

ALICO INC
Form 10-Q
May 09, 2008

Table of Contents

**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 March 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 7,374,074 shares of common stock, par value \$1.00 per share, outstanding at May 7, 2008

Index
Alico, Inc.
Form 10-Q

For the quarter ended March 31, 2008

Part I. Financial Information

Item 1. Financial Statements and footnotes 3

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 20

Item 3. Quantitative and Qualitative Disclosures about Market Risk 28

Item 4. Controls and Procedures 29

Part II. Other Information

Item 1. Legal Proceedings 30

Item 2. Unregistered Sales of Equity Securities 30

Item 3. Defaults Upon Senior Securities 30

Item 4. Submission of Matters to a Vote of Security Holders 30

Item 5. Other Information 30

Item 6. Exhibits 30

Exhibit 11
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

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

| | Three months ended March | | Six months ended March | |
|--|---------------------------------|---------------------|-------------------------------|---------------------|
| | 2008 | 31, 2007 | 2008 | 31, 2007 |
| Operating revenue | | | | |
| Agricultural operations | \$ 48,553 | \$ 54,766 | \$ 67,562 | \$ 78,177 |
| Non-agricultural operations | 722 | 889 | 1,398 | 1,559 |
| Real estate operations | | 803 | 3,869 | 3,250 |
| Total operating revenue | 49,275 | 56,458 | 72,829 | 82,986 |
| Operating expenses | | | | |
| Agricultural operations | 42,613 | 42,459 | 60,828 | 62,679 |
| Non-agricultural operations | 136 | 126 | 244 | 239 |
| Real estate operations | 542 | 1,204 | 1,433 | 1,444 |
| Total operating expenses | 43,291 | 43,789 | 62,505 | 64,362 |
| Gross profit | 5,984 | 12,669 | 10,324 | 18,624 |
| Corporate general and administrative | 3,981 | 3,405 | 6,982 | 6,572 |
| Income from operations | 2,003 | 9,264 | 3,342 | 12,052 |
| Other income (expenses): | | | | |
| Profit on sales of bulk real estate: | | | | |
| Sales | | (511) | 817 | 1,359 |
| Cost of sales | | (257) | | 321 |
| Profit on sales of bulk real estate, net | | (254) | 817 | 1,038 |
| Interest & investment income | 1,987 | 1,902 | 6,320 | 3,528 |
| Interest expense | (1,103) | (1,309) | (3,569) | (2,570) |
| Other | (239) | 92 | 26 | 166 |
| Total other income, (expense) net | 645 | 431 | 3,594 | 2,162 |
| Income before income taxes | 2,648 | 9,695 | 6,936 | 14,214 |
| Provision for income taxes | 1,110 | 4,192 | 2,608 | 6,131 |

Edgar Filing: ALICO INC - Form 10-Q

| | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|-------|
| Net income | \$ | 1,538 | \$ | 5,503 | \$ | 4,328 | \$ | 8,083 |
| Weighted-average number of shares outstanding | | 7,364 | | 7,371 | | 7,362 | | 7,372 |
| Weighted-average number of shares outstanding assuming dilution | | 7,380 | | 7,388 | | 7,377 | | 7,392 |
| Per share amounts: | | | | | | | | |
| Basic | \$ | 0.21 | \$ | 0.75 | \$ | 0.59 | \$ | 1.10 |
| Diluted | | 0.21 | | 0.74 | | 0.59 | | 1.09 |
| Dividends | \$ | 0.28 | \$ | 0.28 | \$ | 0.55 | \$ | 0.55 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | | | | | | | |

Table of Contents

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

| ASSETS | March 31, 2008 (unaudited) | September 30, 2007 (unaudited) |
|--|---|---|
| Current assets: | | |
| Cash and cash equivalents | \$ 44,461 | \$ 31,599 |
| Marketable securities available for sale | 42,578 | 46,511 |
| Accounts receivable | 14,725 | 14,848 |
| Federal income tax refundable | 3,761 | 5,696 |
| Mortgage and notes receivable | 3,705 | 3,832 |
| Inventories | 24,161 | 27,232 |
| Current deferred tax asset | 2,811 | 2,661 |
| Other current assets | 1,747 | 2,719 |
| Total current assets | 137,949 | 135,098 |
| Mortgages and notes receivable, net of current portion | 4,748 | 6,688 |
| Investments, deposits and other | 4,772 | 3,237 |
| Deferred tax asset | 3,812 | 3,805 |
| Cash surrender value of life insurance, designated | 7,383 | 7,656 |
| Property, buildings and equipment | 179,469 | 178,968 |
| Less: accumulated depreciation | (53,077) | (50,422) |
| Total assets | \$ 285,056 | \$ 285,030 |

(continued)

Table of Contents

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

| | March 31, 2008 (unaudited) | September 30, 2007 (unaudited) |
|--|---|---|
| LIABILITIES & STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,468 | \$ 1,943 |
| Income taxes payable | 9,905 | 9,114 |
| Current portion of notes payable | 1,353 | 1,350 |
| Accrued expenses | 4,638 | 4,425 |
| Dividend payable | 2,027 | 4,048 |
| Accrued ad valorem taxes | 370 | 2,105 |
| Other current liabilities | 1,203 | 2,153 |
| Total current liabilities | 25,964 | 25,138 |
| Notes payable, net of current portion | 131,082 | 134,534 |
| Deferred retirement benefits, net of current portion | 5,138 | 5,098 |
| Commissions and deposits payable | 4,367 | 4,265 |
| Total liabilities | 166,551 | 169,035 |
| Stockholders equity: | | |
| Common stock | 7,376 | 7,376 |
| Additional paid in capital | 9,997 | 10,199 |
| Treasury stock | (459) | (891) |
| Accumulated other comprehensive income | 32 | 49 |
| Retained earnings | 101,559 | 99,262 |
| Total stockholders equity | 118,505 | 115,995 |
| Total liabilities and stockholders equity | \$ 285,056 | \$ 285,030 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

| | Six months ended March 31, | |
|---|---------------------------------------|----------------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net cash provided by operating activities | \$ 17,163 | \$ 835 |
| Cash flows from investing activities: | | |
| Real estate deposits and accrued commissions | 71 | 1,600 |
| Purchases of property and equipment | (3,274) | (5,611) |
| Purchases of other investments | (957) | |
| Proceeds from sale of real estate | | 600 |
| Proceeds from sales of property and equipment | 1,353 | 1,366 |
| Purchases of marketable securities | (34,222) | (33,206) |
| Proceeds from sales of marketable securities | 38,138 | 32,169 |
| Note receivable collections | 2,858 | 1,704 |
| Other | | (1) |
| Net cash provided by (used for) investing activities | 3,967 | (1,379) |
| Cash flows from financing activities: | | |
| Repayment of loans | (20,949) | (5,943) |
| Proceeds from loans | 17,500 | 14,324 |
| Proceeds from stock transactions | 31 | 16 |
| Proceeds used for stock transactions | (802) | (524) |
| Dividends paid | (4,048) | (4,056) |
| Net cash (used for) provided by financing activities | (8,268) | 3,817 |
| Net increase in cash and cash equivalents | \$ 12,862 | \$ 3,273 |
| Cash and cash equivalents: | | |
| At beginning of period | \$ 31,599 | \$ 25,158 |
| At end of period | \$ 44,461 | \$ 28,431 |

(continued)

Table of Contents

| | Six months ended March 31, | |
|--|---------------------------------------|-------------|
| | 2008 | 2007 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest, net of amount capitalized | \$ 4,676 | \$ 2,334 |
| Cash paid for income taxes | \$ | \$ 2,075 |
| Net non cash investing activities: | | |
| Issuance of mortgage notes | \$ | \$ 13,341 |
| Fair value adjustments to securities available for sale net of tax effects | \$ (17) | \$ 40 |
| Reclassification of breeding herd to property and equipment | \$ 458 | \$ 566 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

Table of Contents

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

1. Basis of financial statement presentation:

On September 28, 2007, the Board of Directors of the Company approved a change in the Company's fiscal year end from August 31 to September 30. The fiscal year change is effective beginning with the Company's 2008 fiscal year. The Company's 2008 fiscal year began on October 1, 2007 and will end September 30, 2008, resulting in a one month transition period that began September 1, 2007 and ended September 30, 2007. This Form 10-Q includes the unaudited results for the three and six months ended March 31, 2008 and 2007. The unaudited results for the one month ended September 30, 2007 were included in the Form 10-Q filed on February 15, 2008. The audited results for the one month ended September 30, 2007 will be included separately in the Company's Annual Report on Form 10-K for the fiscal year ending September 30, 2008.

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 August 31, 2007. 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 March 31, 2008 and September 30, 2007 and the consolidated results of operations and cash flows for the three and six month periods ended March 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. Fluctuation in the market prices for citrus fruit has caused the Company to recognize adjustments to revenue from the prior year's crop totaling \$474 thousand for the quarter ended March 31, 2008, \$53 thousand for the quarter ended December 31, 2007, \$555 thousand for the quarter ended March 31, 2007 and \$(20) thousand for the quarter ended December 31, 2006.

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. 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 or the earnings process is complete.

Real estate project costs incurred for the acquisition, development and construction of real estate projects and costs to obtain regulatory approval for the project are capitalized. Additionally, costs to market real estate are capitalized if they are reasonably expected to be realized upon the sale of the project. An allowance is provided to reduce capitalized project costs to estimated realizable value. Costs to preserve existing rights pertaining to projects are expensed as incurred and costs previously capitalized to projects that are not expected to be ultimately realized are expensed when the project is no longer expected to be completed.

Table of Contents

During the fourth quarter of fiscal year 2006, the Company established a real estate department to manage its real estate assets. Gains or losses resulting from real estate transactions entered into before the establishment of the Company's real estate department, which have not been substantially modified as defined by GAAP, have been recorded as non-operating items. Gains or losses resulting from contracts substantially modified or initiated by the Company's real estate department are classified as operating items.

Properties are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized when the carrying amount of a property exceeds its fair value. Such events or changes in circumstances include significant decreases in the market price of such properties; significant adverse changes in legal factors, the business climate or the extent or manner in which the asset is being used; an accumulation of costs significantly in excess of amounts originally expected for the property; continuing operating cash flow losses associated with the property or an expectation that it is more likely than not that the property will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Impairment losses are measured as the amount by which the carrying amount of a property exceeds its fair value.

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 value of marketable securities available for sale at March 31, 2008 and September 30, 2007 were as follows:

| | March 31, 2008 (Unaudited) | | | | September 30, 2007 (Unaudited) | | | |
|--|-------------------------------|------------------------------|---------|----------------------------|-----------------------------------|------------------------------|---------|----------------------------|
| | Cost | Gross Unrealized Gains | Losses | Estimated Fair Value | Cost | Gross Unrealized Gains | Losses | Estimated Fair Value |
| Debt securities | | | | | | | | |
| Municipal bonds | \$ 28,159 | \$ 50 | \$ (8) | \$ 28,201 | \$ 29,213 | \$ 23 | \$ (2) | \$ 29,234 |
| Mutual funds | 2,000 | | | 2,000 | 2,000 | | | 2,000 |
| Fixed maturity funds | 12,216 | 19 | (5) | 12,230 | 12,569 | 49 | (2) | 12,616 |
| Corporate bonds | 150 | | (3) | 147 | 2,670 | | (9) | 2,661 |
| Marketable securities available for sale | \$ 42,525 | \$ 69 | \$ (16) | \$ 42,578 | \$ 46,452 | \$ 72 | \$ (13) | \$ 46,511 |

Table of Contents

The aggregate fair value of investments in debt instruments (net of mutual funds of \$2,000) as of March 31, 2008 and September 30, 2007 by contractual maturity date consisted of the following:

| | Aggregate Fair Value | |
|---------------------------|-----------------------------|-------------------------------|
| | March 31, 2008 | September 30, 2007 |
| Due within 1 year | \$ 27,752 | \$ 30,596 |
| Due between 1 and 2 years | 2,715 | 4,702 |
| Due between 2 and 3 years | | 219 |
| Due between 3 and 4 years | 1,515 | |
| Due between 4 and 5 years | | 1,512 |
| Due beyond five years | 8,596 | 7,482 |
| Total | \$ 40,578 | \$ 44,511 |

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:

| | March 31, 2008 | | | | | |
|----------------------|----------------------------|----------------------|-----------------------------|----------------------|---------------|----------------------|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed maturity funds | \$ 4,118 | \$ (5) | \$ | \$ | \$ 4,118 | \$ (5) |
| Corporate bonds | | | 147 | (3) | 147 | (3) |
| Municipal Bonds | 2,919 | (7) | 870 | (1) | 3,789 | (8) |
| Total | \$ 7,037 | \$ (12) | \$ 1,017 | \$ (4) | \$ 8,054 | \$ (16) |

Net realized gain (loss) on the sale of securities for the six months ended March 31, 2008 and 2007 were \$40 thousand and (\$29 thousand), respectively.

Debt instruments and funds. The unrealized losses on fixed maturity funds, corporate bonds and municipal bonds were primarily due to changes in interest rates. At March 31, 2008 the Company held loss positions in 32 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 March 31, 2008.

Table of Contents**4. Mortgages and notes receivable:**

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

| | March 31, 2008 (unaudited) | September 30, 2007 (unaudited) |
|--|---|---|
| Mortgage notes receivable on retail land sales | \$ 262 | \$ 299 |
| Mortgage notes receivable on bulk land sales | 65,518 | 65,963 |
| | | |
| Total mortgage and notes receivable | 65,780 | 66,262 |
| Less: Deferred revenue | (57,034) | (53,253) |
| Discount on notes to impute market interest | (293) | (2,489) |
| Current portion | (3,705) | (3,832) |
| | | |
| Non-current portion | \$ 4,748 | \$ 6,688 |

Mortgage notes receivable related to retail land sales are generated from the sale of lots by the Company's Alico Land Development subsidiary. Mortgage notes related to bulk land sales were generated by the sale of the Company's Lee County properties through the Company's Alico-Agri subsidiary. 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 a continuing interest of at least 20% or 25% for property to be developed after two years.

Profits from commercial real estate sales are discounted to reflect the market rate of interest when 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.

In December of 2006, and again in October 2007, the Company restructured a contract originally entered into in July 2005, related to the Company's Alico-Agri subsidiary sale of property in Lee County, Florida for \$62.9 million. In December 2006, the Company restructured the contract and received \$3.8 million upon execution. The major provisions of the restructuring were the extension of the principal payments and an increase in the interest rate to 4.0% annually, causing readjustment of the note discount.

Major provisions of the October 2007 restructuring included a reduction of the scheduled principal payments due in September of 2008 and 2009; an increased interest rate based on LIBOR plus a percentage to be applied forward from July 2005; and quarterly interest payments equal to the applicable quarterly interest rate as described above on the outstanding principal balance for the term of the note. Further provisions include increased flexibility of the Company to receive lots in the event of default. The Company received a payment of \$6.8 million related to the renegotiated contract consisting of \$0.4 million of principal, \$6.1 million of interest and the balance as an expense reimbursement. As a result of the changed interest terms from the October 2007 restructure, the note discount originally recorded in July 2005 and modified in December 2006, was eliminated.

In December 2006, the Company sold property in Lee County, Florida for \$12.0 million. The Company recognized revenue of \$0.6 million and recorded a mortgage note receivable for \$11.4 million and deferred revenue of \$10.2 million. The mortgage note receivable, which accrues interest at the rate of 6% annually, was discounted by \$0.3 million to adjust to the market rate of interest at the time of the sale. Interest only will be collected annually on the note for the first four years, followed by four equal annual payments of principal and interest.

Table of Contents**5. Inventories:**

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

| | March 31, 2008 (unaudited) | September 30, 2007 (unaudited) |
|---------------------------------|---|---|
| Unharvested fruit crop on trees | \$ 12,511 | \$ 12,982 |
| Unharvested sugarcane | 2,920 | 5,410 |
| Beef cattle | 5,884 | 5,757 |
| Unharvested sod | 1,648 | 1,476 |
| Plants and vegetables | 1,147 | 1,484 |
| Rock, fill and other | 51 | 123 |
| | | |
| Total inventories | \$ 24,161 | \$ 27,232 |

The Company records its inventory at the lower of cost or net realizable value. Due to changing market conditions, the Company adjusted its cattle and its plant and vegetable inventories down by \$747 thousand and \$73 thousand, respectively during the second quarter of fiscal year 2008 and \$1.0 million and \$261 thousand, respectively for the six months ended March 31, 2008. The Company recorded a write down of \$383 thousand for beef cattle during the second quarter of fiscal 2007 and \$383 thousand, \$338 thousand and \$216 thousand for its beef, sugarcane and vegetable inventories, respectively, during the six months ended March 31, 2007. The adjustments were included as costs of sales in the period of adjustment.

6. Income taxes:

The provision for income taxes for the three and six months ended March 31, 2008 and March 31, 2007 is summarized as follows:

| | Three months ended March 31, (unaudited) | | Six months ended March 31, (unaudited) | |
|----------------------------------|---|-------------|---|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Current: | | | | |
| Federal income tax | \$ 733 | \$ 2,146 | \$ 1,935 | \$ 3,139 |
| State income tax | 152 | 367 | 409 | 537 |
| | 885 | 2,513 | 2,344 | 3,676 |
| Deferred: | | | | |
| Federal income tax | (74) | 1,516 | (98) | 2,217 |
| State income tax | 299 | 163 | 362 | 238 |
| | 225 | 1,679 | 264 | 2,455 |
| | | | | |
| Total provision for income taxes | \$ 1,110 | \$ 4,192 | \$ 2,608 | \$ 6,131 |

The Internal Revenue Service (IRS) issued a thirty day letter dated August 14, 2006 pertaining to audits of Alico for the tax years 2000 through 2004. In the thirty day letter, the IRS proposed several alternative theories as a basis for its argument that Alico should have reported additional taxable income in the years under audit. These theories principally related to the formation and capitalization of the Company's Agri Insurance subsidiary and its tax exempt status during the years under audit. The Company has been working with IRS appeals to resolve the case. In order to stop additional interest from accruing on this liability, the Company paid \$66.2 million to the IRS from its revolving credit line. Based on the estimated Federal settlement amount, the Company estimated additional state taxes and interest of approximately \$10.3 million at March 31, 2008 which will be due and payable when the IRS audit is concluded. Further details regarding the settlement, including the future of Agri, are in ongoing negotiations with the IRS and a closing document has been executed by the Company and provided to IRS Appeals for review. The Company expects a full resolution of this matter soon; however, the Company has executed statute extensions with the IRS for the tax returns affected until December 31, 2008.

Table of Contents

Alico capitalized Agri by contributing real estate located in Lee County Florida. The real estate was transferred at its historical cost basis. As the Lee County real estate was sold, substantial gains were generated in Agri, creating differences between amounts recorded on Agri's books and the related tax returns. For property transferred to Agri but not sold during the years under audit, the outbound transfers were taxed as a sale. For book purposes, the historical tax basis will be stepped-up to the fair market value of the property at the time of transfer. The Company has estimated the amount of basis step-up based on discussions with the IRS and classified the step ups resulting from the transfer of property not sold as of August 31, 2004 based on their estimated tax benefits as a deferred tax asset. Should the actual IRS settlement differ from the estimated amounts, the deferred taxes related to the basis step-ups could fluctuate from the amounts recorded.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48,

Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (Interpretation No. 48), on October 1, 2007. Among other things, FIN 48 requires application of a more likely than not threshold to the recognition and non-recognition of tax positions. It further requires that a change in judgment related to prior years tax positions be recognized in the quarter of such change.

At October 1, 2007, the Company had \$441,000 of potential tax exposure related to uncertain tax positions, which was recorded as a one time adjustment to retained earnings. All of this amount would, if recognized, impact the effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense and records the interest and penalties in the liability for uncertain tax positions. Interest and penalties accrued as of the date of adoption were approximately \$57,000. As of March 31, 2008, the Company had approximately \$86,000 accrued for the payment of interest and penalties related to uncertain tax positions.

The statute of limitations for the Company's 2000-2004 tax returns has been extended. Additionally, the tax years ended August 31, 2005 and August 31, 2006 remain open to examination. The state income tax returns have not been audited and are subject to audit for the same tax periods open for federal tax purposes. The Company plans to file amended tax returns within the next twelve months after the IRS audits are ultimately settled. These amended returns are expected to result in tax payments that will eliminate the Company's unrecognized tax liabilities.

Pursuant to recent Securities Exchange Commission guidance, the Company has not provided the tabular reconciliation disclosures required by FIN 48. The Company will provide all required FIN 48 disclosures in its 2008 Annual Report on Form 10-K.

7. Indebtedness:

Alico, Inc. has a Credit Facility with Farm Credit of Southwest Florida that provides a \$175.0 million revolving line of credit which was recently amended to extend the maturity date to August 1, 2011. Funds from the Credit Facility 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 Credit Facility also allows for an annual extension at the lender's option.

The Credit Facility contains numerous restrictive covenants described more fully in the Company's annual report on Form 10-K. In the opinion of Management, the Company was in compliance with all of the covenants and provisions of the amended Credit Facility at March 31, 2008.

Table of Contents

The Company's Chief Executive Officer, John R. Alexander, is a member of the Board of Directors of the Company's primary lender, Farm Credit of Southwest Florida. Mr. Alexander abstains from voting on matters that directly affect the Company.

The following table reflects outstanding debt under the Company's various loan agreements:

| | Principal Balance | | Interest Rate (e) | Collateral |
|------------------------------|--------------------------|---------------------------|--------------------------|-------------------|
| | March 31, 2008 | September 30, 2007 | | |
| a) Revolving Credit Facility | \$ 124,719 | \$ 127,519 | Libor +1.50% | Real estate |
| b) Mortgage note payable | 7,600 | 8,234 | 6.68% | Real estate |
| c) Mortgage note payable | 52 | 52 | 7.00% | Real estate |
| d) Vehicle financing | 64 | 79 | 0%-2.90% | 3 Vehicles |
| Total | \$ 132,435 | \$ 135,884 | | |

a) Terms described above; Additional credit available at March 31, 2008 was \$50,281.

b) 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.

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

- d) 3-5 year term loans. Monthly principal payments plus interest. e) The effective interest rate under the terms of the credit line was 4.63% and 7.0% at March 31, 2008 and September 30, 2007, respectively.

Maturities of the Company's debt at March 31, 2008 and September 30, 2007 were as follows:

| | March 31, 2008 | September 30, 2007 |
|---------------------------|---------------------------|-------------------------------|
| Due within 1 year | \$ 1,353 | \$ 1,350 |
| Due between 1 and 2 years | 1,283 | 1,297 |
| Due between 2 and 3 years | 1,273 | 128,794 |
| Due between 3 and 4 years | 125,992 | 1,273 |
| Due between 4 and 5 years | 1,267 | 1,270 |
| Due beyond five years | 1,267 | 1,900 |
| Total | \$ 132,435 | \$ 135,884 |

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

| | Three months ended March 31, | | Six months ended March 31, | |
|----------------------------|---|-----------------------------|---------------------------------------|-----------------------------|
| | 2008 (unaudited) | 2007 (unaudited) | 2008 (unaudited) | 2007 (unaudited) |
| Interest expense | \$ 1,103 | \$ 1,309 | \$ 3,569 | \$ 2,570 |
| Interest capitalized | 3 | 15 | 15 | 27 |
| Total interest cost | \$ 1,106 | \$ 1,324 | \$ 3,584 | \$ 2,597 |

Table of Contents

As an agricultural credit cooperative, Farm Credit of Southwest Florida is owned by the member-borrowers who purchase stock/participation certificates in the cooperative. Allocations of patronage are made to members on an annual basis according to the proportionate amount of interest paid by the member. Allocations are made in cash and non-cash participation certificates. The Company has recorded the cash allocations as received as a reduction of interest expense. Non cash patronage receivables of \$854 thousand have been included as interest and investment income in the accompanying condensed consolidated statements of operations for the six months ended March 31, 2008. Such amounts relate to cumulative non-cash allocations at October 1, 2007, which are considered by management to have both a qualitatively and quantitatively immaterial effect on any prior period. During the second quarter of 2008, Farm Credit notified the Company that a patronage allocation was made for calendar year 2007. Based on this notification, a net patronage receivable of \$992 thousand was recorded resulting in a reduction in interest expense.

8. Dividends:

At its meeting on April 25, 2008, the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of July 31, 2008 with payment expected on or around August 15, 2008.

9. Disclosures about reportable segments:

The Company has four reportable segments: Bowen, Citrus Groves, Sugarcane, and Cattle. Bowen provides harvesting and marketing services for citrus producers including Alico's Citrus Grove division. Additionally, Bowen purchases citrus fruit and resells the fruit to citrus processors and fresh packing facilities. The Citrus Groves segment produces citrus fruit for sale to citrus processors and fresh packing facilities. The Sugarcane segment produces sugarcane for delivery to the sugar mill and refinery. The Cattle division raises beef cattle for sale to western feedlots and meat packing facilities. The goods and services produced by these segments are sold to wholesalers and processors in the United States who prepare the products for consumption. The Company's operations are located in Florida.

Although the Company's Real Estate, Plant World, Vegetable and Sod segments do not meet the quantitative thresholds to be considered as reportable segments, information about these segments has been included in the schedules below. For a description of the business activities of the Plant World, Vegetables and Sod segments please refer to Item 1 of the Company's annual report on Form 10-K for the year ended August 31, 2007.

The accounting policies of all of the segments are the same as those described in the summary of significant accounting policies in the Company's annual report on Form 10-K for the year ended August 31, 2007. The Company evaluates performance based on direct margins from operations before general and administrative costs and income taxes not including nonrecurring gains and losses.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties; that is, at the then current market prices.

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different knowledge, skills and marketing strategies.

Information concerning the various segments of the Company is summarized on the following pages:

Table of Contents

| | Three months ended March 31, | | Six months ended March 31, | |
|--|---|------------------|---------------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues (from external customers except as noted) | | | | |
| Bowen | \$ 19,028 | \$ 23,797 | \$ 26,843 | \$ 31,430 |
| Intersegment fruit sales through Bowen | 4,294 | 2,115 | 5,558 | 2,919 |
| Citrus groves | 18,486 | 20,917 | 23,151 | 27,089 |
| Sugarcane | 4,539 | 5,024 | 7,760 | 8,762 |
| Cattle | 2,916 | 1,547 | 3,402 | 5,200 |
| Real Estate | | 803 | 3,869 | 3,250 |
| Alico Plant World | 1,093 | 992 | 1,995 | 1,741 |
| Vegetables | 2,214 | 1,788 | 3,938 | 2,905 |
| Sod | 277 | 701 | 473 | 1,050 |
| Revenue from segments | 52,847 | 57,684 | 76,989 | 84,346 |
| Other operations | 722 | 889 | 1,398 | 1,559 |
| Less: intersegment revenues eliminated | (4,294) | (2,115) | (5,558) | (2,919) |
| Total operating revenue | \$ 49,275 | \$ 56,458 | \$ 72,829 | \$ 82,986 |
| Operating expenses | | | | |
| Bowen | \$ 18,272 | \$ 23,348 | \$ 25,984 | \$ 30,772 |
| Intersegment fruit sold through Bowen | 4,294 | 2,115 | 5,558 | 2,919 |
| Citrus groves | 12,304 | 10,517 | 16,149 | 14,225 |
| Sugarcane | 4,367 | 4,245 | 7,618 | 8,389 |
| Cattle | 3,471 | 1,811 | 4,329 | 4,846 |
| Real Estate | 542 | 1,204 | 1,433 | 1,444 |
| Alico Plant World | 1,264 | 1,093 | 2,097 | 1,584 |
| Vegetables | 2,713 | 1,134 | 4,113 | 2,350 |
| Sod | 222 | 311 | 538 | 513 |
| Segment operating expenses | 47,449 | 45,778 | 67,819 | 67,042 |
| Other operations | 136 | 126 | 244 | 239 |
| Less: intersegment expenses eliminated | (4,294) | (2,115) | (5,558) | (2,919) |
| Total operating expenses | \$ 43,291 | \$ 43,789 | \$ 62,505 | \$ 64,362 |
| Gross profit (loss): | | | | |
| Bowen Brothers Fruit | \$ 756 | \$ 449 | \$ 859 | \$ 658 |
| Citrus groves | 6,182 | 10,400 | 7,002 | 12,864 |
| Sugarcane | 172 | 779 | 142 | 373 |
| Cattle | (555) | (264) | (927) | 354 |
| Real Estate | (542) | (401) | 2,436 | 1,806 |

Edgar Filing: ALICO INC - Form 10-Q

| | | | | |
|----------------------------|----------|-----------|-----------|-----------|
| Alico Plant World | (171) | (101) | (102) | 157 |
| Vegetables | (499) | 654 | (175) | 555 |
| Sod | 55 | 390 | (65) | 537 |
| Gross profit from segments | 5,398 | 11,906 | 9,170 | 17,304 |
| Other | 586 | 763 | 1,154 | 1,320 |
| Gross profit | \$ 5,984 | \$ 12,669 | \$ 10,324 | \$ 18,624 |

Table of Contents

| | Three months ended | | Six months ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | March 31, | | March 31, | |
| | 2008 | 2007 | 2008 | 2007 |
| Depreciation, depletion and amortization: | | | | |
| Bowen Brothers Fruit | \$ 116 | \$ 102 | \$ 178 | \$ 170 |
| Citrus Groves | 555 | 599 | 1,111 | 1,205 |
| Sugarcane | 411 | 503 | 929 | 1,020 |
| Cattle | 543 | 502 | 941 | 989 |
| Alico Plant World | 158 | 162 | 320 | 325 |
| Vegetables | 29 | 16 | 59 | 29 |
| Sod | 58 | 50 | 112 | 98 |
| Total segment depreciation and amortization | 1,870 | 1,934 | 3,650 | 3,836 |
| Other depreciation, depletion and amortization | 286 | 250 | 527 | 464 |
| Total depreciation, depletion and amortization | \$ 2,156 | \$ 2,184 | \$ 4,177 | \$ 4,300 |

| | March 31, | September 30, |
|------------------------|--------------------|----------------------|
| | 2008 | 2007 |
| | (unaudited) | (unaudited) |
| Total Assets: | | |
| Bowen Brothers Fruit | \$ 6,765 | \$ 2,891 |
| Citrus groves | 50,823 | 53,339 |
| Sugarcane | 42,925 | 45,128 |
| Cattle | 20,318 | 20,837 |
| Alico Plant World | 6,869 | 6,862 |
| Vegetables | 4,373 | 3,238 |
| Sod | 5,949 | 5,400 |
| Segment assets | 138,022 | 137,695 |
| Other Corporate assets | 147,034 | 147,335 |
| Total assets | \$ 285,056 | \$ 285,030 |

10. Stock Compensation Plans:

The Board of Directors of the Company may grant options, stock appreciation rights, and/or restricted stock to certain directors and employees. No stock options or stock appreciation rights were granted during the six months ended March 31, 2008 or the one month ended September 30, 2007.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

At March 31, 2008 and September 30, 2007, there were 6,158 and 8,158, options respectively, fully vested and exercisable and 273,815 shares available for grant. The options outstanding had a fair value of \$168 thousand and \$208 thousand at March 31, 2008 and September 30, 2007, respectively. There was no unrecognized compensation

expense related to outstanding stock option grants at September 30, 2007 or March 31, 2008.

Table of Contents

In fiscal year 2006, the Company began granting restricted shares to certain key employees as long term incentives. The restricted shares vest in accordance with the table and description outlined below. The payment of each installment is subject to continued employment with the Company. At March 31, 2008 and September 30, 2007 there were 15,707 and 8,000 restricted shares, respectively, vested in accordance with these grants. The table below summarizes the Company's restricted share awards granted to date:

| Grant Date | Shares Granted | Fair Market Value on Date of Grant | Compensation Expense Recognized for the six months ended March 31, 2008 | Weighted Average Grant date Fair value Per share |
|--------------|-------------------|---|--|--|
| April 2006 | 20,000 | \$ 908 | \$ 86 | |
| October 2006 | 20,000 | 1,239 | 134 | |
| January 2008 | 25,562 | 1,040 | 417 | |
| Total | 65,562 | \$ 3,187 | \$ 637 | \$ 48.61 |

The shares granted in April 2006 vest 25% in April 2010 and 25% annually thereafter until fully vested. Four thousand of the shares granted in October 2006 related to past service and were immediately vested and an additional 4,000 shares vested August 31, 2007. The remaining shares granted in October 2006 vest 33% effective August 31, 2008 and 33% annually thereafter until fully vested. A grant of 25,562 was made to four senior executives in January 2008 at a price of \$40.67 per share, in order to replace previous retirement benefits offered. 7,707 of the shares granted in January 2008 related to previously vested retirement benefits and vested immediately. The remaining 17,855 shares granted in January 2008 vest 20% annually in January of each year until fully vested. The Company is recognizing compensation cost equal to the fair market value of the stock at the grant dates prorated over the vesting period of each award. The fair value of the unvested restricted stock awards at March 31, 2008 was \$2.2 million and will be recognized over a weighted average period of 5 years.

During November 2007, the CEO and COO elected to receive a portion of their annual incentive bonus in Company stock. The CEO chose to receive 4,000 shares at a value of \$177 thousand, while the COO chose to receive 500 shares at a value of \$22 thousand. These shares do not contain any restrictions, but were issued under the Company's Incentive Equity Plan. Compensation expense for these awards was accrued and recognized during the fourth quarter of the Company's fiscal 2007 year.

11. Other Comprehensive Income:

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

| | For the three months ended March 31, | | For the six months ended March 31, | |
|---|---|------|---------------------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Accumulated Other Comprehensive Income (loss) at beginning of period | \$ 36 | 11 | 49 | \$ (29) |
| Change resulting from market fluctuations, net of tax, and realized gains and losses | (4) | | (17) | 40 |

Edgar Filing: ALICO INC - Form 10-Q

| | | | | | | | | |
|--|----|----|----|----|----|----|----|----|
| Accumulated Other Comprehensive Income | \$ | 32 | \$ | 11 | \$ | 32 | \$ | 11 |
|--|----|----|----|----|----|----|----|----|

Table of Contents**12. Treasury Stock**

The Company's Board of Directors has authorized the repurchase of up to 131,000 shares of the Company's common stock through August 31, 2010, for the purpose of funding restricted stock grants under its 1998 Incentive Equity Plan in order to provide restricted stock to eligible Directors and Senior Managers and align their interests with those of the Company's shareholders.

The stock repurchases began in November 2005 and will be made on a quarterly basis until August 31, 2010 through open market transactions, at times and in such amounts as the Company's broker determines subject to the provisions of a 10b5-1 Plan which the Company has adopted for such purchases. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. All purchases will be made subject to restrictions of Rule 10b-18 relating to volume, price and timing so as to minimize the impact of the purchases upon the market for the Company's shares. The Company does not anticipate that any purchases under the Plan will be made from any officer, director or control person. There are currently no arrangements with any person for the purchase of the shares. In accordance with the approved plans, the Company may purchase an additional 69,030 shares. The Company purchased 6,200 and 12,000 shares in the open market during the second and first quarter of fiscal year 2008, at an average price of \$44.24 and \$43.98 per share, respectively.

The following table provides information relating to purchases of the Company's common shares by the Company on the open market pursuant to the aforementioned plans for the quarter ended March 31, 2008:

| Date | Total number of shares purchased | Average price paid per share | Total shares purchased as part of publicly announced plans or programs | Total dollar value of shares purchased (thousands) |
|--------------|---|-------------------------------------|---|---|
| 3/18/2008 | 2,500 | \$ 43.50 | 2,500 | \$ 109 |
| 3/19/2008 | 1,200 | 45.92 | 1,200 | 55 |
| 3/20/2008 | 2,500 | 44.17 | 2,500 | 110 |
| Total | 6,200 | \$ 44.24 | 6,200 | \$ 274 |

Table of Contents

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, expectation of results 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.

Change in fiscal year

On September 28, 2007, the Board of Directors of the Company approved a change in the Company's fiscal year end from August 31 to September 30. The fiscal year change is effective beginning with the Company's 2008 fiscal year. The Company's 2008 fiscal year began on October 1, 2007 and will end September 30, 2008, resulting in a one month transition period that began September 1, 2007 and ended September 30, 2007. This Form 10-Q includes the unaudited results for the three and six months ended March 31, 2008 and 2007. The unaudited results for the one month ended September 30, 2007 were included in the Form 10-Q filed on February 15, 2008. The audited results for the one month ended September 30, 2007 will be included separately in the Company's Annual Report on Form 10-K for the fiscal year ending September 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES:

Liquidity and Capital Resources

Working capital increased to \$112.0 million at March 31, 2008 from \$110.0 million at September 30, 2007. As of March 31, 2008, the Company had cash and cash equivalents of \$44.5 million compared to \$31.6 million at September 30, 2007. Marketable securities decreased to \$42.6 million from \$46.5 million during the same period. The ratio of current assets to current liabilities decreased to 5.31 to 1 at March 31, 2008 from 5.37 to 1 at September 30, 2007. Total assets at March 31, 2008 were \$285.1 million compared to \$285.0 million at September 30, 2007.

Table of Contents

Management believes the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds. Management expects continued profitability from the Company's operations. In addition, the Company has credit commitments to provide for revolving credit of up to \$175.0 million, of which \$50.3 million was available for the Company's general use at March 31, 2008.

Cash outlays for land, equipment, buildings, and other improvements totaled \$3.3 million during the six months ended March 31, 2008, compared with \$5.6 million during the six months ended March 31, 2007.

IRS Audit

The Company, through its tax counsel, continues to work with IRS Appeals to reach a closing settlement. Details regarding the settlement, including the future of Agri Insurance (Agri), are in ongoing negotiations with the IRS. A closing document has been executed by the Company and provided to IRS Appeals for review. The Company expects a full resolution of this matter soon; however, the Company has executed statute extensions with the IRS for the tax returns affected until December 31, 2008.

The Internal Revenue Service (IRS) issued a thirty day letter dated August 14, 2006 pertaining to audits of Alico for the tax years 2000 through 2004. In the thirty day letter, the IRS proposed several alternative theories as a basis for its argument that Alico should have reported additional taxable income in the years under audit. These theories principally related to the formation and capitalization of the Company's Agri Insurance subsidiary and its tax exempt status during the years under audit. The Company has been working with IRS appeals to resolve the case. In order to cease additional interest from accruing on this liability, the Company paid \$66.2 million to the IRS from its revolving credit line. Based on the estimated Federal settlement amount, the Company estimated additional state taxes and interest of approximately \$10.3 million at March 31, 2008 which will be due and payable when the IRS audit is concluded.

Alico capitalized Agri by contributing real estate located in Lee County Florida. The real estate was transferred at its historical cost basis. As the Lee County real estate was sold, substantial gains were generated in Agri, creating differences between amounts recorded on Agri's books and the related tax returns. For property transferred to Agri but not sold during the years under audit, the outbound transfers were taxed as a sale. For book purposes, the historical tax basis will be stepped-up to the fair market value of the property at the time of transfer. The Company has estimated the amount of basis step-up based on discussions with the IRS and classified the step ups resulting from the transfer of property not sold as of August 31, 2004 based on their estimated tax benefits as a deferred tax asset. Should the actual IRS settlement differ from the estimated amounts, the deferred taxes related to the basis step-ups could fluctuate from the amounts recorded.

Real estate activities

Due to complications in the permitting process and an overall slowdown in the real estate market, the Company agreed to restructure a contract in connection with a previous land sale in October 2007, with the terms to be effective as of the original closing in July 2005. Under the terms of the restructure, the Company received \$6.8 million on October 22, 2007 representing \$0.4 million of principal with the remaining proceeds classified as interest. Additionally, under the terms of the renegotiated agreement, Alico will receive quarterly interest payments based upon LIBOR, plus a percentage, as well as \$3.6 million of principal on September 28, 2008, \$12.0 million principal payments on September 28, 2009 & 2010, and the remaining principal of \$26.5 million on September 28, 2011. Alico received two timely quarterly interest payments totaling \$1.6 million during the six months ended March 31, 2008. The Company received an extension payment of \$3.6 million in connection with an option contract for a gross sales price of \$63.5 million during October, 2007. Under the terms of this contract, the buyer has four annual options with up to three additional annual extensions. The next option will expire on September 28, 2008, unless it is extended. In order to extend the time to exercise the option, the buyer must pay an annual extension fee equal to 6% of the remaining unexercised sales price.

Table of Contents

The Company also received an interest payment of \$0.7 million in October 2007 representing interest on an \$11.4 million mortgage on a third contract. The mortgage provides for interest payments only for the next three years annually in September, followed by four equal annual payments of principal together with accrued interest thereon. The annual interest rate under the note is 6%.

Treasury stock purchase plan

The Company's Board of Directors has authorized the repurchase of up to 131,000 shares of the Company's common stock through August 31, 2010, for the purpose of funding restricted stock grants under its 1998 Incentive Equity Plan in order to provide restricted stock to eligible Directors and Senior Managers and align their interests with those of the Company's shareholders.

The stock repurchases began in November 2005 and will be made on a quarterly basis until August 31, 2010 through open market transactions, at times and in such amounts as the Company's broker determines subject to the provisions of a 10b5-1 Plan which the Company has adopted for such purchases. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. All purchases will be made subject to restrictions of Rule 10b-18 relating to volume, price and timing so as to minimize the impact of the purchases upon the market for the Company's shares. The Company does not anticipate that any purchases under the Plan will be made from any officer, director or control person. There are currently no arrangements with any person for the purchase of the shares. In accordance with the approved plans, the Company may purchase an additional 69,030 shares. The Company purchased 6,200 shares in the open market during the second quarter of fiscal year 2008 at an average price of \$44.24 per share.

Dividends

The Company paid a quarterly dividend of \$0.275 per share on October 15, 2007 and January 15, 2008. At its meeting on January 18, 2008, the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of April 30, 2008 with payment expected on or around May 16, 2008. At its meeting on April 25, 2008, the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of July 31, 2008 with payment expected on or around August 15, 2008.

Table of Contents**Results of Operations**

(in thousands)

| | Three months ended March | | Six months ended March | |
|------------------------------------|--------------------------|-------------|------------------------|-------------|
| | 2008 | 31, 2007 | 2008 | 31, 2007 |
| Operating revenue | \$ 49,275 | \$ 56,458 | \$ 72,829 | \$ 82,986 |
| Gross profit | 5,984 | 12,669 | 10,324 | 18,624 |
| General & administrative expenses | 3,981 | 3,405 | 6,982 | 6,572 |
| Income from operations | 2,003 | 9,264 | 3,342 | 12,052 |
| Profit on sale of bulk real estate | | (254) | 817 | 1,038 |
| Interest and investment income | 1,987 | 1,902 | 6,320 | 3,528 |
| Interest expense | (1,103) | (1,309) | (3,569) | (2,570) |
| Other income | (239) | 92 | 26 | 166 |
| Provision for income taxes | 1,110 | 4,192 | 2,608 | 6,131 |
| Effective income tax rate | 41.9% | 43.2% | 37.6% | 43.1% |
| Net income | \$ 1,538 | \$ 5,503 | \$ 4,328 | \$ 8,083 |

Overall, income from operations decreased for the three months and six months ended March 31, 2008 compared with the three and six months ended March 31, 2007, primarily the result of inferior results from agricultural operations.

The Company expects that operations will be profitable in fiscal year 2008, but will be significantly below fiscal year 2007 levels. These expectations are primarily based on lower expected prices for citrus products for fiscal year 2008 when compared with fiscal year 2007. Citrus prices during fiscal year 2007 were at record highs. Citrus returns for fiscal year 2008 are expected to be more in line with the Company's historical experience.

Operations by segment are discussed separately below.

General and Administrative

General and administrative expenses increased by \$0.6 million and \$0.4 million for the three and six months ended March 31, 2008, respectively, when compared with the three and six months ended March 31, 2007. Pension expenses increased due to declining market conditions, causing the funding mechanism for pension costs to perform below prior-year levels, and was the primary factor causing general and administrative expenses to rise.

Profit from the Sale of Real Estate

The Company restructured a contract in October 2007, with the terms to be effective as of the original closing in July 2005. The Company recognized approximately \$0.8 million of non-operating gain in connection with the restructure.

The Company also restructured several contracts for the sale of real estate during the first quarter of fiscal year 2008. The Company recognized \$3.9 million of operating revenue during the three months ended December 31, 2007 from the extension of these contracts. The Company recognized gains of \$0.5 million of installment proceeds on a prior sale that was recorded as non-operating income during the three months ended December 31, 2006. Additionally, the Company recorded income in connection with a restructuring of a second contract of \$1.9 million during the three months ended December 31, 2006, that was classified as operating revenue.

Table of Contents

Provision for Income taxes

The effective tax rate was 41.9 % and 37.6% for the three and six months ended March 31, 2008, respectively, compared with 43.2% and 43.1% for the three and six months ended March 31, 2007, respectively. The rates for both years were impacted by adjustments related to the ongoing IRS proceedings for tax years 2000, 2001, 2002, 2003 and 2004 (see Note 6 to the condensed consolidated financial statements).

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (Interpretation No. 48), on September 1, 2007. At September 1, 2007, the Company had \$441 thousand of potential tax exposure related to uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense and classifies such interest and penalties in the liability for uncertain tax positions. As of March 31, 2008, the Company had approximately \$28,000 accrued for the payment of interest and penalties related to uncertain tax positions. The tax years ended August 31, 2005 and August 31, 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Interest and Investment Income

Interest and investment income is generated principally from mortgages held on real estate sold on the installment basis, investments in corporate and municipal bonds, mutual funds, and U.S. Treasury securities.

Interest and investment income was \$2.0 million and \$6.3 million for the three and six month periods ended March 31, 2008, respectively, compared with \$1.9 million and \$3.5 million for the three and six month periods ended March 31, 2007. The increased interest earnings for the six months ended March 31, 2008 were primarily due to the restructuring of a real estate mortgage note receivable, which allowed for higher interest rates effective retroactively to July 2005. Additionally, the Company recognized patronage refunds from Farm Credit, its primary lender, of \$854 thousand during first quarter of fiscal year 2008.

Interest Expense

Interest expense decreased for the three months but increased for the six months ended March 31, 2008 when compared with the three and six months ended March 31, 2007. Interest expense was up for the six months ended March 31, 2008 due to higher debt levels. The Company's borrowings increased significantly during the fourth quarter of fiscal year 2007 due to the payment of taxes, interest and penalties associated with the ongoing IRS audits. Interest expense for the second quarter of fiscal 2008 decreased due to lower effective interest rates. During the second quarter of 2008, Farm Credit notified the Company that a patronage allocation was made for calendar year 2007. Based on this notification, a net patronage receivable of \$992 thousand was recorded resulting in a reduction in interest expense.

Table of Contents**Operating Revenues**

| | Three months ended March | | Six months ended March | |
|--------------------------------|--------------------------|------------------|------------------------|------------------|
| | 2008 | 31, 2007 | 2008 | 31, 2007 |
| Revenues | | | | |
| Agriculture: | | | | |
| Bowen Brothers Fruit | \$ 19,028 | \$ 23,797 | \$ 26,843 | \$ 31,430 |
| Citrus groves | 18,486 | 20,917 | 23,151 | 27,089 |
| Sugarcane | 4,539 | 5,024 | 7,760 | 8,762 |
| Cattle | 2,916 | 1,547 | 3,402 | 5,200 |
| Plants | 1,093 | 992 | 1,995 | 1,741 |
| Vegetables | 2,214 | 1,788 | 3,938 | 2,905 |
| Sod | 277 | 701 | 473 | 1,050 |
| Agriculture operations revenue | 48,553 | 54,766 | 67,562 | 78,177 |
| Real estate operations | | 803 | 3,869 | 3,250 |
| Land leasing and other | 596 | 566 | 1,132 | 825 |
| Mining royalties | 126 | 323 | 266 | 734 |
| Total operating revenue | \$ 49,275 | \$ 56,458 | \$ 72,829 | \$ 82,986 |

Operating revenues decreased by 12.7% and 12.2% to \$49.3 million and \$72.8 million for the three and six months ended March 31, 2008, respectively, when compared with operating revenues of \$56.5 million and \$83.0 million for the three and six months ended March 31, 2007. The decrease was primarily due to lower revenues from agriculture operations, discussed in detail below.

Gross Profit

| | Three months ended March | | Six months ended March | |
|---|--------------------------|-------------|------------------------|-------------|
| | 2008 | 31, 2007 | 2008 | 31, 2007 |
| Gross profit: | | | | |
| Agriculture: | | | | |
| Bowen Brothers Fruit | \$ 756 | \$ 449 | \$ 859 | \$ 658 |
| Citrus groves | 6,182 | 10,400 | 7,002 | 12,864 |
| Sugarcane | 172 | 779 | 142 | 373 |
| Cattle | (555) | (264) | (927) | 354 |
| Plants | (171) | (101) | (102) | 157 |
| Vegetables | (499) | 654 | (175) | 555 |
| Sod | 55 | 390 | (65) | 537 |
| Gross profit from agricultural operations | 5,940 | 12,307 | 6,734 | 15,498 |
| Real estate operations | (542) | (401) | 2,436 | 1,806 |
| Land leasing and rentals | 485 | 396 | 944 | 583 |
| Mining royalties | 101 | 367 | 210 | 737 |
| Gross profit | 5,984 | 12,669 | 10,324 | 18,624 |
| Profits from the sale of bulk real estate | | (254) | 817 | 1,038 |

Edgar Filing: ALICO INC - Form 10-Q

| | | | | |
|--|-----------------|-----------------|-----------------|------------------|
| Net interest and investment income | 884 | 593 | 2,751 | 958 |
| Corporate general and administrative and other | (4,220) | (3,313) | (6,956) | (6,406) |
| Income before income taxes | \$ 2,648 | \$ 9,695 | \$ 6,936 | \$ 14,214 |

Gross profit decreased to \$6.0 million and \$10.3 million, respectively for the three and six months ended March 31, 2008 compared with \$12.7 million and \$18.6 million for the three and six months ended March 31, 2007. The decrease was due primarily to decreased profitability from agricultural operations.

Agricultural Operations

Agricultural operations generate a large portion of the Company's revenues. Agricultural operations are subject to a wide variety of risks including weather and disease. Additionally, it is not unusual for agricultural commodities to experience wide variations in prices from year to year or from season to season. A discussion of agricultural operations follows:

Table of Contents**Bowen**

Bowen's operations generated revenues totaling \$19.0 and \$26.8 million for the three and six months ended March 31, 2008 compared with revenue of \$23.8 and \$31.4 million for the three and six months ended March 31, 2007. Gross profit for the three and six months ended March 31, 2008 was \$0.8 and \$0.9 million compared with \$0.4 and \$0.7 million for the three and six months ended March 31, 2007. Citrus prices have declined an estimated 28% during fiscal year 2008 from their prior year levels and are expected to be below their prior year levels throughout the 2008 fiscal year. Due to the decreased prices, Bowen's revenue has also declined.

Citrus Groves

Citrus revenues were \$18.5 million and \$23.2 million for the three and six months ended March 31, 2008, respectively, and \$20.9 million and \$27.1 million for the three and six months ended March 31, 2007. The Citrus Division recorded gross profits of \$6.2 million and \$7.0 million for the three and six months ended March 31, 2008, compared with \$10.4 million and \$12.9 million for the three and six months ended March 31, 2007. The Company expects to harvest more citrus during fiscal year 2008 than it did in fiscal year 2007; however, citrus prices have declined an estimated 28% during fiscal year 2008 from their prior year levels. Higher retail prices for orange juice have resulted in increased inventories in the industry, contributing to the lower fruit prices in fiscal year 2008. Additionally, increased prices for fuel and fertilizer have further reduced unit margins. For these reasons, the Company expects profits from its citrus groves to be lower in fiscal year 2008 when compared with fiscal year 2007. Prices have declined in the citrus industry due to an increasing supply of citrus as groves have recovered from the damages caused by the hurricanes of 2004 and 2005.

Sugarcane

Sugarcane revenues were \$4.6 million and \$7.8 million for the three and six months ended March 31, 2008 respectively, compared with revenues of \$5.0 and \$8.8 million for the three and six months ended March 31, 2007. Sugarcane operations generated a profit of \$0.2 million and \$0.1 million for the three and six months ended March 31, 2008, respectively, compared with a profit of \$0.8 million and \$0.4 million for the three and six months ended March 31, 2007. Continuing low margins from sugarcane operations has prompted the Company to reduce its harvestable acreage of sugarcane during the current fiscal year in favor of expanding vegetable operations and land leasing. Accordingly, gross profits for the sugarcane division are expected to be lower in fiscal year 2008 when compared to fiscal year 2007 due to an expected reduction in the number of tons harvested.

Cattle

Cattle revenues were \$2.9 million and \$3.4 million for the three and six months ended March 31, 2008, respectively, compared with \$1.5 million and \$5.2 million for the three and six months ended March 31, 2007. Cattle operations recorded losses of \$0.6 million and \$0.9 million for the three and six months ended March 31, 2008 compared with a loss of \$0.3 million and a profit of \$0.4 million for the three and six months ended March 31, 2007. Fewer calves were sold during the six months ended March 31, 2008 compared with the six months ended March 31, 2007. As a result, cattle revenues decreased from their prior year levels. Additionally, due to rising feed and fuel costs, cattle margins have eroded considerably, causing the Company to write down its cattle inventory by \$1.0 million to its net realizable value.

Table of Contents

Plant World

Plant World generated gross revenues of \$1.1 million and \$2.0 million for the three and six months ended March 31, 2008, respectively compared with \$1.0 million and \$1.7 million during the three and six months ended March 31, 2007. Plant World operations resulted in a loss of (\$0.2 million) and (\$0.1 million) for the three and six months ended March 31, 2008, respectively, compared to a loss of (\$0.1 million) and a profit of \$0.2 million for the three and six months ended March 31, 2007. Due to the recurring losses in these operations, the Company is considering its options with regard to the Plant World property and operations.

Vegetables

Revenues from the sale of vegetables were \$2.2 million and \$3.9 million for the three and six months ended March 31, 2008, respectively, compared with \$1.8 million and \$2.9 million for the three and six months ended March 31, 2007. The Vegetable division recorded gross profits of \$0.3 million and \$0.7 million for the three and six month ended March 31, 2008, respectively, compared with a profit of \$0.7 million and \$0.6 million for the three and six months ended December 31, 2007.

During the second quarter of fiscal year 2007, the Company formed a new company, Alico/J&J Farms, LLC and entered into a joint venture with J&J Produce to produce vegetables on land owned by Alico, Inc. The joint venture is currently farming green peppers, squash and eggplant. Alico accounts for its investment in Alico/J&J under the equity method. For the six months ended March 31, 2008, Alico recognized a loss of \$0.9 million on its portion of the investment. The loss was included as vegetable expense for the period.

Higher than forecast costs related to the farming project with the joint venture was the primary cause of the current year losses. The Company plans to terminate its involvement in the project at the conclusion of the current vegetable season.

Sod

Due to continued slow sales in the real estate market, sod sales have declined considerably for the three and six months ended March 31, 2008 when compared with the three and six months ended March 31, 2007. As a result of the reduced sales, the Company has written off a portion of its sod inventory. Sod costs will continue to be expensed as incurred until the sales volume increases sufficiently to reduce inventories.

Off Balance Sheet Arrangements

The Company through its wholly-owned subsidiary, Bowen Brothers Fruit, LLC, enters into contracts for the purchase of citrus products during the normal course of its business. Typically, these purchases are covered by sales contracts. The total remaining purchase obligation under these agreements totaled \$8.8 million at March 31, 2008. All of these purchases were covered by sales agreements at prices exceeding cost. In addition, Bowen had sales contracts totaling \$1.2 million at March 31, 2008 for which purchases had not been contracted. Bowen management currently believes that all committed sales quantities can be purchased below the committed sales price.

During the second quarter of fiscal year 2007, the Company formed a new company, Alico/J&J Farms, LLC and entered into a joint venture with J&J Produce to produce vegetables on land owned by Alico, Inc. Under the terms of the joint venture, Alico served as a guarantor for five-year equipment leases to the joint venture. The Company's maximum total remaining unpaid obligations under these leases was \$0.5 million at March 31, 2008. The Company is working with J&J Farms to determine the future responsibilities of each member under the leases. Higher than forecast costs related to the farming project with the joint venture was the primary cause of the current year losses. The Company plans to terminate its involvement in the project at the conclusion of the current vegetable season.

Table of Contents

Disclosure of Contractual Obligations

There were no material changes from the Contractual Obligations schedule included in the Company's filing on Form 10-K outside of those occurring during the ordinary course of the Company's business during the interim period.

Critical Accounting Policies and Estimates

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (Interpretation No. 48), on September 1, 2007. At September 1, 2007, the Company had \$441 thousand of potential tax exposure related to uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense and includes the interest and penalties in the liability for uncertain tax positions. As of March 31, 2008, the Company had approximately \$86,000 accrued for the payment of interest and penalties related to uncertain tax positions. The tax years ended August 31, 2005 and August 31, 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

As an agricultural credit cooperative, Farm Credit of Southwest Florida is owned by the member-borrowers who purchase stock/participation certificates in the cooperative. This historical practice of the Association has been for its Board to allocate patronage to its members on an annual basis according to the proportionate amount of interest paid by such member, and pay 35% of the total allocation (qualified) in cash to its members annually. Alico's policy had been to recognize the cash payments from Farm Credit in the year received. After further research, the Company has determined that non-qualified allocations are also subject to accrual. During the quarters ended March 31, 2008 and December 31, 2007, Alico recognized \$0.9 million and \$1.0 million, respectively, of patronage receivable related to its loans with Farm Credit. The December adjustment was an accumulation of six years of unrecorded allocated surplus. The Company analyzed the adjustment in accordance with SAB No. 108 utilizing both the rollover and iron curtain methods in light of SFAS 154 and concluded that the adjustment was not material to the financial statements in any one of the affected prior fiscal years considering both the quantitative and qualitative factors.

Notwithstanding the above, there have been no substantial changes in the Company's policies regarding critical accounting issues or estimates since the Company's last annual report on form 10-K.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to the discussion under Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk in the company's 2007 Annual Report on Form 10-K for the fiscal year ended August 31, 2007. There are no material changes since the Company's disclosure of this item on its last annual report on Form 10-K.

Table of Contents**ITEM 4. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, referenced herein as the Exchange Act. These disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under 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 Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, performed pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based on their evaluation at the end of fiscal year 2007, the month ended September 30, 2007, and the six months ended March 31, 2008, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of March 31, 2008, the Company's disclosure controls and procedures were effective.

Management assessed the effectiveness of the Company's internal control over financial reporting as of August 31, 2007, September 30, 2007 and March 31, 2008. 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 on this assessment, the Management of Alico, Inc. concluded that as of August 31, 2007, September 30, 2007 and March 31, 2008, the Company's disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and implemented by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Based on our evaluations of the internal controls, we have concluded that as of August 31, 2007, September 30, 2007 and March 31, 2008, the Company maintained effective internal control over financial reporting.

Management's assessment of the effectiveness of internal control over financial reporting as of August 31, 2007 was audited by McGladrey & Pullen, LLP, an independent registered certified public accounting firm, as stated in their report which was included in Item 9A of the Company's Form 10-K for fiscal year ended August 31, 2007.

Table of Contents

FORM 10-Q

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

There are no items to report during this interim period.

ITEM 1A. Risk Factors.

This item is omitted as there were no significant changes regarding risk factors from those disclosed in the Company's annual report on Form 10-K.

ITEM 2. Unregistered sales of Equity Securities

There are no items to report during this interim period.

ITEM 3. Defaults Upon Senior Securities.

There are no items to report during this interim period.

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

There are no items to report during this interim period.

ITEM 5. Other Information.

There are no items to report during this interim period.

ITEM 6. Exhibits

Exhibit 11 Computation of Earnings per share.

Exhibit 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.

Exhibit 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

Table of Contents

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)

May 9, 2008
John R. Alexander
Chairman
Chief Executive Officer
(Signature)

May 9, 2008
Patrick W. Murphy
Vice President
Chief Financial Officer
(Signature)

May 9, 2008
Jerald R. Koesters
Controller
(Signature)

Table of Contents

EXHIBIT INDEX

| | |
|--------------|---|
| Exhibit 11 | Computation of Earnings per share. |
| Exhibit 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. |
| Exhibit 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. |