

ALICO INC  
Form 10-Q  
February 09, 2009

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**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 December 31, 2008**  
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 smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes**     **No**

There were 7,357,106 shares of common stock, par value \$1.00 per share, outstanding at February 2, 2009.

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Part I. Financial Information  
 Item 1. Financial Statements

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

	<b>Three months ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating revenue</b>		
Agricultural operations	\$ 18,088	\$ 18,107
Non-agricultural operations	957	676
Real estate operations	1,249	3,869
<b>Total operating revenue</b>	<b>20,294</b>	<b>22,652</b>
<b>Operating expenses</b>		
Agricultural operations	17,457	17,382
Non-agricultural operations	257	108
Real estate operations	290	891
<b>Total operating expenses</b>	<b>18,004</b>	<b>18,381</b>
Gross profit	2,290	4,271
Corporate general and administrative	3,001	2,913
<b>(Loss) profit from continuing operations</b>	<b>(711)</b>	<b>1,358</b>
<b>Other income (expenses):</b>		
Profit on sales of bulk real estate, net	1,546	817
Interest and investment income, net	933	3,448
Interest expense	(2,079)	(2,466)
Other	11	246
<b>Total other income (expense) net</b>	<b>411</b>	<b>2,045</b>
(Loss) income from continuing operations before income taxes	(300)	3,403
(Benefit from) provision for income taxes	(124)	1,188
<b>(Loss) income from continuing operations</b>	<b>(176)</b>	<b>2,215</b>
Income from discontinued operations, net of taxes		19
<b>Net (loss) income</b>	<b>(176)</b>	<b>2,234</b>

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Weighted-average number of shares outstanding	7,375	7,361
Weighted-average number of shares outstanding assuming dilution	7,375	7,375
Per share amounts- (loss) income from continuing operations:		
Basic	\$ (0.02)	\$ 0.30
Diluted	\$ (0.02)	\$ 0.30
Per share amounts- net (loss) income		
Basic	\$ (0.02)	\$ 0.30
Diluted	\$ (0.02)	\$ 0.30
Dividends	\$ 0.28	\$ 0.28

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	(Unaudited) <b>December 31, 2008</b>	<b>September 30, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 78,213	\$ 54,370
Marketable securities available for sale	1,705	24,267
Accounts receivable, net	10,628	5,394
Federal income tax receivable	5,531	6,388
Mortgages and notes receivable	1,056	2,830
Inventories	27,814	27,451
Deferred tax asset	1,508	1,507
Other current assets	1,112	923
<b>Total current assets</b>	<b>127,567</b>	<b>123,130</b>
Mortgages and notes receivable, net of current portion	6,302	4,774
Investments, deposits and other	8,163	6,975
Deferred tax assets	6,157	6,056
Cash surrender value of life insurance, designated	6,948	7,585
Property, buildings and equipment	183,252	181,429
Less: accumulated depreciation	(57,518)	(56,017)
<b>Total assets</b>	<b>\$ 280,871</b>	<b>\$ 273,932</b>

(continued)

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

	(Unaudited) <b>December 31, 2008</b>	<b>September 30, 2008</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 3,344	\$ 1,847
Income taxes payable		281
Notes payable	5,001	5,470
Accrued expenses	5,183	3,372
Dividend payable	2,029	2,027
Accrued ad valorem taxes		2,270
Other current liabilities	2,399	2,933
<b>Total current liabilities</b>	<b>17,956</b>	<b>18,200</b>
Notes payable, net of current portion	144,496	132,288
Deferred retirement benefits, net of current portion	3,097	4,151
Commissions and deposits payable	2,568	3,800
<b>Total liabilities</b>	<b>168,117</b>	<b>158,439</b>
<b>Stockholders equity:</b>		
Common stock	7,377	7,376
Additional paid in capital	9,643	9,474
Treasury stock	(604)	(64)
Accumulated other comprehensive loss	(250)	(92)
Retained earnings	96,588	98,799
<b>Total stockholders equity</b>	<b>112,754</b>	<b>115,493</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 280,871</b>	<b>\$ 273,932</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Three months ended</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Net cash (used for) provided by operating activities</b>	<b>\$ (5,967)</b>	<b>\$ 3,314</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,325)	(2,131)
Purchases of other investments	(121)	(574)
Proceeds from sales of property and equipment	172	586
Purchases of marketable securities	(335)	(15,645)
Proceeds from sales of marketable securities	21,527	12,849
Note receivable collections	1,792	2,873
<b>Net cash provided by (used for) investing activities</b>	<b>20,710</b>	<b>(2,042)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(4,930)	(1,824)
Proceeds from notes payable	16,669	11,300
Proceeds from stock transactions		16
Treasury stock purchases	(604)	(528)
Dividends paid	(2,035)	(2,024)
<b>Net cash provided by financing activities</b>	<b>9,100</b>	<b>6,940</b>
Net increase in cash and cash equivalents	\$ 23,843	\$ 8,212
Cash and cash equivalents:		
At beginning of period	\$ 54,370	\$ 31,599
<b>At end of period</b>	<b>\$ 78,213</b>	<b>\$ 39,811</b>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest, net of amount capitalized	\$ 2,396	\$ 2,199
Cash paid for income taxes	\$ 285	\$

**Supplemental schedule of non-cash investing activities:**



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Reclassification of breeding herd to property and equipment	\$	552	\$	458
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See accompanying notes to Condensed Consolidated Financial Statements.

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

**1. Basis of financial statement presentation:**

The accompanying condensed consolidated financial statements ( Financial Statements ) include the accounts of Alico, Inc. ( Alico ) and its wholly owned subsidiaries, Alico Land Development Company, 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 following Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading.

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 September 30, 2008. 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 December 31, 2008 and September 30, 2008 and the consolidated results of operations and cash flows for the three month periods ended December 31, 2008 and 2007.

The Company is involved in agriculture, which is of a seasonal nature and 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. Certain items from 2007 have been reclassified to conform to the 2008 presentation.

**2. Marketable Securities Available for Sale:**

The Company has classified 100% of its investments in marketable securities as available for sale and, as such, the securities are carried at estimated fair value. 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. Marketable Securities classified as non current are included under the caption Investments, deposits and other together with deposits and other non current investments.

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The cost and estimated fair value of marketable securities available for sale at December 31, 2008 and September 30, 2008 were as follows:

	December 31, 2008 (Unaudited)			September 30, 2008				
	Cost	Gross Unrealized Gains	Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
Municipal bonds	\$ 4,200	\$	\$ (115)	\$ 4,085	\$ 23,493	\$ 3	\$ (150)	\$ 23,346
Fixed maturity funds	1,325		(294)	1,031	1,325			1,325
Mutual funds	1,704	1		1,705	3,529	7		3,536
Corporate bonds					150		(10)	140
Marketable securities available for sale	\$ 7,229	\$ 1	\$ (409)	\$ 6,821	\$ 28,497	\$ 10	\$ (160)	\$ 28,347
Non current portion				(5,116)				(4,080)
				1,704				24,267

The aggregate fair value of investments in debt instruments (net of mutual funds of \$1,031) as of December 31, 2008 by contractual maturity date consisted of the following:

Due within 1 year	\$	787
Due between 1 and 2 years		918
Due between 2 and 3 years		
Due between 3 and 4 years		
Due between 4 and 5 years		
Due beyond five years		4,085
Total	\$	5,790

**Debt instruments and funds.** The unrealized losses on municipal bonds and mutual funds were primarily due to changes in interest rates. At December 31, 2008 the Company held loss positions in nine 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 December 31, 2008.

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:

	December 31, 2008				Total	
	Less than 12 months		12 months or greater		Fair	Unrealized
	Fair	Unrealized	Fair	Unrealized		

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	Value	Losses	Value	Losses	Value	Losses
Fixed maturity funds	\$ 1,031	\$ 294	\$	\$	\$ 1,031	\$ 294
Corporate bonds						
Municipal Bonds	3,785	115			3,785	115
Total	\$ 4,816	\$ 409	\$	\$	\$ 4,816	\$ 409

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Alico implemented SFAS 157, Fair Value Measurements (SFAS 157) on October 1, 2008. SFAS 157 defines fair value, establishes a framework for its measurement, and expands disclosures about fair value measurements. The adoption of SFAS did not have a material effect on the Company's consolidated financial position, cash flows, or results of operations.

In 2007, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 157-2 (FSP 157-2), which provided a one year deferral for the implementation of SFAS 157 for non-financial assets and liabilities measured at fair value that are recorded or disclosed on a non-recurring basis. Alico has elected to apply the FSP 157-2 deferral to the applicable non financial assets and liabilities, consisting of certain parcels of real estate, until October 1, 2009.

SFAS 157 defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability (i.e.; exit price) in an orderly transaction between market participants at the measurement date. SFAS 157 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e.; inputs) used in the valuation. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The SFAS 157 fair value hierarchy is defined as follows:

Level 1 Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The following table represents the fair values of Alico's financial assets and liabilities at December 31, 2008:

	Level 1	Level 2	Level 3
Available for sale securities	2,005	3,785	1,031

The following is a reconciliation of beginning and ending balances for securities using significant unobservable inputs (level 3) for the quarter ended December 31, 2008:

Beginning balances, October 1, 2008:	1,325
Realized gains (losses) for the quarter ended December 31, 2008	
Unrealized gains (losses) for the quarter ended December 31, 2008	(294)
Purchases, sales, issuances and settlements (net) for the quarter ended December 31, 2008	
Transfers between valuation categories	
Balances, December 31, 2008	1,031

Alico utilized a third party to evaluate its auction rate securities. Because the decline in market values are expected to be temporary, Alico included the unrealized losses as a component of other comprehensive income for the quarter ended December 31, 2008.

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The balances of the Company's mortgages and notes receivable were as follows:

	<b>December 31, 2008 (unaudited)</b>	<b>September 30, 2008</b>
Mortgage notes receivable on retail land sales	\$ 200	\$ 205
Mortgage notes receivable on bulk land sales	52,320	54,108
Note receivable- other	90	90
Total mortgage and notes receivable	52,610	54,403
Less: Deferred revenue	(45,247)	(46,793)
Discount on notes to impute market interest	(5)	(6)
Current portion	(1,056)	(2,830)
Non-current portion	\$ 6,302	\$ 4,774

The mortgage note receivable on bulk land sales relates to a parcel in Lee County, Florida referred to as the East parcel which was sold to the Ginn Companies. In July 2005, Alico's subsidiary, Alico-Agri entered into a sales contract for the East property, consisting of approximately 4,538 acres for \$62.9 million. At the time of the sale, Alico-Agri received a down payment of \$6.2 million and a mortgage note of \$56.6 million in exchange for the East property.

Alico-Agri records real estate sales following the provisions in Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate. Under these guidelines, gains from commercial or bulk land sales are not recognized until payments received for property to be developed within two years after the sale represent a 20% continuing interest in the property or for property to be developed after two years, a 25% continuing interest in the property according to the installment sales method. The continuing interest thresholds for gain recognition have not been met for the East contract and Alico-Agri is recognizing gains proportionate to principal receipts through deferred gain accounts which serve to discount the mortgage note receivables under the installment method.

In October 2008, Alico-Agri received a principal payment of \$1.8 million on the East contract in November of 2008. Alico-Agri recognized a profit of \$1.5 million as non-operating revenue under the installment method related to the receipt. The remaining future principal payments of the East contract were extended as follows:

<i>Due Date</i>	<i>Due before restructure</i>	<i>Due after restructure</i>
9/28/09	\$ 12,000	\$ 1,000
9/28/10	12,000	1,000
9/28/11	26,128	4,000
9/28		