

ALICO INC
Form 10-Q
February 15, 2008

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

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2007

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, a non-accelerated filer, or a smaller reporting company. See the definitions 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 7,373,728 shares of common stock, par value \$1.00 per share, outstanding at February 11, 2008.

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

	Three months ended December		One Month
	31,		ended
	2007	2006	September 30,
			2007
Operating revenue			
Agricultural operations	\$ 19,009	\$ 23,411	\$ 989
Non-agricultural operations	676	670	188
Real estate operations	3,869	2,447	
Total operating revenue	23,554	26,528	1,177
Operating expenses			
Agricultural operations	18,215	20,220	912
Non-agricultural operations	108	113	46
Real estate operations	891	240	59
Total operating expenses	19,214	20,573	1,017
Gross profit	4,340	5,955	160
Corporate general and administrative	3,001	3,167	850
Income (loss) from operations	1,339	2,788	(690)
Other income (expenses):			
Profit on sales of bulk real estate:			
Sales	817	1,870	
Cost of sales		578	
Profit on sales of bulk real estate, net	817	1,292	
Interest & investment income	4,333	1,626	693
Interest expense	(2,466)	(1,261)	(820)
Other	265	74	(4)
Total other income, (expense) net	2,949	1,731	(131)
Income (loss) before income taxes	4,288	4,519	(821)
Provision for income taxes	1,498	1,939	(141)

Edgar Filing: ALICO INC - Form 10-Q

Net income (loss)	\$	2,790	\$	2,580	\$	(680)
Weighted-average number of shares outstanding		7,361		7,373		7,358
Weighted-average number of shares outstanding assuming dilution		7,375		7,393		7,376
Per share amounts:						
Basic	\$	0.38	\$	0.35	\$	(0.09)
Diluted		0.38		0.35		(0.09)
Dividends	\$	0.00	\$	0.25	\$	0.28

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

	December 31, 2007 (unaudited)	September 30, 2007 (unaudited)	August 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 39,811	\$ 31,599	\$ 34,825
Marketable securities available for sale	49,275	46,511	46,242
Accounts receivable	17,490	14,848	15,738
Mortgage and notes receivable	3,387	3,832	487
Inventories	28,301	27,232	25,214
Current deferred tax asset	2,716	2,661	2,312
Other current assets	2,242	2,719	2,398
Total current assets	143,222	129,402	127,216
Mortgages and notes receivable, net of current portion	5,063	6,688	9,939
Investments, deposits and other	4,335	3,237	3,262
Deferred tax benefit	3,810	3,805	3,950
Cash surrender value of life insurance, designated	7,542	7,656	7,530
Property, buildings and equipment	180,319	178,968	178,917
Less: accumulated depreciation	(52,160)	(50,422)	(49,927)
Total assets	\$ 292,131	\$ 279,334	\$ 280,887

(continued)

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

	December 31, 2007 (unaudited)	September 30, 2007 (unaudited)	August 31, 2007
LIABILITIES & STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 4,903	\$ 1,943	\$ 2,328
Income taxes payable	4,981	3,418	3,335
Current portion of notes payable	1,349	1,350	1,350
Accrued expenses	5,042	4,425	4,330
Dividend payable	2,024	4,048	2,024
Accrued ad valorem taxes		2,105	1,876
Other current liabilities	1,563	2,153	2,276
Total current liabilities	19,862	19,442	17,519
Notes payable, net of current portion	144,011	134,534	135,539
Deferred retirement benefits, net of current portion	5,269	5,098	5,041
Commissions and deposits payable	4,358	4,265	3,842
Total liabilities	173,500	163,339	161,941
Stockholders equity:			
Common stock	7,376	7,376	7,376
Additional paid in capital	9,950	10,199	10,169
Treasury stock	(783)	(891)	(1,046)
Accumulated other comprehensive income	36	49	45
Retained earnings	102,052	99,262	102,402
Total stockholders equity	118,631	115,995	118,946
Total liabilities and stockholders equity	\$ 292,131	\$ 279,334	\$ 280,887

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended		One Month
	December 31,		Ended
	2007	2006	September 30,
			2007
Cash flows from operating activities:			
Net cash provided by (used for) operating activities	\$ 3,314	\$ (1,035)	\$ (1,753)
Cash flows from investing activities:			
Real estate deposits and accrued commissions		1,616	
Purchases of property and equipment	(2,131)	(3,229)	(293)
Purchases of other investments	(644)		
Proceeds from sale of real estate		600	
Proceeds from sales of property and equipment	586	1,223	90
Purchases of marketable securities	(15,645)	(7,539)	(1,574)
Proceeds from sales of marketable securities	12,849	14,215	1,309
Note receivable collections	2,873	1,693	
Other	70		
Net cash provided by (used for) investing activities	(2,042)	8,579	(468)
Cash flows from financing activities:			
Repayment of loans	(1,824)	(4,621)	(2,106)
Proceeds from loans	11,300	11,124	1,101
Proceeds from stock transactions	16		
Proceeds used for stock transactions	(528)		
Dividends paid	(2,024)	(2,028)	
Net cash provided by (used for) financing activities	6,940	4,475	(1,005)
Net increase (decrease) in cash and cash equivalents	\$ 8,212	\$ 12,019	\$ (3,226)
Cash and cash equivalents:			
At beginning of period	\$ 31,599	\$ 25,158	\$ 34,825

At end of period	\$ 39,811	\$ 37,177	\$ 31,599
-------------------------	------------------	------------------	------------------

(continued)

	Three months ended December 31, 2007		2006	One Month Ended September 30, 2007
Supplemental disclosures of cash flow information				
Cash paid for interest, net of amount capitalized	\$	2,199	\$ 1,044	\$ 43
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	\$	(2)	\$ 37	\$ 27
Reclassification of breeding herd to property and equipment	\$	458	\$ 566	

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:

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 10Q includes the unaudited results for the quarter ended December 31, 2007 and 2006, and the unaudited results for the one month ended September 30, 2007. The Company has also included selected unaudited results for the one month ended September 30, 2006 for comparative purposes in Note 14. The audited results for the one month ended September 30, 2007 will be included separately in the Company's Annual Report on Form 10K 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 December 31, 2007, September 30, 2007 and August 31, 2007 and the consolidated results of operations and cash flows for the quarters ended December 31, 2007 and 2006, and one month ended September 30, 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 \$53 thousand for the quarter ended December 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 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 or the earnings process is complete.

Real estate project costs incurred for the acquisition, development and construction of real estate projects are capitalized. Additionally, costs to market real estate are capitalized if they are reasonably expected to be removed from the sale of the project and have been performed to obtain regulatory approval for the sale. An allowance is provided to reduce capitalized project costs to estimated realizable value.

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 December 31, 2007 and August 31, 2007 and September 30, 2007 were as follows:

	December 31, 2007 (Unaudited)				August 31, 2007			
	Cost	Gross Unrealized Gains	Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
Debt securities								
Municipal bonds	\$ 32,800	\$ 51	\$ (1)	\$ 32,850	\$ 28,881	\$ 6	\$ (10)	\$ 28,877
Mutual funds	2,000			2,000	2,000			2,000
Fixed maturity funds	11,759	16	(4)	11,771	12,656	55	(4)	12,707
Corporate bonds	2,659		(5)	2,654	2,673	1	(16)	2,658
Marketable securities available for sale	\$ 49,218	\$ 67	\$ (10)	\$ 49,275	\$ 46,210	\$ 62	\$ (30)	\$ 46,242

	Cost	September 30, 2007 (Unaudited)		Estimated Fair Value
		Gains	Losses	
Debt securities				
Municipal bonds	\$ 29,213	\$ 23	\$ (2)	\$ 29,234
Mutual funds	2,000			2,000
Fixed maturity funds	12,569	49	(2)	12,616
Corporate bonds	2,670		(9)	2,661
Marketable securities available for sale	\$ 46,452	\$ 72	\$ (13)	\$ 46,511

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

	Aggregate Fair Value	
	December 31, 2007	September 30, 2007
Due within 1 year	\$ 37,863	\$ 31,093
Due between 1 and 2 years	148	4,205
Due between 2 and 3 years	221	219
Due between 3 and 4 years		
Due between 4 and 5 years	1,200	1,512
Due beyond five years	7,843	7,482
Total	\$ 47,275	\$ 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:

	December 31, 2007				Total	
	Less than 12 months		12 months or greater		Fair	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Value	Losses
Fixed maturity funds	\$ 4,919	\$ (3)	\$	\$	\$ 4,919	\$ (3)
Corporate bonds			2,654	(6)	2,654	(6)
Municipal Bonds	1,617	(1)			1,617	(1)
Total	\$ 6,536	\$ (4)	\$ 2,654	\$ (6)	\$ 9,190	\$ (10)

	Less than 12 months		September 30, 2007 12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Fixed maturity funds	\$ 3,478	\$ (2)	\$ 3,478	\$ (2)	\$ 3,478
Corporate bonds			2,661	(9)	2,661	(9)
Municipal Bonds	5,475	(2)			5,475	(2)
Total	\$ 8,953	\$ (4)	\$ 2,661	\$ (9)	\$ 11,614	\$ (13)

Net realized gain on the sale of securities for the three months ended December 31, 2007 and 2006 and one month ended September 30, 2007 were \$0, (\$35 thousand) and \$0, 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 December 31, 2007 the Company held loss positions in 33 debt instruments. Because the decline in market values of these securities is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not believe any of the unrealized losses represent other than temporary impairment based on the evaluation of available evidence as of December 31, 2007.

4. Mortgages and notes receivable:

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

	December 31, 2007 (unaudited)	September 30, 2007 (unaudited)	August 31, 2007
Mortgage notes receivable on retail land sales	\$ 271	\$ 299	\$ 311
Mortgage notes receivable on bulk land sales	65,518	65,963	65,963
Total mortgage and notes receivable	65,789	66,262	66,274
Less: Deferred revenue	(57,034)	(53,253)	(53,254)
Discount on notes to impute market interest	(305)	(2,489)	(2,594)
Current portion	(3,387)	(3,832)	(487)
Non-current portion	\$ 5,063	\$ 6,688	\$ 9,939

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. 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 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 July 2005, the Company's Alico-Agri subsidiary sold property in Lee County, Florida for \$62.9 million. At the time of the sale, the Company received a down payment of \$6.2 million and a 2.5% interest bearing mortgage note of \$56.6 million in exchange for the land sold. Because the down payment did not meet the thresholds for full gain recognition, a deferred revenue account was established as an offset to the carrying amount of the note. Additionally, because the stated interest rate of the note was below market rates at the date of inception, a note discount was recorded. 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.

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 were scheduled to commence with a payment of \$13.6 million on September 28, 2007.

The Company again restructured the contract in October of 2007. Major provisions of the renegotiation 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 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 for the current market rate of interest. Interest only will be collected annually for the first four years, followed by four equal annual payments of principal and interest.

5. Inventories:

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

	December 31, 2007 (unaudited)	September 30, 2007 (unaudited)	August 31, 2007
Unharvested fruit crop on trees	\$ 13,866	\$ 12,982	\$ 12,177
Unharvested sugarcane	4,401	5,410	4,922
Beef cattle	6,676	5,757	5,429
Unharvested sod	1,540	1,476	1,449
Plants and vegetables	1,746	1,484	1,086
Rock, fill and other	72	123	151
Total inventories	\$ 28,301	\$ 27,232	\$ 25,214

The Company records its inventory at the lower of cost or net realizable value. At December 31, 2007, the Company adjusted its cattle inventory down by \$256 thousand due to changing market conditions and reduced its vegetable inventory by \$188 thousand due to damage from heavy rains. At December 31, 2006, the Company wrote down sugarcane inventory by \$338 thousand and vegetable inventory by \$216 thousand. The adjustments were included as costs of sales in the period of adjustment.

6. Income taxes:

The provision for income taxes for the three months ended December 31, 2007 and 2006 and one month ended September 30, 2007 is summarized as follows:

	Three months ended December 31, (unaudited)		One month ended September 30, 2007
	2007	2006	
Current:			
Federal income tax	\$ 1,202	\$ 993	\$ 16
State income tax	257	170	12
	1,459	1,163	28
Deferred:			
Federal income tax	(24)	701	(194)
State income tax	63	75	25
	39	776	(169)
Total provision for income taxes	\$ 1,498	\$ 1,939	\$ (141)

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 and has reached a tentative agreement for the payment of federal taxes, penalties and interest of approximately \$66.2 million. In order to cease additional interest from accruing on this liability, the Company has paid \$66.2 million to the IRS from its revolving credit line. Based on the contemplated settlement, the Company estimated additional state taxes and interest of approximately \$10.3 million at December 31, 2007 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 proposed closing document has been prepared by the Company's tax counsel and provided to IRS Appeals for review. The Company expects full resolution of this matter by the end of March 2008; however, the Company has executed statute extensions with the IRS for the tax returns affected until December 31, 2008.

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 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 at August 31, 2007. Should the actual outcome of the IRS settlement differ from the estimated amounts, the deferred taxes related to the basis step-ups could fluctuate from the amounts recorded. Since January 1, 2004 Agri has been filing as a taxable entity. This change in tax status resulted from changes in the Internal Revenue Code.

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 derecognition 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, affect the effective tax rate. 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. Interest and penalties accrued as of the date of adoption are approximately \$57,000. As of December 31, 2007, the Company had approximately \$73,000 accrued for the payment of interest and penalties related to uncertain tax positions.

The U.S. Internal Revenue Agency is currently examining the returns of Alico and related entities for tax years 2000 through 2004. The statute of limitations for those years has been extended as part of that examination. 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. We believe that the unrecognized tax liabilities currently recorded will change significantly within 12 months of the report date due to the filing of amended returns. The unrecognized tax liabilities could decrease by \$450,000 (due to payment) within the next 12 months.

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 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.

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 December 31, 2007.

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:

	December 31, 2007	Principal Balance September 30, 2007	August 31, 2007	Interest Rate	Collateral
a) Revolving Credit Facility	\$ 137,319	\$ 127,519	\$ 128,419	Libor +1.50%	Real estate
b) Mortgage note payable	7,917	8,234	8,339	6.68%	Real estate
c) Mortgage note payable	52	52	52	7.00%	Real estate
d) Vehicle financing	72	79	79	0%-2.90%	3 Vehicles
Total	\$ 145,360	\$ 135,884	\$ 136,889		

a) Terms described above; Additional credit available at December 31, 2007 was \$37,681.

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 LIBOR rate was 4.88%, 5.50% and 5.63% at December 31, 2007, September 30, 2007 and August 31, 2007, respectively.

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

	December 31, 2007	September 30, 2007	August 31, 2007
Due within 1 year	\$ 1,349	\$ 1,350	1,350
Due between 1 and 2 years	1,293	1,297	1,298
Due between 2 and 3 years	138,592	128,794	129,695
Due between 3 and 4 years	1,274	1,273	1,273
Due between 4 and 5 years	1,269	1,270	1,269
Due beyond five years	1,583	1,900	2,004
Total	\$ 145,360	\$ 135,884	\$ 136,889

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

	Three months ended December 31, 2007		One month ended September 30, 2007
	(unaudited)	(unaudited)	(unaudited)
Interest expense	\$ 2,466	\$ 1,261	\$ 820
Interest capitalized	12	13	5
Total interest cost	\$ 2,478	\$ 1,274	\$ 825

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 other income in the accompanying condensed consolidated statements of operations for the three months ended December 31, 2007. Such amounts relate to cumulative non cash allocations which are considered by management to have both a qualitatively and quantitatively immaterial effect on any prior period.

8. Dividends:

At its meeting on September 28, 2007 the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of December 29, 2007 that was paid on 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.

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 as of and for the three months ended December 31, 2007 and 2006 and one month ended September 30, 2007 are summarized on the following page:

Edgar Filing: ALICO INC - Form 10-Q

	Three months ended December 31,		One month ended September 30,
	2007	2006	2007
Revenues (from external customers except as noted)			
Bowen	\$ 7,815	\$ 7,633	\$ 143
Intersegment fruit sales through Bowen	1,264	804	
Citrus groves	4,665	6,172	5
Sugarcane	3,221	3,738	
Cattle	486	3,653	330
Real Estate	3,869	2,447	
Alico Plant World	902	749	419
Vegetables	1,724	1,117	
Sod	196	349	92
Revenue from segments	24,142	26,662	989
Other operations	676	670	188
Less: intersegment revenues eliminated	(1,264)	(804)	
 Total operating revenue	 \$ 23,554	 \$ 26,528	 \$ 1,177
 Operating expenses			
Bowen	\$ 7,712	\$ 7,424	\$ 222
Intersegment fruit sold through Bowen	1,264	804	
Citrus groves	3,845	3,708	3
Sugarcane	3,251	4,144	
Cattle	858	3,035	289
Real Estate	891	240	59
Alico Plant World	833	491	190
Vegetables	1,400	1,216	
Sod	316	202	208
Segment operating expenses	20,370	21,264	971
Other operations	108	113	46
Less: intersegment expenses eliminated	(1,264)	(804)	
 Total operating expenses	 \$ 19,214	 \$ 20,573	 \$ 1,017
 Gross profit (loss):			
Bowen Brothers Fruit	\$ 103	\$ 209	\$ (79)
Citrus groves	820	2,464	2
Sugarcane	(30)	(406)	
Cattle	(372)	618	41
Real Estate	2,978	2,207	(59)

Edgar Filing: ALICO INC - Form 10-Q

Alico Plant World	69	258	229
Vegetables	324	(99)	
Sod	(120)	147	(116)
Gross profit from segments	3,772	5,398	18
Other	568	557	142
Gross profit	\$ 4,340	\$ 5,955	\$ 160

	Three months ended December 31, 2007		2006	One month ended September 30, 2007
Depreciation, depletion and amortization:				
Bowen Brothers Fruit	\$	62	\$ 68	\$ 21
Citrus Groves		556	606	188
Sugarcane		518	517	171
Cattle		398	487	134
Alico Plant World		162	163	53
Vegetables		30	13	12
Sod		54	48	18
Total segment depreciation and amortization		1,780	1,902	597
Other depreciation, depletion and amortization		241	214	78
Total depreciation, depletion and amortization	\$	2,021	\$ 2,116	\$ 675

	December 31, 2007 (unaudited)	September 30, 2007 (unaudited)	August 31, 2007
Total Assets:			
Bowen Brothers Fruit	\$ 6,171	\$ 2,891	\$ 3,042
Citrus groves	55,641	53,339	54,558
Sugarcane	43,728	45,128	46,053
Cattle	21,756	20,837	20,813
Alico Plant World	7,525	6,862	6,711
Vegetables	4,574	3,238	2,766
Sod	5,432	5,400	5,362
Segment assets	144,827	137,695	139,305
Other Corporate assets	147,304	141,639	141,582
Total assets	\$ 292,131	\$ 279,334	\$ 280,887

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 were granted during fiscal year 2007, the three months ended December 31, 2007, 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 December 31, 2007, September 30, 2007 and August 31, 2007, there were 7,158, 8,158 and 8,158, options respectively, fully vested and exercisable and 273,815 shares available for grant. The options outstanding had a fair

value of \$133 thousand, \$208 thousand, and \$271 thousand at December 31, 2007, September 30, 2007 and August 31, 2007, respectively. There was no unrecognized compensation expense related to outstanding stock option grants at August 31, 2007, September 30, 2007 or December 31, 2007.

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 December 31, 2007, September 30, 2007 and August 31, 2007 there were 8,000 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 three months ended December 31, 2007	Compensation Expense Recognized for the one month ended September 30, 2007	Weighted Average Grant date Fair value Per share
April 2006	20,000	\$ 908	\$ 43	14	
October 2006	20,000	1,239	67	22	
Total	40,000	\$ 2,147	\$ 110	\$ 36	\$ 53.68

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. 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 December 31, 2007 was \$1.2 million and will be recognized over a weighted average period of 6 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 December 31, 2007		For the one month ended September 30, 2007	
Accumulated Other Comprehensive Income (loss) at beginning of period	\$ 49	\$ (29)	\$	45
Change resulting from market fluctuations, net of tax, and realized gains and losses	(13)	40		4
Accumulated Other Comprehensive Income	\$ 36	\$ 11	\$	49

12. New Accounting Pronouncements:

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 does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In February 2007, the FASB issued FASB Statement No. 159 (FAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115," which provides companies the irrevocable option to measure many financial assets and liabilities at fair value with the changes in fair value recognized in earnings. SFAS No. 159 will be effective for fiscal year 2009. The Company does not expect the adoption of SFAS 159 to have a material impact on its financial statements.

13. 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 75,230 shares. The Company purchased 12,000 shares in the open market during the first quarter of fiscal year 2008 at an average price of \$43.98 per share.

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 December 31, 2007 (no treasury purchases occurred during the month ended September 30, 2007):

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)
11/20/2007	2,500	\$ 44.23	2,500	\$ 112
11/21/2007	2,500	43.64	2,500	110
11/26/2007	2,500	42.92	2,500	108
11/27/2007	2,000	42.52	2,000	86
11/28/2007	2,500	44.29	2,500	112
Total	12,000	\$ 43.98	12,000	\$ 528

14. Transition Period Financial Information:

On September 28, 2007, the Company's fiscal year end was changed from August 31 to September 30. Accordingly, the Company is presenting unaudited financial statements for the one month transition period ended September 30, 2007. The following table provides certain unaudited comparative financial information of the same period of the prior year.

	One Month Ended	
	September 30, 2007	September 30, 2006
(In thousands, except per share data)		
Statement of operations data:		
Operating revenue	\$ 1,177	\$ 1,682
Operating and general and administrative expenses	1,867	2,499
Earnings (loss) from operations	(690)	(817)
Other earnings (loss)	(131)	101
Income taxes (benefit)	(141)	(341)
Net earnings (loss)	\$ (680)	\$ (375)
Earnings (loss) per share:		
Basic	\$ (0.09)	\$ (0.05)
Diluted	\$ (0.09)	\$ (0.05)
	September 30, 2007	September 30, 2006
Balance sheet data:		
Current assets	\$ 129,402	\$ 110,029
Total assets	279,334	261,761
Current liabilities	19,442	16,950
Other liabilities	143,897	104,035
Stockholders' equity	\$ 115,995	\$ 140,776

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 10Q includes the unaudited results for the quarters ended December 31, 2007 and 2006, and the unaudited results for the one month ended September 30, 2007. The Company has also included selected unaudited results for the one month ended September 30, 2006 for comparative purposes in Note 14. The audited results for the one month ended September 30, 2007 will be included separately in the Company's Annual Report on Form 10K for the fiscal year ending September 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES:

Liquidity and Capital Resources

Working capital increased to \$123.4 million at December 31, 2007 from \$109.7 million at August 31, 2007. As of December 31, 2007, the Company had cash and cash equivalents of \$39.8 million compared to \$34.8 million at August 31, 2007. Marketable securities increased to \$49.3 million from \$46.2 million during the same period. The ratio of current assets to current liabilities decreased to 7.21 to 1 at December 31, 2007 from 7.26 to 1 at August 31, 2007. Total assets increased by \$11.2 million to \$292.1 million at December 31, 2007, compared to \$280.9 million at August 31, 2007.

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 \$37.7 million was available for the Company's general use at December 31, 2007.

Cash outlays for land, equipment, buildings, and other improvements totaled \$2.1 million during the three months ended December 31, 2007, compared with \$3.2 million during the three months ended December 31, 2006.

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, are in ongoing negotiations with the IRS and a proposed closing document has been prepared by the Company's tax counsel and provided to IRS Appeals for review. The Company expects full resolution of this matter by the end of March 2008; 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 and has reached a tentative agreement for the payment of federal taxes, penalties and interest of approximately \$66.2 million. In order to cease additional interest from accruing on this liability, the Company has paid \$66.2 million to the IRS from its revolving credit line. Based on the contemplated settlement, the Company estimated additional state taxes and interest of approximately \$10.3 million at December 31, 2007 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.

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 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 from 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 at August 31, 2007. Should the actual outcome of the IRS settlement differ from the estimated amounts, the deferred taxes related to the basis step-ups could fluctuate from the amounts recorded. 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.

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 September 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 \$3.4 million of principal on September 28, 2008, \$12.0 million principal payments on September 28, 2009 & 2010, and the remaining principal of \$26.6 million on September 28, 2011. Alico received the first quarterly interest payment of \$0.9 million due on the note in December, 2007.

The Company received an extension payment of \$3.6 million during October, 2007. The payment was in connection with an option contract for a gross sales price of \$63.5 million. 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.

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 75,230 shares. The Company purchased 12,000 shares in the open market during the first quarter of fiscal year 2008 at an average price of \$43.98 per share.

Dividends

The Company paid a quarterly dividend of \$0.275 per share on October 15, 2007. At its meeting on September 28, 2007 the Board of Directors declared a quarterly dividend of \$0.275 per share payable to stockholders of record as of December 29, 2007 that was paid on 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.

Results of Operations

Summary of results (in thousands):

	Three months ended December 31,	
	2007	2006
Operating revenue	\$ 23,554	\$ 26,528
Gross profit	4,340	5,955
General & administrative expenses	3,001	3,167
Income from operations	1,339	2,788
Profit on sale of bulk real estate	817	1,292
Interest and investment income	4,333	1,626
Interest expense	(2,466)	(1,261)
Other income	265	74
Provision for income taxes	1,498	1,939
Effective income tax rate	34.9%	42.9%
Net income	\$ 2,790	\$ 2,580

Overall, income from operations decreased for the three months ended December 31, 2007 compared with the three months ended December 31, 2006, 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 a consequence of lower prices for citrus products for fiscal year 2008 when compared with fiscal year 2007.

Operations by segment are discussed separately below.

General and Administrative

General and administrative expenses decreased by \$0.2 million for the three months ended December 31, 2007 when compared with the three months ended December 31, 2006. The Company is working to reduce its general and administrative costs for fiscal year 2008. Thus far, the reduction effort has included eliminating staff positions and using internal staff to reduce Sarbanes Oxley compliance costs which was outsourced for the past several years.

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 three months ended December 31, 2006. 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.

Provision for Income taxes

The effective tax rate was 34.9 % and 42.9% for the three months ended December 31, 2007 and 2006, 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 December 31, 2007, the Company had approximately \$15,000 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 investments in corporate and municipal bonds, mutual funds, U.S. Treasury securities, and mortgages held on real estate sold on the installment basis.

Interest and investment income was \$4.3 million compared with \$1.6 million for the three month periods ended December 31, 2007 and 2006, respectively. The increased interest earnings for the three months ended December 31, 2007 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 unallocated patronage from Farm Credit of \$854 thousand during the quarter ended December 31, 2007.

Interest Expense

Interest expense increased for the three months ended December 31, 2007 when compared with the three months ended December 31, 2006 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.

Operating Revenues

	Three months ended December 31,	
	2007	2006
Revenues		
Agriculture:		
Bowen Brothers Fruit	\$ 7,815	\$ 7,633
Citrus groves	4,665	6,172
Sugarcane	3,221	3,738
Cattle	486	3,653
Alico Plant World	902	749
Vegetables	1,724	1,117
Sod	196	349
Agriculture operations revenue	19,009	23,411
Real estate operations	3,869	2,447
Land leasing and rentals	536	259
Mining royalties	140	411
Total operating revenue	\$ 23,554	\$ 26,528

Operating revenues decreased by 11.2% to \$23.6 million for the three months ended December 31, 2007, when compared with operating revenues of \$26.5 million for the three months ended December 31, 2006. The decrease was primarily due to lower revenues from agriculture operations, discussed in detail below.

Gross Profit

	Three months ended December 31,	
	2007	2006
Gross profit:		
Agriculture:		
Bowen Brothers Fruit	\$ 103	\$ 209
Citrus groves	820	2,464
Sugarcane	(30)	(406)
Cattle	(372)	618
Alico Plant World	69	258
Vegetables	324	(99)
Sod	(120)	147
Gross profit from agricultural operations	794	3,191
Real estate operations	2,978	2,207
Land leasing and rentals	459	187
Mining royalties	109	370
Gross profit	4,340	5,955
Profits from the sale of bulk real estate	817	1,292
Net interest and investment income	1,867	365
Corporate general and administrative and other	(2,736)	(3,093)

Income before income taxes	\$	4,288	\$	4,519
-----------------------------------	-----------	--------------	-----------	--------------

Gross profit was \$4.3 million for the three months ended December 31, 2007 compared with \$6.0 million for the three months ended December 31, 2006. 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:

Bowen

Bowen's operations generated revenues totaling \$7.8 million for the three months ended December 31, 2007 compared with revenue of \$7.6 million for the three months ended December 31, 2006. Gross profit for the three months ended December 31, 2007 was \$0.1 million compared with \$0.2 million for the three months ended December 31, 2006. Citrus prices have declined an estimated 20% 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 per unit margins have also declined.

Citrus Groves

Citrus revenues were \$4.7 million for the three months ended December 31, 2007, and \$6.2 million for the three months ended December 31, 2006. The Citrus Division recorded gross profits of \$0.8 million for the three months ended December 31, 2007, compared with \$2.5 million for the three months ended December 31, 2006. The Company expects to harvest more citrus during fiscal year 2008 than it did in fiscal year 2007; however, the Company's citrus crop matured later during fiscal year 2008 when compared with fiscal year 2007, delaying the harvest and thus causing lower volumes of fruit movement through December. The volume delay is timing related and should recover in subsequent quarters. Citrus prices have declined an estimated 20% during fiscal year 2008 from their prior year levels. For this reason, 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 \$3.2 million and \$3.7 million for the three months ended December 31, 2007 and December 31, 2006, respectively. Sugarcane operations generated a loss of \$30 thousand compared with a loss of \$406 thousand for the three months ended December 31, 2007 and December 31, 2006, respectively. 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 \$0.5 million for the three months ended December 31, 2007, compared with \$3.7 million for the three months ended December 31, 2006. Cattle recorded a loss of (\$0.4 million) for the three months ended December 31, 2007 compared with a gross profit of \$0.6 million for the three months ended December 31, 2006. More calves were sold during the three months ended December 31, 2006 compared with the three months ended December 31, 2007. As a result, cattle revenues decreased from their prior year levels.

During the first quarter of fiscal year 2008, the Company wrote down the cattle inventory by \$256 thousand, to its net realizable value. In an effort to improve conception and general nutrition, the Company has reduced the size of its cattle herd. As the herd size is reduced, cost savings are expected. However, during the current fiscal year, due to a decline in births caused by the reduced size of the cattle herd, and stress brought about by a severe drought, the cost per calf has increased and as a result per unit margins have suffered. As a result, cattle operations are not expected to perform as well in fiscal year 2008 as they did in fiscal year 2007.

Plant World

Plant World generated gross revenues of \$0.9 million compared with \$0.7 million during the three months ended December 31, 2007 and 2006, respectively. Gross profits were \$69 thousand compared with \$258 thousand for the three months ended December 31, 2007 and 2006, respectively.

Vegetables

Revenues from the sale of vegetables were \$1.7 million for the three months ended December 31, 2007, respectively, compared with \$1.1 million for the three months ended December 31, 2006. The Vegetable division recorded gross profits of \$0.3 million and a loss of \$0.1 million, respectively, for the three months ended December 31, 2007 and December 31, 2006. Alico began farming sweet corn and green beans in the second quarter of fiscal year 2006. The fiscal year 2007 fall corn crop was damaged by insects, which caused the Company to recognize a loss during December of 2006.

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 and eggplant. Alico accounts for its investment in Alico/J&J under the equity method. For the three months ended December 31, 2007, Alico recognized a loss of \$215 thousand on its portion of the investment. The loss was included as vegetable revenue for the quarter. Vegetable prices are highly volatile. As such, it is difficult to speculate as to the future profitability of the venture.

Sod

Due to continued slow sales in the real estate market, sod sales have declined considerably for the three months ended December 31, 2007 when compared with the three months ended December 31, 2006. 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 purchase contracts under these agreements totaled \$21.2 million at December 31, 2007. All of these purchases except for \$0.1 million were covered by sales agreements at prices exceeding cost. In addition, Bowen had sales contracts totaling \$1.0 million at December 31, 2007 for which purchases had not been contracted. Bowen management currently believes that all committed sales quantities can be purchased below the committed sales price.

Disclosure of Contractual Obligations

The contractual obligations of the Company at December 31, 2007 are set forth in the table below:

Contractual obligations	Total	Payment due by period			
		Less than 1 year	1 - 3 years	3-5 years	Greater than 5 years
Long-term debt	\$ 145,360	\$ 1,349	\$ 139,885	\$ 2,543	\$ 1,583
Expected interest on debt	24,547	9,294	14,676	466	111
Leases operating	751	261	481	9	
FIN 48	456	456			
Commissions	3,276	167	1,200	1,623	286
Citrus purchase contracts	21,217	15,649	5,568		
Retirement benefits	5,737	468	788	788	3,693
Fixed Asset additions	523	523			
Consulting contracts	793	700	93		
Total	\$ 202,660	\$ 28,867	\$ 162,691	\$ 5,429	\$ 5,673

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 classifies such interest and penalties in the liability for uncertain tax positions. As of December 31, 2007, the Company had approximately \$15,000 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. 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 other income in the accompanying condensed consolidated statements of operations for the three months ended December 31, 2007. Such amounts relate to cumulative non cash allocations which are considered by management to have both a qualitatively and quantitatively immaterial effect on any prior period.

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.

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 three months ended December 31, 2007, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of December 31, 2007, 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 December 31, 2007. 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 December 31, 2007, 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 December 31, 2007, 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 the fiscal year ended August 31, 2007.

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

ITEM 1. Legal Proceedings.

This item is omitted as 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

This item is omitted as there are no items to report during this interim period.

ITEM 3. Defaults Upon Senior Securities.

This item is omitted as there are no items to report during this interim period.

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

At its annual stockholders meeting held on Friday January 18, 2008, the stockholders elected John R. Alexander, JD Alexander, Robert E. Lee Caswell, Evelyn D An, Phillip S. Dingle, Gregory T. Mutz, Charles Palmer, Robert J. Viguet, Jr. and Dr. Gordon Walker to serve on the Company's Board of Directors.

Voting results were as follows:

Number of shares issued outstanding and entitled to vote:	7,363,419
Shares represented by proxy votes:	5,006,043
Representative share of proxy votes:	67.99%

	For		Withheld		Total votes	Total shares
Directors:						
John R. Alexander	4,949,028	98.86%	57,015	1.14%	5,006,043	7,363,419
JD Alexander	4,591,401	91.72%	414,642	8.28%	5,006,043	7,363,419
Robert E. Lee Caswell	4,948,227	98.85%	57,816	1.15%	5,006,043	7,363,419
Evelyn D An	4,924,593	98.37%	81,450	1.63%	5,006,043	7,363,419
Phillip S. Dingle	4,807,469	96.03%	198,574	3.97%	5,006,043	7,363,419
Gregory T. Mutz	4,948,075	98.84%	57,968	1.16%	5,006,043	7,363,419
Charles L. Palmer	4,968,383	99.25%	37,660	0.75%	5,006,043	7,363,419
Baxter G. Troutnan	758,432	15.15%	4,247,611	84.85%	5,006,043	7,363,419
Robert J. Viguet, Jr.	4,867,654	97.24%	138,389	2.76%	5,006,043	7,363,419
Gordon Walker	4,945,761	98.80%	60,282	1.20%	5,006,043	7,363,419

ITEM 5. Other Information.

This item is omitted as there are no items to report during this interim period.

ITEM 6. Exhibits

Exhibit 11	Computation of Earnings per share.
Exhibit 31.1	Rule 13a-14(a) certification.
Exhibit 31.2	Rule 13a-14(a) certification.
Exhibit 32.1	Section 1350 certification.
Exhibit 32.2	Section 1350 certification.

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)

February 15, 2008

John R. Alexander

Chairman

Chief Executive Officer

(Signature)

February 15, 2008

Patrick W. Murphy

Vice President

Chief Financial Officer

(Signature)

February 15, 2008

Jerald R. Koesters

Controller

(Signature)

EXHIBIT INDEX

Exhibit 11	Computation of Earnings per share.
Exhibit 31.1	Rule 13a-14(a) certification.
Exhibit 31.2	Rule 13a-14(a) certification.
Exhibit 32.1	Section 1350 certification.
Exhibit 32.2	Section 1350 certification.