executive Officer
(Signature)

July 10, 2006
Patrick W. Murphy
Vice President
Chief Financial Officer
(Signature)

July 10, 2006
Jerald R. Koesters
Controller
(Signature)
35
