ALICO INC
Form 10-Q
April 09, 2007

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

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended February 28, 2007
or

o **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.

þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated file o **Accelerated filer þ** Non-accelerated filer o

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

o Yes **þ No**

There were 7,373,543 shares of common stock, par value $1.00 per share, outstanding at April 2, 2007.

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

	Three months ended February 28,		Six months ended February 28,	
	2007	**2006**	**2007**	**2006**
Operating revenue				
Agricultural operations	$ 50,074	$ 20,852	$ 59,842	$ 26,836
Non-agricultural operations	666	632	1,289	1,285
Real estate operations	2,447	7	2,447	32
Total operating revenue	**53,187**	**21,491**	**63,578**	**28,153**
Operating expenses				
Agricultural operations	37,604	18,239	46,485	24,036
Non-agricultural operations	161		227	
Real estate operations	385	5	605	16
Net casualty (recovery) loss		(2,941)		2,766
Total operating expenses	**38,150**	**15,303**	**47,317**	**26,818**
Gross profit	15,037	6,188	16,261	1,335
Corporate general and administrative	3,186	2,623	6,577	4,447
Income (loss) from operations	**11,851**	**3,565**	**9,684**	**(3,112)**
Other income (expenses):				
Profit on sales of bulk real estate:				

Sales	1,728		1,728	5,555
Cost of sales	679		679	1,162
Profit on sales of bulk real estate, net	1,049		1,049	4,393
Interest & investment income	1,973	1,499	3,370	6,484
Interest expense	(1,302)	(793)	(2,485)	(1,784)
Other	73	49	172	138
Total other income, net	**1,793**	**755**	**2,106**	**9,231**
Income before income taxes	**13,644**	**4,320**	**11,790**	**6,119**
Provision for income taxes	5,940	1,653	5,057	2,299
Net income	**$ 7,704**	**$ 2,667**	**$ 6,733**	**$ 3,820**
Weighted-average number of shares outstanding	7,372	7,365	7,372	7,367
Weighted-average number of shares outstanding assuming dilution	7,388	7,375	7,390	7,377
Per share amounts:				
Basic	$ 1.05	$ 0.36	$ 0.91	$ 0.52
Diluted	$ 1.04	$ 0.36	$ 0.91	$ 0.52
Dividends	$ 0.28	$ 0.25	$ 0.55	$ 0.50

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	February 28, 2007 (unaudited)	August 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,620	$ 25,065
Marketable securities available for sale	41,794	50,100
Accounts receivable	22,616	8,679
Mortgages and notes receivable	714	47
Inventories	22,236	24,545
Other current assets	2,079	2,477
Total current assets	**125,059**	**110,913**
Mortgages and notes receivable, net of current portion	9,042	10,977
Investments and deposits	3,033	2,919
Cash surrender value of life insurance, designated	6,961	6,593
Property, buildings and equipment	181,137	179,689
Less: accumulated depreciation	(49,006)	(48,338)
Total assets	**$ 276,226**	**$ 262,753**

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	February 28, 2007 (unaudited)	August 31, 2006
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,746	$ 1,966
Current portion of notes payable	1,340	3,315
Accrued expenses	2,527	3,720
Comissions payable	613	
Dividend payable	2,027	2,027
Accrued ad valorem taxes	1,248	2,090
Deferred income taxes	1,131	282
Other current liabilities	4,010	4,678
Total current liabilities	**17,642**	**18,078**
Notes payable, net of current portion	69,672	60,687
Deferred income taxes, net of current portion	15,128	14,807
Deferred retirement benefits, net of current portion	4,874	4,952
Commissions and deposits payable	3,820	2,833
Other non-current liability	21,077	20,293
Total liabilities	**132,213**	**121,650**
Stockholders equity:		
Common stock	7,376	7,376
Additional paid in capital	9,882	9,691
Treasury stock	(286)	(287)
Accumulated other comprehensive income (loss)	11	(29)
Retained earnings	127,030	124,352
Total stockholders equity	**144,013**	**141,103**
Total liabilities and stockholders equity	**$ 276,226**	**$ 262,753**

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended February 28, 2007	2006
Cash flows from operating activities:		
Net cash (used for) provided by operating activities	**$ (69)**	**$ 2,802**
Cash flows from investing activities:		
Purchases of property and equipment	(5,307)	(17,515)
Proceeds from sale of real estate	600	7,239
Proceeds from sales of property and equipment	1,408	2,562
Purchases of marketable securities	(23,372)	(81,473)
Proceeds from sales of marketable securities	31,059	94,138
Note receivable collections	3,856	113
Other	(105)	
Net cash provided by investing activities	**8,139**	**5,064**
Cash flows from financing activities:		
Repayment of bank loan	(7,087)	(41,789)
Proceeds from bank loan	14,097	48,245
Proceeds used for stock transactions	(468)	(224)
Dividends paid	(4,057)	(3,688)
Net cash provided by financing activities	**2,485**	**2,544**
Net increase in cash and cash equivalents	$ 10,555	$ 10,410
Cash and cash equivalents:		
At beginning of period	$ 25,065	$ 13,384
At end of period	**$ 35,620**	**$ 23,794**
Supplemental disclosures of cash flow information		
Cash paid for interest, net of amount capitalized	$ 2,347	$ 1,547
Cash paid for income taxes	$ 2,225	$ 918
Net cash investing activities:		
Issuance of mortgage notes	$ 13,341	$ 29
Fair value adjustments to securities available for sale net of tax effects	$ 40	$ (2,268)
Reclassification of breeding herd to property and equipment	$ 566	$ 516

See accompanying Notes to Condensed Consolidated Financial Statements.

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, Saddlebag Lake Resorts, Inc. (Saddlebag), Agri-Insurance Company, Ltd. (Agri), Alico-Agri, Ltd., Alico Plant World, LLC and Bowen Brothers Fruit, LLC (Bowen) (collectively referred to as the Company) after elimination of all significant intercompany balances and transactions.

The 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 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, 2006. In the opinion of Management, the accompanying Financial Statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of its consolidated financial position at February 28, 2007 and the consolidated results of operations for the three and six month periods ended February 28, 2007 and 2006, and the consolidated cash flows for the six month periods ended February 28, 2007 and 2006.

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 $424 thousand for the quarter ended February 28, 2007, ($20 thousand) for the quarter ended November 30, 2006 and $257 thousand for the quarter ended February 28, 2006 and $418 thousand for the quarter ended November 30, 2005.

The results of operations for the stated periods are not necessarily indicative of results to be expected for the full year. Certain items from 2006 have been reclassified to conform to the 2007 presentation.

2. Real Estate:

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

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

In May 2006, the Company purchased a 523 acre riverfront mine site for rock and fill for $10.6 million cash. The Company has allocated approximately 54% of the purchase price to the rock and sand reserves with the remaining 46% of the purchase price allocated as residual land value based on the present value of the expected rock royalties over 20 years and the expected residual value of the property after that time. Rock and sand reserves will be depleted and charged to cost of goods sold proportionately as the property is mined. Depletion expense recognized during the three and six months ended February 28, 2007 was $34 and $56, respectively; $0 expense was recognized in 2006 for the same periods.

In December 2006, the Company s subsidiary, Alico-Agri, Ltd. restructured three contracts in connection with the sale of property in Lee County, Florida. The original contracts were entered into in 2001 and 2003, respectively, for approximately 5,609 acres. The Company received $7.5 million upon execution of the restructured agreements.

Under the terms of the first renegotiated contract, $3.8 million of the closing proceeds were subtracted from the existing mortgage receivable principal of $56.6 million and accrued interest of $1.7 million was added back to the mortgage receivable as additional principal. Four variable annual principal plus interest payments of the remaining $54.5 million mortgage will commence with a payment of $13.6 million on September 28, 2007. The interest rate was renegotiated from 2.5% annually up to 4.0% annually.

The second contract, for a gross sales price of $63.5 million, was renegotiated as a series of four annual options with up to four annual extensions. The first option will expire on September 28, 2007. 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. The Company received a non refundable option payment of $3.1 million at closing. From the option proceeds, $1.9 million was recognized as operating income during the second quarter of fiscal year 2007 which was the amount which exceeded the basis of the property. The remaining $1.2 million of the option payment was recorded as a deposit.

A third contract, for a gross sales price of $12.0 million, was renegotiated as a sales contract with a purchase money mortgage. The mortgage consists of four annual payments of principal and interest. The annual interest rate under the note is 6%. In order to obtain an extension on the option contract, the sales contract must also be extended. There are up to four annual extensions. The first option will expire on September 28, 2007. 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. The proportionate gain on the down payment of $600 thousand under this contract was recognized under the installment method as operating income during the second quarter of fiscal year 2007.

In order to reflect the prevailing market rate of interest based on the Company s incremental borrowing rate of 6.625%, the notes associated with the First and Third contracts were discounted by $1.9 million which was recognized in the second quarter of fiscal year 2007 as a reduction of real estate sales proceeds.

During the fourth quarter of fiscal year 2006, the Company hired an experienced real estate professional as its Senior Vice-President of Real Estate to manage its real estate assets. The renegotiations of the above contracts were conducted under the supervision of the Senior Vice-President of Real Estate. The renegotiation of the first contract was not deemed a substantial contract revision under GAAP guidelines. As such, proceeds recognized under the First contract were treated consistently with its initial classification that is, it was not considered an operating activity and was recorded as a non-operating item. Due to the substantial changes to the original contracts in addition to the time and effort on the part of the Company s Real Estate department, the revenue and expenses involved in the negotiations of the Second and Third contracts were treated as operating items for the periods ended February 28, 2007.

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 February 28, 2007 and August 31, 2006 were as follows:

	February 28, 2007 (Unaudited)				August 31, 2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities								
Municipal bonds	$ 22,629	$ 4	$ (3)	$ 22,630	$ 21,169	$ 19	$ (2)	$ 21,186
Mutual funds					370		(6)	364
Fixed maturity funds	13,441	50	(2)	13,489	19,686	44	(18)	19,712
Corporate bonds	5,702		(27)	5,675	8,920		(82)	8,838
Marketable securities available for sale	$ 41,772	$ 54	$ (32)	$ 41,794	$ 50,145	$ 63	$ (108)	$ 50,100

The aggregate fair value of investments in debt instruments as of February 28, 2007 by contractual maturity date, consisted of the following:

	Aggregate Fair Value
Due within 1 year	$ 20,446
Due between 1 and 2 years	9,060
Due between 2 and 3 years	149
Due between 3 and 4 years	
Due between 4 and 5 years	518
Due beyond five years	11,621
Total	$ 41,794

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 February 28, 2007.

February 28, 2007

	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity funds	$ 2,715	$ 2	$	$	$ 2,715	$ 2
Corporate bonds			5,675	27	5,675	27
Municipal Bonds	5,652	3			5,652	3

Total	$	8,367	$	5	$	5,675	$	27	$	14,042	$	32

Net realized (loss) gain on the sale of securities for the six months ended February 28, 2007 and 2006 were ($40 thousand) and $3.3 million, 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 February 28, 2007 the Company held loss positions in 45 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 February 28, 2007.

4. Mortgages and notes receivable:

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

	February 28, 2007 (unaudited)	August 31, 2006
Mortgage notes receivable on retail land sales	$ 346	$ 427
Mortgage notes receivable on bulk land sales	66,176	56,610
Total mortgage and notes receivable	66,522	57,037
Less: Deferred revenue	(53,568)	(43,230)
Discount on notes to impute market interest	(3,198)	(2,783)
Current portion	(714)	(47)
Non-current portion	$ 9,042	$ 10,977

Real estate sales are recorded under the accrual method of accounting. Gains from commercial or bulk land sales are not recognized until payments received for property to be developed within two years after the sale equal 20% or property to be developed after two years equal 25% of the contract sales price according to the installment sales method.

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

In December 2006, the Company s subsidiary, Alico-Agri, Ltd. restructured a contract in connection with the sale of property in Lee County, Florida. The original contract was entered into in 2001. The Company received $3.8 million upon execution of the restructured agreement.

Under the terms of the renegotiated contract, $3.8 million of the closing proceeds were subtracted from the existing mortgage receivable principal of $56.6 million and accrued interest of $1.7 million was added back to the mortgage receivable as additional principal. Four annual principal plus interest payments of the remaining $54.5 million mortgage will commence with a payment of $13.6 million on September 28, 2007. The interest rate was renegotiated from 2.5% annually up to 4.0% annually. The note was further discounted by $1.9 million to reflect the market rate of interest based on the Company s incremental borrowing rate of 6.625% annually and was recognized as a reduction of the sales proceeds during the second quarter of fiscal year 2007.

5. Inventories:
A summary of the Company s inventories is shown below:

	February 28, 2007 (unaudited)	August 31, 2006
Unharvested fruit crop on trees	$ 10,712	$ 10,709
Unharvested sugarcane	2,333	5,168
Beef cattle	6,917	7,063
Unharvested sod	1,178	588
Plants and vegetables	1,096	1,017
Total inventories	$ 22,236	$ 24,545

The Company s unharvested sugarcane and cattle are partially uninsured.
Hurricane Wilma, a category three hurricane, swept through southwest Florida in October 2005. The hurricane caused extensive damage to the Company s crops and infrastructure in Collier and Hendry Counties. The Company recognized casualty (recoveries) losses resulting from damages to inventory from the hurricane as follows: (see also note 15)

	Three Months ended February 28,		Six Months ended February 28,	
	2007	2006	2007	2006
Unharvested citrus	$	$ 141	$	$ 3,589
Unharvested sugarcane		(2,697)		313
Unharvested vegetables				147
Total inventory (recoveries) losses	$	$ (2,556)	$	$ 4,049

The Company records its inventory at the lower of cost or net realizable value. Due to changing market conditions, the Company determined that certain of its inventories at February 28, 2007 had accumulated costs in excess of the estimated net realizable value. As a result, the Company recorded losses of $338 thousand and $216 thousand for its sugarcane and vegetables, respectively, during the first quarter of fiscal year 2007 and $383 thousand, $338 thousand and $216 thousand for its beef inventory, sugarcane and vegetables, respectively, during the six months ended February 28, 2007. The Company recorded losses of $834 thousand and $346 thousand for its sugarcane and plants, respectively, during the first quarter of fiscal 2006 and $517 thousand and $463 thousand, respectively, during the six months ended February 28, 2006. The adjustments were included in cost of sales for the appropriate quarter during fiscal year 2007 and 2006.

6. Income taxes:

The provision for income taxes for the three and six months ended February 28, 2007 and 2006 is summarized as follows:

	Three months ended February 28,		Six months ended February 28,	
	2007	2006	2007	2006
Current:				
Federal income tax	$ 3,357	$ 391	$ 2,589	$ 888
State income tax	574	41	443	94
	3,931	432	3,032	982
Deferred:				
Federal income tax	1,863	1,103	1,829	1,190
State income tax	146	118	196	127
	2,009	1,221	2,025	1,317
Total provision for income taxes	$ 5,940	$ 1,653	$ 5,057	$ 2,299

The Internal Revenue Service (IRS) has audited the Company s tax returns for the tax years 2000 through 2004 and issued a thirty day letter dated August 14, 2006 pertaining to those audits.

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 relate to the formation and capitalization of the Company s Agri Insurance subsidiary and its tax exempt status during the years under audit. Under the theories proposed, the IRS has calculated additional taxes and penalties due ranging from a minimum of $35.4 million dollars to a maximum of $86.4 million dollars. The letter does not quantify the interest on the proposed taxes, but the Company estimates the interest on the IRS proposals to range from $9.8 million to $30.3 million at February 28, 2007.

The Company does not accept the IRS position and intends to continue to oppose vigorously any attempt by the IRS to impose such assessment in connection with the Agri Insurance matter. However, because since a challenge has been made and management believes that it is probable that the challenge may be successful as to some of the assertions, management has accrued a contingent liability related to the issues surrounding the IRS audits. For further information concerning the audits and the contingency accrued, please see footnote 8 to the condensed consolidated financial statements.

Since January 1, 2004 Agri has been filing as a taxable entity. This change in tax status is a direct result of changes in the Internal Revenue Code, increasing premium and other annual income levels. Due to these changes, Agri no longer qualifies as a tax-exempt entity.

7. Indebtedness:

Alico, Inc. has a Credit Facility with a commercial lender that provides a $175.0 million revolving line of credit which matures on August 1, 2010. 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.

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

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

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

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 credit line was negotiated with the lender in good faith at current market terms.

The following tables reflect outstanding debts under the Company s various loan agreements at February 28, 2007 and August 31, 2006:

February 28, 2007

	Principal Balance	Additional Credit Available	Interest Rate (f)	Collateral
a) Revolving Credit Facility	$ 61,875	$ 113,125	Libor +1.25%	Real estate
c) Mortgage note payable	8,972		6.68%	Real estate
d) Mortgage note payable	100		7.00%	Real estate
e) Vehicle financing	65		0.00%	2 Vehicles
Total	$ 71,012	$ 113,125		

August 31, 2006

	Principal Balance	Additional Credit Available	Interest Rate (f)	Collateral
a) Revolving Credit Facility	$ 52,296	122,704	Libor +1%	Real estate
b) Term loan	2,000		5.80%	Unsecured
c) Mortgage note payable	9,606		6.68%	Real estate
d) Mortgage note payable	100		7.00%	Real estate
Total	$ 64,002	$ 122,704		

a) Terms described above.

b) 5-year fixed rate term loan with commercial lender. $2 million principal due annually. Interest due quarterly. The note was paid in full during the second quarter of fiscal year 2007.

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

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

e) 3-year term loan. Monthly principal payment of $2 thousand.

f) The LIBOR rate was 5.38% at February 28, 2007 and 5.33% at August 31, 2006.

Maturities of the Company s debt at February 28, 2007 were as follows:

Due within 1 year	$ 1,340
Due between 1 and 2 years	1,343
Due between 2 and 3 years	1,282
Due between 3 and 4 years	63,141
Due between 4 and 5 years	1,267
Due beyond five years	2,639

Total	$	71,012

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

	Three months ended February 28,		Six months ended February 28,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Interest expense	$ 1,302	$ 793	$ 2,485	$ 1,784
Interest capitalized	15	31	25	48
Total interest cost	$ 1,317	$ 824	$ 2,510	$ 1,832

8. Other non-current liability:

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

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

The Internal Revenue Service (IRS) issued a thirty day letter dated August 14, 2006 pertaining to ongoing audits of Alico for the tax years 2000 through 2004. The letter proposes changes to the Company s tax liabilities for each of these tax years and required the Company either a) to agree with the changes and remit the specified taxes and penalties, or b) to submit a rebuttal within 30 days. The Company sought and received an extension of time to submit its protest and timely submitted the protest on October 13, 2006. The Company was notified in an IRS letter dated February 27, 2007 that the case has been transferred to IRS appeals. A preliminary meeting date of May 9-10, 2007 has been scheduled for IRS Appeals to review the facts with IRS Exam and Alico s tax counsel and advisors.

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 relate to the formation and capitalization of the Company s Agri Insurance subsidiary and its tax exempt status during the years under audit. Under the theories proposed, the IRS has calculated additional taxes and penalties due ranging from a minimum of $35.4 million dollars to a maximum of $86.4 million dollars. The letter does not quantify the interest on the proposed taxes , but the Company estimates the interest on the IRS proposals to range from $9.8 million to $30.3 million at February 28, 2007.

The Company does not accept the IRS position and intends to continue to oppose vigorously any attempt by the IRS to impose such assessment in connection with the Agri Insurance matter. However, because a challenge has been made and management believes that it is probable that the challenge may be successful as to some of the assertions, management has provided for the contingency. The Company has accrued a liability of $21.1 million and $20.3 million as of February 28, 2007 and August 31, 2006, respectively, for the contingency.

9. Dividends:

At its meeting on January 19, 2007 the Board of Directors declared a quarterly dividend of $0.275 per share payable to stockholders of record as of March 30, 2007 with payment expected on or around April 16, 2007. At its meeting on March 30, 2007 the Board of Directors declared a quarterly dividend of $0.275 per share payable to stockholders of record as of June 29, 2007 with payment expected on or around July 16, 2007.

10. 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, 2006.

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, 2006. The Company evaluates performance based on profit or loss from operations before indirect corporate overhead allocations 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 below:

	Three months ended February 28, 2007	Three months ended February 28, 2006	Six months ended February 28, 2007	Six months ended February 28, 2006
Revenues (from external customers except as noted)				
Bowen	$ 19,943	$ 5,722	$ 20,747	$ 5,722
Intersegment fruit sales through Bowen	2,173		2,224	
Citrus groves	20,265	7,044	21,902	8,252
Sugarcane	5,478	4,992	7,174	6,420
Cattle	909	426	4,983	2,650
Real Estate	2,447	7	2,447	32
Alico Plant World	1,006	1,557	1,594	2,078
Vegetables	1,844	958	2,255	958
Sod	531	152	930	710
Revenue from segments	54,596	20,858	64,256	26,822
Other operations	764	633	1,546	1,331
Less: intersegment revenues eliminated	(2,173)		(2,224)	
Total operating revenue	$ 53,187	$ 21,491	$ 63,578	$ 28,153
Operating expenses				
Bowen	$ 18,695	$ 5,720	$ 19,744	$ 5,720
Intersegment fruit sold through Bowen	2,173		2,224	
Citrus groves	10,772	5,241	11,470	5,829
Sugarcane	4,921	4,763	7,061	6,937
Cattle	850	318	4,446	2,029
Real Estate	385	5	605	16
Alico Plant World	967	1,479	1,402	2,354
Vegetables	1,153	643	1,874	643
Sod	246	75	488	524
Segment operating expenses	40,162	18,244	49,314	24,052
Other operations	161		227	
Less: intersegment expenses eliminated	(2,173)		(2,224)	
Net casualty (gain) loss		(2,941)		2,766
Total operating expenses	$ 38,150	$ 15,303	$ 47,317	$ 26,818
Gross profit (loss):				
Bowen Brothers Fruit	1,248	2	1,003	2
Citrus groves	9,493	1,803	10,432	2,423
Sugarcane	557	229	113	(517)
Cattle	59	108	537	621
Real Estate	2,062	2	1,842	16
Alico Plant World	39	78	192	(276)
Vegetables	691	315	381	315

Sod	285	77	442	186
Gross profit from segments	14,434	2,614	14,942	2,770
Other	603	3,574	1,319	(1,435)
Gross profit	$ 15,037	$ 6,188	$ 16,261	$ 1,335

	Three months ended February 28,		Six months ended February 28,	
	2007	2006	2007	2006
Depreciation, depletion and amortization:				
Bowen Brothers Fruit	$ 103	$ 298	$ 153	$ 298
Citrus Groves	601	647	1,210	1,274
Sugarcane	475	403	1,014	876
Cattle	480	411	970	824
Alico Plant World	162	133	325	269
Vegetables	15	12	27	12
Sod	50	48	96	72
Total segment depreciation and amortization	1,886	1,952	3,795	3,625
Other depreciation, depletion and amortization	256	254	450	286
Total depreciation, depletion and amortization	$ 2,142	$ 2,206	$ 4,245	$ 3,911

	February 28, 2007 (unaudited)	August 31, 2006
Total Assets:		
Bowen Brothers Fruit	$ 6,957	$ 3,096
Citrus groves	59,145	59,464
Sugarcane	44,266	47,894
Cattle	22,977	23,919
Alico Plant World	7,053	6,515
Vegetables	3,016	1,981
Sod	4,662	4,191
Segment assets	148,076	147,060
Other Corporate assets	128,150	115,693
Total assets	**$ 276,226**	**$ 262,753**

11. Stock Compensation Plans:

On November 3, 1998, the Company adopted the Alico, Inc., Incentive Equity Plan (the Plan) pursuant to which the Board of Directors of the Company may grant options, stock appreciation rights, and/or restricted stock to certain directors and employees. The Plan authorized grants of shares or options to purchase up to 650,000 shares of authorized but unissued common stock. Stock options granted have a strike price and vesting schedules that are at the discretion of the Board of Directors and are determined on the effective date of the grant. The strike price cannot be less than 55% of the market price. No stock options were granted during fiscal year 2006 or the six months ended February 28, 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). The grant date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). 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.

A summary of option activity under the Plan is as follows:

	Shares Under Option	Weighted average exercise price		Weighted average remaining contractual life (in years)
Options outstanding, August 31,2005	16,371	$	18.05	8
Granted				
Exercised	7,213		18.55	
Options outstanding, August 31,2006	9,158	$	17.66	7
Granted				
Exercised	1,000			
Options outstanding, February 28, 2007	8,158	$	17.90	7

At February 28, 2007 and August 31, 2006, there were 8,158 and 9,158 options, respectively, fully vested and exercisable and 292,844 shares available for grant. The 8,158 options outstanding as of February 28, 2007 and the 9,158 options outstanding as of August 31, 2006 had a fair value of $388 thousand and $382 thousand, respectively. There was no unrecognized compensation expense related to outstanding stock option grants at February 28, 2007 or August 31, 2006. During fiscal year 2007, 1,000 options were exercised having a total fair value of $49 thousand. In fiscal year 2006, 7,213 options were exercised having a total fair value of $259 thousand.

In fiscal year 2006, the Company began granting restricted shares to certain key employees as long term incentives. The vesting of each installment is subject to continued employment with the Company. At February 28, 2007 and August 31, 2006, there were 4,000 restricted shares 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 February 28, 2007		Weighted Average Grant date Fair value Per share
April 2006	20,000	$	908	$	86		
July 2006	13,000		694		66		
October 2006	20,000		1,239		258		
Total	53,000	$	2,841	$	410	$	53.63

The shares granted in April 2006 vest 25% in April 2010 and 25% annually thereafter until fully vested. The shares granted in July 2006 vest 25% in July 2010 and 25% annually thereafter until fully vested. The shares granted and valued in October 2006 vested 20% effective August 31, 2006 and 20% annually thereafter 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 was $2.6 million at February 28, 2007 and $2.9 million at August 31, 2006, respectively and will be recognized over a weighted average period of 6 years.

12. Other Comprehensive Income:

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

	For the three months ended February 28,				**For the six months ended February 28,**			
	2007		**2006**		**2007**		**2006**	
Accumulated Other Comprehensive Income (loss) at beginning of period	$	11	$	(214)	$	(29)	$	2,195
Change resulting from market fluctuations, net of tax, and realized gains and losses				141		40		(2,268)
Accumulated Other Comprehensive Income	$	11	$	(73)	$	11	$	(73)

13. New Accounting Pronouncements:

In June 2006, the FASB issued FASB Interpretation Number 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely to be realized upon ultimate settlement. The Company is required to adopt FIN 48 at the beginning of fiscal year 2008. The Company is evaluating the impact this statement will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. The Company is required to adopt SFAS No. 157 effective at the beginning of fiscal year 2009. The Company is evaluating the impact this statement will have on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 will be effective for the fourth quarter of the Company s fiscal year 2007. The Company is evaluating the impact this statement will have on its consolidated financial statements.

14. Treasury Stock

During January 2007, Alico announced that its Board of Directors has authorized the repurchase of up to 100,000 Shares of the Company s common stock through August 31, 2010, in addition to previously announced repurchases, for the purpose of funding restricted stock grants under its 1998 Incentive Equity Plan in order to provide restricted stock to eligible Senior Managers to align their interests with those of the Company s shareholders.

The stock repurchases will be made on a quarterly basis between January 2007 and 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. The Company will use internally generated funds to make the purchases. The Company had previously announced the repurchase of 31,000 shares in order to fund its Director Compensation plan. In accordance with the approved plans, the Company may purchase an additional 105,073 shares. The Company purchased 9,927 shares in the open market at an average price of $48.76 per share during the second quarter of fiscal year 2007.

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 February 28, 2007:

Date	Total Number of Shares Purchased	Average price paid per share		Total Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Total Dollar value of shares purchased (thousands)	
1/16/2007	2,106	$	47.93	2,106	$	101
1/17/2007	5,628	$	48.30	5,628	$	272
1/19/2007	2,193	$	50.54	2,193	$	111
	9,927	$	48.76	9,927		484

15. Casualty Losses:

Hurricane Wilma caused extensive damage to the Company s crops and infrastructure in Collier and Hendry Counties during the first quarter of fiscal year 2006. Also, citrus canker was confirmed in several groves in 2005 and 2006. Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. Prior to January 10, 2006, Florida law required infected and exposed trees within 1,900 feet of the canker find to be removed and destroyed. This law was repealed as of January 10, 2006. The Company s current policy is to remove only trees infected by citrus canker and trees immediately surrounding the infected trees. The Company charges the cost of removal of such trees to citrus cost of sales. When such removals exceed 5% of the total trees in each grove for any given year, the remaining basis of the trees removed is recognized in citrus cost of sales.

The Company recognized (recoveries) losses resulting from the hurricanes and canker as follows:

	Three months ended February 28,		Six months ended February 28,	
	2007 (unaudited)	**2006 (unaudited)**	**2007 (unaudited)**	**2006 (unaudited)**
Inventoried costs		$ (2,556)		$ 4,049
Basis of property and equipment		(1,094)		$ 875
Insurance proceeds received				