

Edgar Filing: ALICO INC - Form 10-K/A

ALICO INC  
Form 10-K/A  
July 19, 2002

Alico, Inc.  
P. O. Box 338  
La Belle, FL 33975

November 13, 2001

Securities and Exchange Commission  
Washington, D.C. 20549

Gentlemen:

Pursuant to the requirements of the Securities Exchange Act of 1934, we are transmitting herewith the attached Form 10-K for the year ending August 31, 2001.

Sincerely,

ALICO, INC.

L. Craig Simmons

L. Craig Simmons  
Vice President and  
Chief Financial Officer

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FORM 10-K

X  ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED) For the fiscal year ended August 31, 2001.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED) 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, La Belle, Florida

33975

(Address of principal executive offices)

(Zip Code)

(863) 675-2966

Registrant's telephone number, including area code \_\_\_\_\_

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| None                | None                                      |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON CAPITAL STOCK, \$1.00 Par value, Non-cumulative  
(Title of Class)

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 such registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  X  No \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. \_\_\_\_\_

As of October 12, 2001 there were 7,059,039 shares of stock outstanding and the aggregate market value (based upon the average bid and asked price, as quoted on NASDAQ) of the common stock held by non-affiliates was approximately \$88,722,551.

DOCUMENTS INCORPORATED BY REFERENCE Portions of the registrant's Proxy Statement dated November 16, 2001 are incorporated by reference in Parts II and III, respectively.

PART I

## Edgar Filing: ALICO INC - Form 10-K/A

Item 1. Business.

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Alico, Inc. (the "Company") is generally recognized as an agribusiness company operating in Central and Southwest Florida. The Company's primary asset is 142,551 acres of land located in Collier, Hendry, Lee and Polk Counties. (See table on Page 7 for location and acreage by current primary use.) The Company is involved in various operations and activities including citrus fruit production, cattle ranching, sugarcane and sod production, and forestry. The Company also leases land for farming, cattle grazing, recreation, and oil exploration.

The Company's land is managed for multiple use wherever possible. Cattle ranching, forestry and land leased for farming, grazing, recreation and oil exploration, in some instances, utilize the same acreage.

Agricultural operations have combined to produce from 68 to 91 percent of annual revenues during the past five years. Citrus groves generate the most gross revenue. Sugarcane ranks second in revenue production. While the cattle ranching operation utilizes the largest acreage, it ranks third in the production of revenue. Approximately 9,197 acres of the Company's property are classified as timberlands, however, the area in which these lands are located is not highly rated for timber production. These lands are also utilized as native range, in the ranching operation, and leased out for recreation and oil exploration.

Diversification of the Company's agricultural base was initiated with the development of a Sugarcane Division at the end of the 1988 fiscal year. The 11,722 acres in production during the 2001 fiscal year consisted of 903 acres planted in 1995, 2,649 acres planted in 1996, 2,430 acres planted in 1997, 3,377 acres planted in 1998, 2,363 acres planted in 1999.

Leasing of lands for rock mining and oil and mineral exploration, rental of land for grazing, farming, recreation and other uses, while not classified as agricultural operations, are important components of the Company's land utilization and operation. Gross revenue from these activities during the past five years has ranged from 2 to 3 percent of total revenue.

The Company is not in the land sales and development business, except through its wholly owned subsidiary, Saddlebag Lake Resorts, Inc.; however, it does from time to time sell properties which, in the judgment of management, are surplus to the Company's primary operations. Gross revenue from land sales during the past five years has ranged from 1 to 24 percent of total revenues.

For further discussion of the relative importance of the various segments of the Company's operations, including financial information regarding revenues, operating profits (losses) and assets attributable to each major segment of the Company's business, see Note 14 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document.

### Subsidiary Operations

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The Company has two wholly owned subsidiaries; Saddlebag Lake Resorts, Inc. ("Saddlebag") and Agri-Insurance Company, Ltd. ("Agri").

Saddlebag has been active in the subdividing, development and sale of real estate since its inception in 1971. Saddlebag has two

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subdivisions near Frostproof, Florida which have been developed and are on the market. Approximately 61% of the lots have been sold.

Agri, formed during fiscal 2000, was created to write crop insurance against catastrophic losses due to weather and disease. The subsidiary wrote minor policies during 2000. During fiscal 2001, Agri supplied reinsurance to an independent underwriter who insured catastrophic business interruption coverage for Ben Hill Griffin, Inc. The total coverage under the policy was \$3,143,537 and the premium charged was \$126,860. The coverage term was from December 19, 2000 to December 19, 2001. There was a claim incurred during the year totaling \$212,000. The Company expects to renew the policy and appropriately adjust premium rates. The financial results of the operation of these subsidiaries are consolidated with those of the Company. (See Note 1 of Notes to Consolidated Financial Statements.)

### Citrus

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Approximately 10,371 acres of citrus were harvested during the 2000 season. Since 1983 the Company has maintained a marketing contract covering the majority of the Company's citrus crop with Ben Hill Griffin, Inc., a Florida corporation and major shareholder. The agreement provides for modifications to meet changing market conditions and provides that either party may terminate the contract by giving notice prior to August 1st, preceding the fruit season immediately following. Under the terms of the contract the Company's fruit is packed and/or processed and sold along with fruit from other growers, including Ben Hill Griffin, Inc. The proceeds are distributed on a pro rata basis as the finished product is sold. During the year ended August 31, 2001, approximately 77% of the Company's fruit crop was marketed under this agreement, as compared to 76% in 1999/00. In addition, Ben Hill Griffin, Inc. provides harvesting services to the Company for citrus sold to unrelated processors. These sales accounted for the remaining 23% of total citrus revenue for the year. In fiscal year 1999, approximately 89% of the Company's fruit crop was marketed under this agreement.

### Ranch

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The Company has a cattle operation located in Hendry and Collier counties, Florida which is engaged primarily in the production of beef cattle and the raising of replacement heifers. The breeding herd consists of approximately 14,000 cows, bulls and replacement heifers. Approximately 44% of the herd are from one to five years old, while the remaining 56% are six and older. The Company primarily sells to packing and processing plants. The Company also sells cattle through local livestock auction markets and to contract cattle buyers. These buyers provide ready markets for the Company's cattle. The loss of any one or a few of these plants and/or buyers would not, in management's view, have a material adverse effect on the Company's cattle operation. Subject to prevailing market conditions, the Company may hedge its beef inventory by entering into cattle futures contracts to reduce exposure to changes in market prices.

### Sugarcane

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The Company had 11,722 acres, 9,588 acres, and 5,432 acres of sugarcane in production during the 2000/01, 1999/00, and 1998/99 fiscal years, respectively. The 2000/01, 1999/00, and 1998/99 crops yielded

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approximately 417,000, 321,000, and 216,000 gross tons, respectively.

### Forest Products

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Approximately 6% of the Company's properties are classified as timberlands. The principal forest products sold by the Company are pulpwood and sabal palms. These products are sold to a paper company and various landscaping companies, respectively. The Company does not incur any of the harvesting expenses.

Part of the lands, from which the timber was removed, is being converted to semi-improved pasture and other uses.

### Land Rental for Grazing, Agricultural and Other Uses

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The Company rents land to others for grazing, farming and recreational uses, on a tenant-at-will basis, for an annual fee. The income is not significant when compared to overall gross income, however, it does help to offset the expense of carrying these properties until they are put to a more profitable use. The Company has developed additional land to lease for farming.

There were no significant changes in the method of rental for these purposes during the past fiscal year.

### Leases for Oil and Mineral Exploration

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The Company has leased subsurface rights to a portion of its properties for the purpose of oil and mineral exploration. Currently, there are two leases in effect.

Twenty-four wells have been drilled during the years that the Company has been leasing subsurface rights to oil companies. The drilling has resulted in twenty-one dry holes, one marginal producer, which has been abandoned, and two average producers, still producing.

### Mining Operations: Rock and Sand

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The Company leases 7,927 acres in Lee County, Florida to CSR America, Inc. of West Palm Beach, Florida for mining and production of rock, aggregate, sand, baserock and other road building and construction materials.

Royalties which the company receives for these products are based on a percentage of the F.O.B. plant sales price.

### Competition

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As indicated, the Company is primarily engaged in a limited number of agricultural activities, all of which are highly competitive. For instance, citrus is grown in several states, the most notable of which are: Florida, California, Arizona and Texas. In addition, citrus and sugarcane products are imported from some foreign countries. Beef cattle are produced throughout the United States and domestic beef sales must also compete with sales of imported beef. Additionally, forest and rock

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products are produced in most parts of the United States. Leasing of land for oil exploration is also widespread.

The Company's share of the market for citrus, sugarcane, cattle and forest products in the United States is insignificant.

### Environmental Regulations

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The Company's operation is subject to various federal, state and local laws regulating the discharge of materials into the environment. The Company is in substantial compliance with all such rules and such compliance has not had a material effect upon capital expenditures, earnings or the competitive position of the Company.

While compliance with environmental regulations has not had a material economic effect on the Company's operations, executive officers are required to spend a considerable amount of time keeping current on these matters. In addition, there are ongoing costs incurred in complying with the permitting and reporting requirements.

### Employees

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At the end of August 2001, the Company had a total of 150 full-time employees classified as follows: Citrus 71; Ranch 22; Sugarcane 15; Facilities Maintenance Support 28; General and Administrative 14. There are no employees engaged in the development of new products or research. Management is not aware of any efforts by employees or outside organizers to create any type of labor union arrangement. Management believes that the employer/employee relationship environment is such that labor organization activities are unlikely to occur.

### Seasonal Nature of Business

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As with any agribusiness enterprise, the Company's business operations are predominantly seasonal in nature. The harvest and sale of citrus fruit generally occurs from October to June. Sugarcane is harvested during the first, second and third quarters. Other segments of the Company's business such as its cattle and sod sales, and its timber, mining and leasing operations, tend to be more successive than seasonal in nature.

### Item 2. Properties.

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At August 31, 2001, the Company owned a total of 142,551 acres of land located in four counties in Florida. Acreage in each county and the primary classification with respect to present use of these properties is shown in the following table:

#### ACREAGE BY CURRENT PRIMARY USE

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| County | Timber Land | Native Pasture | Improved Pasture | Citrus Sod | Sugar-cane | Agri-culture | Other | Total |
|--------|-------------|----------------|------------------|------------|------------|--------------|-------|-------|
|--------|-------------|----------------|------------------|------------|------------|--------------|-------|-------|

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|         |       |        |        |     |        |        |        |       |         |
|---------|-------|--------|--------|-----|--------|--------|--------|-------|---------|
| Polk    | 251   | 9,270  | 447    | --  | 3,251  | --     | --     | 1     | 13,220  |
| Lee     | 3,221 | 1,086  | --     | --  | --     | --     | 1,460  | 2,369 | 8,136   |
| Hendry  | 3,823 | 45,741 | 24,774 | 280 | 3,763  | 12,056 | 15,953 | 3,629 | 110,019 |
| Collier | 1,902 | 1,700  | 1,112  | --  | 4,129  | --     | --     | 2,333 | 11,176  |
| Totals  | 9,197 | 57,797 | 26,333 | 280 | 11,143 | 12,056 | 17,413 | 8,332 | 142,551 |

Of the above lands, the Company utilizes 24,178 acres of improved pasture plus approximately 50,000 acres of native pasture for cattle production and 7,927 acres are leased for rock mining operations. Much of the land is also leased for multi-purpose use such as cattle grazing, oil exploration, agriculture and recreation.

In addition to the land shown in the above table, the Company owns full subsurface rights to 1,064 acres and fractional subsurface rights to 18,707 acres.

From the inception of the Company's initial development program in 1948, the goal has been to develop the lands for the most profitable use. Prior to implementation of the development program, detailed studies were made of the properties focusing on soil capabilities, topography, transportation, availability of markets and the climatic characteristics of each of the tracts. Based on these and later studies, the use of each tract was determined. It is the opinion of Management that the lands are suitable for agricultural, residential and commercial uses. However, since the Company is primarily engaged in agricultural activities, some of the lands are considered surplus to its needs for this purpose and, as indicated under Item 1 of this report, sales of real property are made from time to time.

Management believes that each of the major programs is adequately supported by agricultural equipment, buildings, fences, irrigation systems and other amenities required for the operation of the projects.

Item 3. Legal Proceedings.

The Company has been informed by Ben Hill Griffin III that he is party to a lawsuit filed against him in Polk County, Florida Circuit Court by the families of his four sisters, most of the members of whom are beneficiaries of a trust, entitled the Ben Hill Griffin, Jr. Revocable Inter vivos Trust #1 (the "Trust"). The plaintiffs in the lawsuit (The Four Sisters Protectorate, et al. v. Ben Hill Griffin, III, Trustee, Case No. GC-G-0054, Section 81) sought to impose judicial sanctions on Mr. Griffin III, including his removal as Trustee of the Trust based on allegations of over-compensation and receipt of an illegal bonus. On March 29, 2001, after court-ordered mediation pending completion of which the trial was adjourned, Mr. Griffin III and a representative of the Four Sisters Protectorate, joined by their respective counsel, executed a "Settlement Agreement" which set forth the basic elements of a settlement of the lawsuit, contingent upon several events, including Internal Revenue Service approval of the proposed transaction as a tax free split-off for federal income tax purposes, and the Court's judicial termination of the Trust.

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The terms contained in the Settlement Agreement were not intended, nor were they sufficient, to resolve all specific items necessary to consummate a settlement of the lawsuit. The Settlement Agreement provided that the shares of Alico stock then owned by Ben Hill Griffin Investments would be utilized in the tax free split-off, along with other assets, as a means of allocating to the Four Sisters Protectorate assets approximating the value of their interests in Ben Hill Griffin Investments, a holding company wholly owned by the Trust, Ben Hill Griffin III, and the families represented in the Four Sisters Protectorate.

Mr. Griffin III has indicated that almost immediately following execution of the Settlement Agreement the parties disagreed as to its validity or enforceability on various grounds. On May 14, 2001, the Harris Family filed a motion in the Circuit Court of the 10th Judicial Circuit in and for Polka County, Florida (Case No. GC-G-0054) seeking to have the Settlement Agreement set aside as invalid and unenforceable. On November 2, 2001 the Court entered a written order that the Settlement Agreement is enforceable. Mr. Griffin III's attorneys indicate that a large number of issues related to the mechanism and terms of the proposed distribution of certain of the assets of the Trust to the families of the four sisters, including the Alico stock beneficially owned by the Trust, remain to be worked out between the representatives of the four sisters and Ben Hill Griffin III and are currently being negotiated. According to them these terms are expected to be set forth in a definitive separation agreement, which is still being negotiated by the parties to the litigation but is expected to be finalized shortly. The Company further understands that consummation of the settlement will be subject to various conditions which are still being discussed, but will include the requirement that the parties receive a favorable IRS Revenue Ruling. Mr. Griffin III's attorneys indicate that no ruling request has yet been submitted. Neither the Company nor Mr. Griffin III know when or if the settlement will be implemented but believe the IRS ruling process alone could take 6 months from the date a ruling request is submitted.

Mr. Griffin III has also informed the Company that immediately before the hearing on the enforcement of the State court action, lawyers for the Harris family provided Mr. Griffin III's attorneys with copies of a federal court action naming among others as defendants, Mr. Griffin III, individually and as Trustee of the Ben Hill Griffin Jr. Revocable Inter vivos Trust #1, and BHG Inc. According to Mr. Griffin III's attorneys, this Litigation was filed in the federal district court for the Northern District of Florida (Case No: 4:01cv 432-5PM). The complaint, among other things, seeks to set aside the settlement agreement based on alleged violations of the securities laws, fraud, and negligence. Although this suit was filed on October 2, 2001, Mr. Griffin III's attorneys indicate that, as of this date, neither Mr. Griffin III nor BHG Inc. has been served in this action. Mr. Griffin III's attorneys have indicated that they believe this suit is without merit, if not frivolous, and have stated that if Mr. Griffin III is ever served, he will defend it vigorously.

Since the Company opted out of the Florida Business Corporation Act's provisions on Affiliated Transactions and Control Share Acquisitions (currently FBCA s. 607.0901 and s. 607.0902) under the predecessor statutes to such sections, transactions contemplated by the Settlement Agreement may not be subject to shareholder approval or review by the Company's Board of Directors.

The Company is not a party to any of this litigation.

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

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None.

### PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

#### Common Stock Prices

The common stock of Alico, Inc. is traded over-the-counter on the NASDAQ National Market System under the symbol ALCO. The high and low sales prices, by fiscal quarter, during the years ended August 31, 2001 and 2000 are presented below:

|                | 2001<br>Bid Price |         | 2000<br>Bid Price |          |
|----------------|-------------------|---------|-------------------|----------|
|                | High              | Low     | High              | Low      |
| First Quarter  | 16 13/16          | 15 5/16 | 16 5/16           | 14 1/2   |
| Second Quarter | 17 3/4            | 15 5/8  | 18 1/8            | 15 1/4   |
| Third Quarter  | 28 5/8            | 15 3/4  | 17 1/4            | 15 1/16  |
| Fourth Quarter | 32 1/16           | 26 5/8  | 18                | 14 13/16 |

#### Approximate Number of Holders of Common Stock

As of October 12, 2001, there were approximately 680 holders of record of Alico, Inc. Common Stock.

#### Dividend Information

Only year-end dividends have been paid, and during the last three fiscal years were as follows:

| Record Date      | Payment Date     | Amount Paid<br>Per Share |
|------------------|------------------|--------------------------|
| October 19, 1998 | November 6, 1998 | \$ .50                   |
| October 18, 1999 | November 5, 1999 | \$ .30                   |
| October 13, 2000 | October 27, 2000 | \$1.00                   |

Dividends are paid at the discretion of the Company's Board of Directors. The Company foresees no change in its ability to pay annual dividends in the immediate future; nevertheless, there is no assurance that dividends will be paid in the future since they are dependent upon earnings, the financial condition of the Company, and other factors.

Item 6. Selected Financial Data.

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| DESCRIPTION                  | Years Ended August 31,                   |           |           |           |           |
|------------------------------|--|-----------|-----------|-----------|-----------|
|                              | 2001                                     | 2000 (a)  | 1999      | 1998      | 1997      |
|                              | (In Thousands, Except Per Share Amounts) |           |           |           |           |
| Revenues                     | \$ 68,318                                | \$ 62,540 | \$ 44,947 | \$ 44,679 | \$ 47,433 |
| Costs and Expenses           | 48,205                                   | 41,965    | 37,886    | 33,654    | 29,583    |
| Income Taxes                 | 4,046                                    | 6,464     | 2,980     | 4,249     | 6,677     |
| Net Income                   | 16,066                                   | 14,111    | 4,081     | 6,776     | 11,173    |
| Average Number of            |  |           |           |           |           |
| Shares Outstanding           | 7,033                                    | 7,028     | 7,028     | 7,028     | 7,028     |
| Net Income Per Share         | 2.29                                     | 2.01      | .58       | .96       | 1.59      |
| Cash Dividend Paid per Share | 1.00                                     | .30       | .50       | .60       | .15       |
| Current Assets               | 61,345                                   | 56,578    | 45,182    | 42,354    | 37,887    |
| Total Assets                 | 179,134                                  | 176,876   | 156,922   | 130,554   | 117,723   |
| Current Liabilities          | 7,691                                    | 12,346    | 8,738     | 5,649     | 4,988     |
| Ratio-Current Assets         |  |           |           |           |           |
| to Current Liabilities       | 7.98:1                                   | 4.58:1    | 5.17:1    | 7.50:1    | 7.59:1    |
| Working Capital              | 53,654                                   | 44,232    | 36,444    | 36,705    | 32,899    |
| Long-Term Obligations        | 58,818                                   | 60,985    | 56,789    | 34,938    | 24,582    |
| Total Liabilities            | 66,508                                   | 73,331    | 65,527    | 40,587    | 29,570    |
| Stockholders' Equity         | 112,625                                  | 103,545   | 91,395    | 89,967    | 88,153    |

(a) Certain amounts from 2000 have been reclassified to conform to the 2001 presentation.

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations.

The following discussion focuses on the results of operations and the financial condition of Alico.

This section should be read in conjunction with the consolidated financial statements and notes.

Liquidity and Capital Resources

The Company had cash and marketable securities of \$25.0 million at August 31, 2001 compared with \$19.9 million at August 31, 2000. Working capital increased from \$44.2 million at August 31, 2000 to \$53.7 million at August 31, 2001.

Cash outlay for land, equipment, building, and other improvements totaled \$8.9 million during fiscal 2001, compared to \$10.0 million during August 31, 2000 and \$27.9 million in 1999, respectively. Land preparation for sugarcane development and capital maintenance continued, as did expenditures for replacement equipment and raising of breeding cattle. Capital projects for the upcoming year are expected to include development of additional sod acreage.

Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated

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funds. In addition, the Company has credit commitments which provide for revolving credit of up to \$44 million of which \$12.2 million was available for the Company's general use at August 31, 2001 (see Note 6 of Notes to consolidated financial statements).

### Cautionary Statement

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Readers should note, in particular, that this document contains forward-looking Statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend" 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 extent than indicated.

### Results of Operations

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Summary of results (in thousands):

|                                | Years Ended August 31, |          |          |
|--------------------------------|------------------------|----------|----------|
|                                | 2001                   | 2000     | 1999     |
| Operating revenue              | \$54,609               | \$45,335 | \$39,346 |
| Gross profit                   | 9,665                  | 7,202    | 3,997    |
| Profit on sale of real estate  | 11,352                 | 13,299   | 3,847    |
| Interest and investment income | 2,124                  | 3,094    | 1,302    |
| Interest expense               | 3,029                  | 3,020    | 2,085    |
| Provision for income taxes     | 4,046                  | 6,464    | 2,980    |
| Effective income tax rate      | 20.1%                  | 31.4%    | 42.2%    |
| Net income                     | 16,066                 | 14,111   | 4,081    |

### Operating Revenue

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Operating revenues for fiscal 2001 increased compared to fiscal 2000. An increase in revenues from agricultural activities was the most significant factor in the rise.

Operating revenues for fiscal 2000 increased when compared to those of fiscal 1999. An increase in revenues from agricultural activities was the most significant factor in the rise.

### Gross Profit

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Gross profit from operations increased 35% during fiscal 2001. Increased

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sugarcane production and cattle sales are, combined with improved market prices, the primary factors in the rise.

Gross profit from operations increased 80% during fiscal 2000. Improved market prices for both citrus and beef combined with increased citrus production as the primary factors in the rise.

### Profit on Sale of Real Estate

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Profit from the sale of real estate retail land sales, made through Saddlebag, decreased from \$18 thousand 13.3 million in fiscal 2000 to \$(2) thousand 11.4 million in fiscal 2001. Profit from the sale of bulk land sales, made through Agri, decreased from \$13.3 million in fiscal 2000 to \$11.4 million in fiscal 2001. The Company Additionally, Agri recognized a \$9.54 million gain on the sale of 488 acres, sold during fiscal 2000, upon receipt of the first annual mortgage payment which, combined with the initial payment in fiscal 2000, exceeded 20 30% of the contract price.

Real estate profits increased from \$3.8 million to \$13.3 million during fiscal 2000. The most significant factor in the increase was the sale of 1,270 acres in Lee County, Florida for \$16.5 million. The sale generated a \$13.4 million pre-tax gain.

### Interest and Investment Income

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Interest and investment income is generated principally from investments in marketable equity securities, corporate and municipal bonds, mutual funds, U.S. Treasury securities and mortgages held on real estate sold on the installment basis. Realized investment earnings were reinvested throughout fiscal 2001, 2000 and 1999, increasing investment levels during each year. The decrease in fiscal 2001 interest and realized and unrealized investment income resulted from unfavorable market conditions. The rise in fiscal 2000 and 1999 interest and realized and unrealized investment income for the years presented resulted from reinvested investment income and favorable market conditions during each of the years.

### Interest Expense

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Interest expense increased during fiscal 2001, 2000 and 1999, compared to each respective prior year. This was primarily due to increased borrowings related to the acquisition of 7,680 acres of sugarcane, citrus and ranch during fiscal 1999. Total interest cost increased slightly in 2001 and increased 54% and 53% during 2000 and 1999, respectively.

### Individual Operating Divisions

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Gross profit for the individual operating divisions, for fiscal 2001, 2000 and 1999, is presented in the following schedule and is discussed in subsequent sections:

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|                                    | Years Ended August 31,<br>(in thousands) |               |               |
|------------------------------------|--|---------------|---------------|
|                                    | 2001                                     | 2000          | 1999          |
| <b>CITRUS</b>                      |  |               |               |
| Revenues:                          |  |               |               |
| Sales                              | \$27,570                                 | \$28,172      | \$23,518      |
| Less harvesting & marketing        | 10,046                                   | 9,737         | 7,902         |
| Net Sales                          | <u>17,524</u>                            | <u>18,435</u> | <u>15,616</u> |
| Cost and Expenses:                 |  |               |               |
| Direct production**                | 8,932                                    | 8,665         | 10,198        |
| Allocated cost*                    | 3,472                                    | 3,040         | 2,977         |
| Total                              | <u>12,404</u>                            | <u>11,695</u> | <u>13,175</u> |
| Gross profit, citrus               | <u>5,120</u>                             | <u>6,740</u>  | <u>2,441</u>  |
| <b>SUGARCANE</b>                   |  |               |               |
| Revenues:                          |  |               |               |
| Sales                              | 11,939                                   | 8,501         | 7,120         |
| Less harvesting & hauling          | 2,516                                    | 1,997         | 1,341         |
| Net Sales                          | <u>9,423</u>                             | <u>6,504</u>  | <u>5,779</u>  |
| Costs and expenses:                |  |               |               |
| Direct production                  | 3,810                                    | 2,787         | 1,886         |
| Allocated cost*                    | 2,992                                    | 2,178         | 1,257         |
| Total                              | <u>6,802</u>                             | <u>4,965</u>  | <u>3,143</u>  |
| Gross profit, sugarcane            | <u>2,621</u>                             | <u>1,539</u>  | <u>2,636</u>  |
| <b>RANCH</b>                       |  |               |               |
| Revenues:                          |  |               |               |
| Sales                              | 9,299                                    | 6,062         | 6,271         |
| Costs and expenses:                |  |               |               |
| Direct production                  | 5,571                                    | 3,844         | 4,507         |
| Allocated cost*                    | 2,133                                    | 1,479         | 1,772         |
| Total                              | <u>7,704</u>                             | <u>5,323</u>  | <u>6,279</u>  |
| Gross profit (loss), ranch         | <u>1,595</u>                             | <u>739</u>    | <u>(8)</u>    |
| Total gross profit,<br>agriculture | <u>9,336</u>                             | <u>9,018</u>  | <u>5,069</u>  |
| <b>OTHER OPERATIONS</b>            |  |               |               |
| Revenues:                          |  |               |               |
| Rock products and sand             | 1,726                                    | 1,320         | 1,350         |
| Oil leases and land rentals        | 770                                      | 923           | 711           |
| Forest products                    | 91                                       | 84            | 136           |

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|   |          |          |          |
|---|----------|----------|----------|
| Recovery of citrus eradication costs          |          |          |          |
| in excess of basis                            | 2,968    | 235      | -        |
| Other   | 245      | 37       | 240      |
|   |          |          |          |
| Total   | 5,800    | 2,599    | 2,437    |
| Costs and expenses:                           |          |          |          |
| Allocated Cost*                               | 604      | 658      | 767      |
| General and administrative,<br>all operations | 4,867    | 3,757    | 2,742    |
|   |          |          |          |
| Total   | 5,471    | 4,415    | 3,509    |
|   |          |          |          |
| Gross loss, other<br>operations               | 329      | (1,816)  | (1,072)  |
|   |          |          |          |
| Total gross profit                            | 9,665    | 7,202    | 3,997    |
|   |          |          |          |
| INTEREST & DIVIDENDS                          |          |          |          |
| Revenue                                       | 2,124    | 3,094    | 1,302    |
| Expense                                       | 3,029    | 3,020    | 2,085    |
|   |          |          |          |
| Interest & dividends, net                     | (905)    | 74       | (783)    |
|   |          |          |          |
| REAL ESTATE                                   |          |          |          |
| Revenue:                                      |          |          |          |
| Sale of real estate                           | 12,442   | 14,112   | 4,299    |
| Expenses:                                     |          |          |          |
| Cost of sales                                 | 857      | 126      | 92       |
| Other Costs                                   | 233      | 687      | 360      |
|   |          |          |          |
| Total   | 1,090    | 813      | 452      |
|   |          |          |          |
| Gain on sale of real estate                   | 11,352   | 13,299   | 3,847    |
|   |          |          |          |
| Income before income taxes                    | \$20,112 | \$20,575 | \$ 7,061 |
|   |          |          |          |
|   |          |          |          |

\* Allocated expense includes ad valorem and payroll taxes, depreciation and insurance.

\*\* Excludes capitalized maintenance cost of groves less than five years of age consisting of \$200 thousand on 570 acres in 2001 \$309 thousand on 411 acres in 2000, and \$434 thousand on 134 acres in 1999.

### Citrus

Gross profit was \$ 5.1 million in fiscal 2001, \$6.7 million in fiscal 2000, and \$2.4 million for fiscal 1999.

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Revenue from citrus sales decreased 2% during fiscal 2001, compared to fiscal 2000 (\$27.6 million during fiscal 2001 vs. \$28.2 million during fiscal 2000).

Production increased during fiscal 2001, however, the average market price decreased, compared to fiscal 2000.

Harvesting and marketing costs increased over the prior year due to the increase in boxes harvested during the year. Direct production and allocated costs increased 8% due to inflation and increased cultivation costs related to replanting trees.

Revenue from citrus sales increased 20% during fiscal 2000, compared to fiscal 1999 (\$28.2 million during fiscal 2000 vs. \$23.5 million during fiscal 1999).

Production and the average market price improved during fiscal 2000, compared to fiscal 1999.

Harvesting and marketing costs increased over the prior year, corresponding with an increase in yields. Direct production and allocated costs decreased 13% resulting from more favorable growing conditions, requiring less caretaking expenses.

The final returns from citrus pools are not precisely determinable at year end. Returns are estimated each year based on the most current information available. Differences between the estimates and the final realization of revenues can be significant. Revenues collected in excess of prior year and year end estimates were \$617 thousand, \$1.8 million, and \$160 thousand during fiscal 2001, 2000 and 1999, respectively.

### ACREAGE BY VARIETY AND AGE

| VARIETY          | 1-4 | 5-6 | 7-8 | 9-10 | 11-12 | 13-14 | 15-16 | 17+   | Acres |
|------------------|-----|-----|-----|------|-------|-------|-------|-------|-------|
| Early:           |     |     |     |      |       |       |       |       |       |
| Parson Brown     |     |     |     |      |       |       |       |       |       |
| Oranges          | -   | -   | -   | 117  | -     | 30    | -     | -     | 147   |
| Hamlin           |     |     |     |      |       |       |       |       |       |
| Oranges          | 158 | 22  | -   | 63   | -     | 159   | 915   | 2,152 | 3,469 |
| Red Grapefruit   | -   | -   | -   | -    | -     | 73    | -     | 335   | 408   |
| White Grapefruit | -   | -   | -   | -    | -     | -     | -     | -     | -     |
| Tangelos         | -   | -   | -   | -    | -     | -     | -     | 38    | 38    |
| Navel Oranges    | -   | -   | -   | -    | -     | -     | -     | 138   | 138   |
| Mid Season:      |     |     |     |      |       |       |       |       |       |

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|               |       |       |       |       |       |       |       |       |        |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Pineapple     |       |       |       |       |       |       |       |       |        |
| Oranges       | -     | -     | 102   | -     | -     | -     | -     | 518   | 620    |
| Queen Oranges | -     | -     | -     | -     | -     | -     | -     | -     | -      |
| Honey         |       |       |       |       |       |       |       |       |        |
| Tangerines    | -     | -     | 76    | -     | -     | -     | -     | 143   | 219    |
| Midsweet      |       |       |       |       |       |       |       |       |        |
| Oranges       | 117   | -     | 164   | -     | -     | -     | -     | -     | 281    |
| Late:         |       |       |       |       |       |       |       |       |        |
| Valencia      |       |       |       |       |       |       |       |       |        |
| Oranges       | 540   | 238   | 585   | 366   | 958   | 291   | 493   | 1,504 | 4,975  |
|               | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/>  |
| Totals:       | 815   | 260   | 927   | 546   | 958   | 553   | 1,408 | 4,828 | 10,295 |

### Sugarcane

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Gross profit for fiscal 2001 was \$2.6 million compared to \$1.5 million in fiscal 2000, and \$2.6 million in fiscal 1999.

Sales revenues from sugarcane increased 40% during fiscal 2001, compared to fiscal 2000 (\$11.9 million vs. \$8.5 million, respectively). Direct production costs increased 37% during fiscal 2001, compared to fiscal 2000, respectively.) The rise in revenue and related costs was the result of the increase in the number of producing acres and improved market prices for sugar.

Sales revenues from sugarcane increased 20% during fiscal 2000, compared to fiscal 1999 (\$8.5 million vs. \$7.1 million, respectively). The rise in revenue and related costs was the result of the increase in the number of producing acres. However, a decline in the market price for sugar and sugar yield per acre offset the increased production, creating a 42% decrease in division earnings.

### Ranching

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The gross profit (loss) from ranch operations for fiscal 2001, 2000 and 1999 was \$1.6 million, \$739 thousand, and (\$8) thousand, respectively.

Revenues from cattle sales increased 54% during fiscal 2001, compared to fiscal 2000 (\$9.3 million in fiscal 2001 vs. \$6.1 million in fiscal 2000). The number of animals sold during fiscal 2001 increased 52% over the prior year due to increased in the number of feeder cattle sold during the current year. The rise in revenue was also affected by improved market prices for beef.

Direct and allocated costs increased 45% when compared to the prior year (\$7.5 million during fiscal 2001 and \$5.1 million during fiscal 2000) corresponding to the decrease in the number of animals sold.

Revenues from cattle sales decreased 3% during fiscal 2000, compared to fiscal 1999 (\$6.1 million in fiscal 2000 vs. \$6.3 million in fiscal 1999). The number of animals sold during the year decreased 13% under the prior year due to decreased sales of feeder cattle during the year. However, a significant improvement in market prices for beef is the primary cause of the increase in earnings for the division.

Direct and allocated costs decreased 16% when compared to the prior year (\$5.3 million during fiscal 2000 and \$6.3 million during fiscal 1999)

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corresponding to the decrease in the number of animals sold.

The Company's cattle marketing activities include retention of calves in western feedlots, contract and auction sales, and risk management contracts.

### Other Operations

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Revenues from oil royalties and land rentals were \$770 thousand as compared to \$923 thousand for fiscal 2000 and \$711 thousand for fiscal 1999.

Returns from rock products and sand were \$1.7 million for fiscal 2001, \$1.3 million for 2000 and \$1.3 million during 1999. Rock and sand supplies are sufficient to meet current demand, and no major price changes have occurred over the past 3 years.

Profits from the sale of sabal palms, for landscaping purposes, during fiscal 2001 were \$91 thousand compared to \$84 thousand and \$136 thousand for fiscal years 2000 and 1999, respectively.

Direct and allocated expenses charged to the "Other" operations category included general and administrative and other costs not charged directly to the citrus, ranching, sugarcane divisions. These expenses totaled \$5.5 million during fiscal 2001 compared to \$4.4 million during fiscal 2000 and to \$3.5 million during fiscal 1999.

### General Corporate

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The Company is continuing its marketing and permitting activities for its land which surrounds the Florida Gulf Coast University site. There are sales contracts in place for more than 7,400 acres of the Lee County, Florida property totaling \$167 million. The agreements are at various stages of the due diligence periods with closing dates over the next ten years.

The Company announced the formation of Agri-Insurance Company, Ltd. (Agri) a wholly owned subsidiary, during July of 2000. The insurance company was initially capitalized by transferring cash and approximately 3,000 acres of the Lee County property (along with sales contracts totaling \$8 million). Through Agri, the Company expects to be able to underwrite previously uninsurable risk related to catastrophic crop and other losses. Additionally, the insurance company will have access to reinsurance markets, otherwise inaccessible. The Federal Crop Insurance Program provides coverage for certain perils e.g. freeze damage, windstorm, disease, etc. However, the current Federal Crop Insurance Program does not provide business interruption coverage. The coverages contemplated by Agri would indemnify the insured for the loss of the revenue stream resulting from a catastrophic event that would cause a grove to be replanted. The insurance market is bifurcated into insurers and reinsurers. Reinsurers provide wholesale insurance coverage to the industry. Some specialized reinsurers will only deal with insurance companies. As a result, the only way to access the wholesale insurance market is through the formation of a captive insurance company. Reinsurers provide greater insurance coverage flexibility than can be found in the primary insurance market.

Agri is a newly created entity. It would be difficult, if not impossible, to speculate about the impact that Agri could have on our financial position, results of operations and liquidity in future periods. Since the coverages that will be written, as liquidity is generated, will be primarily for the benefit of Alico, the financial substance of this venture is to insure risk that is inherent in the Company's existing

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operations. To expedite the creation of the capital liquidity necessary to underwrite the Company's exposure to catastrophic losses, another 5,600 acres was transferred during fiscal 2001. Agri underwrote a limited amount of coverage during fiscal 2001, and is expected to begin writing more significant coverages before the end of December 2001. As Agri gains underwriting experience and increases its liquidity, it will be able to increase its insurance program.

During September of 1999, the Company announced a sale of 1,270 acres of land surrounding the University site in Lee County for \$16.5 million. The contract called for 25 percent of the purchase price to be paid at closing, with the balance payable over the next four years. In July of 2000, Agri sold another 488 acres to the same buyer, also near the University, for \$10.6 million. In connection with the sale, the purchaser agreed to pay off the \$12.3 million mortgage related to the September 1999 sale and pay 10% of the contract price for their second purchase at closing, with the balance payable over the next four years. The first sale generated a pre-tax gain of \$13.4 million. The gain related to the second sale was recognized during fiscal 2000, to the extent that 10% of the purchase price has been collected net of closing costs (\$959 thousand). The remainder of the gain and related mortgage were recognized during the current fiscal year upon receipt of the first annual mortgage payment which, combined with the initial payment in fiscal 2000, exceeded 20% of the contract price.

### Critical Accounting Policies and Estimates

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The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable in the circumstances; however, actual results may vary from these estimates and assumption under different future circumstances. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Alico records inventory at the lower of cost or market. Management regularly assesses estimated inventory valuations based on current and forecasted usage of the related commodity and any other relevant factors that affect the net realizable value.

Based on fruit buyers' and processors' advances to growers, stated cash and futures markets combined experience in the industry, management reviews the reasonableness of citrus revenue accrual. Adjustments are made throughout the year to these estimates as relevant information regarding the citrus market becomes available. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from the prior year's crop totaling \$617,086, \$1,839,642, and \$159,748 during fiscal 2001, 2000, and 1999, respectively.

In accordance with Statement of Position 85-3 "Accounting by Agricultural Producers and Agricultural Cooperatives", the cost of growing crops (citrus and sugarcane) are capitalized into inventory until the time of harvest. Once a given crop is harvested, the related inventoried costs are recognized as a cost of sale to provide an appropriate matching of costs incurred with the related revenue earned.

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### Item 7(a). Quantitative and Qualitative Disclosure About Market Risk

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Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We do not have derivative financial instruments in our investment portfolio. We place our investments with high quality issuers and, by policy, limit the amount of credit exposure to any one issuer. We are adverse to principal loss and ensure the safety and preservation of our invested funds by limiting default, market and reinvestment risk. We classify our cash equivalents and short-term investments as fixed-rate if the rate of return on such instruments remains fixed over their term. These fixed-rate investments include fixed-rate U.S. government securities, municipal bonds, time deposits and certificates of deposit. We classify our cash equivalents and short-term investments as variable-rate if the rate of return on such investments varies based on the change in a predetermined index or set of indices during their term. These variable-rate investments primarily include money market accounts, mutual funds and equities held at various securities brokers and investment banks. The table below presents the amounts (in thousands) and related weighted interest rates of our investment portfolio at August 31, 2001:

| Marketable Securities and<br>Short-term Investments (1) | Average Interest<br>Rate | Cost      | Estimated<br>Fair Value |
|---|--------------------------|-----------|-------------------------|
|   | _____                    | _____     | _____                   |
| Fixed Rate  | 5.92%                    | \$ 3,098  | \$ 3,131                |
| Variable Rate   | 2.45%                    | \$ 14,232 | \$ 15,596               |