Contents

ALICO, INC.

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ANNUAL MEETING

Thursday, December 4, 2003, 10:00 a.m.

Alico Arena
Florida Gulf Coast University
Fort Myers, Florida

STOCK TRANSFER AGENT

SunTrust Bank, Atlanta
P.O. Box 4625
Atlanta, GA 30302-4625

Directors

Ben Hill Griffin, III*
Chairman of the Board, Chief Executive Officer
and Chairman of the Executive Committee
Alico, Inc.
La Belle, Florida
Chairman of the Board and Chief Executive Officer
Ben Hill Griffin, Inc.
Frostproof, Florida

Richard C. Ackert**
President and Chief Executive Officer
of SouthTrust Bank
Fort Myers, Florida

William L. Barton**
Retired Chief Executive Officer
Wilson Miller, Inc.
President
Mitigation Land Partners, Inc.
Naples, Florida

Walker E. Blount, Jr.**
Retired
Advisor to Wright, Walker & Company, P.A.
Bartow, Florida

Monterey Campbell, III**
Attorney
Gray Harris Robinson Lane Trohn
Lakeland, Florida

Amy Gravina***
President
Gravina, Smith and Matte
Director
Florida Gulf Bank
Fort Myers, Florida

K. E. Hartsaw
Retired Partner of KPMG, LLP
Agribusiness Industry Consultant
Orlando, Florida

W. Bernard Lester*
President and Chief Operating Officer
Alico, Inc.
La Belle, Florida

Thomas E. Oakley**
President
Oakley Transport, Inc.
Lake Wales, Florida

*Member of the Executive Committee
**Member of the Audit and Compensation Committees
***Member of the Compensation Committee

Officers

Ben Hill Griffin, III, Chairman and Chief Executive Officer
W. Bernard Lester, President and Chief Operating Officer
L. Craig Simmons, Vice President and Chief Financial Officer
Steven M. Smith, Vice President, Citrus Division
John T. Brantley, Vice President, Sugarcane and Special Crops Division
B. Wade Grigsby, Vice President, Ranch Division
Robert P. Miley, Vice President, Heavy Equipment Division
Denise Plair, Corporate Secretary

Letter to Shareholders'

November 10, 2003

To Our Shareholders:

Net income for the year ended August 31, 2003 increased to $12.7 million, or $1.78 per share, compared to $7.5 million, or $1.07 per share during the same period a year ago.

Earnings from agricultural operations increased during the year due to improvements in citrus and sugarcane earnings. While citrus revenue decreased, the decline was more than offset by decreases in both harvesting and production costs. Improvement in sugarcane yields was the primary cause of the earnings increase for this division. Ranch earnings declined due to a reduction in the number of cattle sold during the year. These factors created increases in gross profits of $317 thousand in the Citrus Division and $853 thousand in the Sugarcane Division, while the Ranch Division decreased $202 thousand during the year.

During fiscal 2003, our wholly owned subsidiary, Alico-Agri, Ltd., closed on sales of 353 acres in Lee County, Florida, for $15.2 million, generating gains of $13.4 million. When combined with sales from Saddlebag Lake Resorts and other miscellaneous land sales, real estate earnings increased $3.4 million over the prior year.

The Company is continuing its marketing and permitting activities related to the land surrounding the Florida Gulf Coast University. There are contracts in place for 5,700 acres of the Lee County property totaling $171.8 million. The agreements are at various stages of the due diligence periods with closing dates expected over the next three years.

Without the support of our Shareholders, Board of Directors and employees, the favorable operating results and other financial successes would not be possible. We appreciate your continuing support.

Sincerely,

Ben Hill Griffin, III
Chairman and Chief Executive Officer

Selected financial data

	2003	2002	2001	2000	1999
	Years Ended August 31, (in thousands except per share amounts)				
Revenues	**$ 66,532**	$ 63,545	$ 69,710	$ 62,540	$ 44,947
Costs and Expenses	**47,448**	53,752	49,598	41,965	37,886
Income Taxes	**6,425**	2,258	4,046	6,464	2,980
Net Income	**12,659**	7,535	16,066	14,111	4,081
Average Number of Shares Outstanding	**7,106**	7,070	7,033	7,028	7,028
Net Income per Share	**1.78**	1.07	2.29	2.01	.58
Cash Dividend Paid per Share	**.35**	1.00	1.00	.30	.50
Current Assets	**90,204**	66,267	61,345	56,578	45,182
Total Assets	**212,748**	191,910	179,134	176,876	156,922
Current Liabilities	**10,722**	9,543	7,691	12,346	8,738
Ratio - Current Assets to Current Liabilities	**8.41:1**	6.94:1	7.98:1	4.58:1	5.17:1
Working Capital	**79,482**	56,724	53,654	44,232	36,444
Long-Term Obligations	**75,844**	69,149	58,818	60,985	56,789
Total Liabilities	**86,566**	78,692	66,509	73,331	65,527
Stockholders' Equity	**126,182**	113,218	112,625	103,545	91,395

Common stock prices and other stockholder information

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, 2003 and 2002 are presented below:

	2003		2002	
	High	Low	High	Low
First Quarter	**28.80**	**22.25**	30.21	24.90
Second Quarter	**28.04**	**21.15**	32.17	28.50
Third Quarter	**27.30**	**21.00**	29.70	28.20
Fourth Quarter	**28.70**	**22.72**	29.54	28.01

The Company has 553 registered holders of record, but believes there are many more beneficial owners.

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 Per Share
October 13, 2000	October 27, 2000	$1.00
October 12, 2001	October 26, 2001	$1.00
October 11, 2002	**October 25, 2002**	**$.35**

The Company's Board of directors, at its meeting on October 7, 2003, declared a dividend of $.60 per share payable on October 31, 2003 to shareholders of record on October 17, 2003.

Business

Alico, Inc. is an agribusiness company, primarily engaged in the production of citrus, cattle, sugarcane, sod and forest products. Gross revenue derived from these combined sources ranged from 69 to 82 percent of total revenues during the last five years. Revenues from mining rock, sand and other road building and construction materials, by independent operators on Company lands, is another important source of income producing from 2 to 3 percent of total revenues during the last five years. The Company also engages in land rentals for farming, cattle grazing, recreational, oil exploration and miscellaneous uses. Gross income from these sources, during the last five years, ranged from 1 to 2 percent of total revenues.

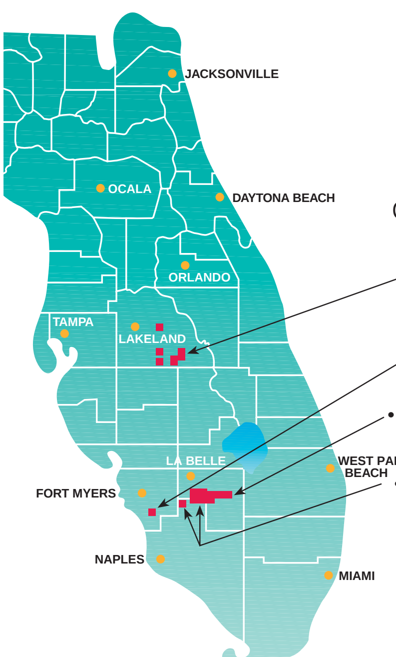
While the Company is not in the retail land development and sales business except through its wholly owned subsidiary, Saddlebag Lake Resorts, Inc., it does from time to time sell land which, in the opinion of management, is surplus to the Company's primary operations. Additionally, the Company's wholly owned subsidiary, Alico-Agri, Ltd., engages in bulk land sales in connection with the generation of underwriting capital. Gains from sales of real estate during the past five years has contributed from 10 to 23 percent of total revenues.

Earnings from interest and investments has provided from 2 to 5 percent of total revenues for the past five years.

Subsidiary Operations

The Company has three wholly owned subsidiaries. Saddlebag Lake Resorts, Inc. is engaged exclusively in retail land sales and development. A small acreage subdivision, Blue Jordan Forest, covering approximately 1,100 acres and divided into 299 lots near Frostproof, Florida has been developed with sales commencing in the fall of 1986. Two other projects, Saddlebag Lake Recreational Campground and Tiger Creek Forest (a small acreage subdivision), both of which have been sold out, were also developed by the subsidiary. Agri-Insurance Company, Ltd., ("Agri") newly formed during fiscal 2000, was created to write crop insurance against catastrophic losses due to weather and/or disease. During fiscal 2002 and 2003, the subsidiary wrote a limited amount of coverage for Ben Hill Griffin, Inc., and for all of the Alico, Inc. citrus groves. Alico-Agri, Ltd. was formed in fiscal 2003 to manage the real estate holdings of Agri.

The financial results of the operations of these subsidiaries are consolidated with those of the parent Company.



Acreage by current primary use

County	Timber Land	Native Pasture	Improved Pasture	Sod	Citrus Land	Sugar-cane	Agri-culture	Other	Total
• Polk	251	8,559	359	—	3,253	—	—	1	12,423
• Lee	2,792	1,086	—	—	—	—	1,460	625	5,963
• Hendry	3,823	48,735	21,573	580	3,765	14,358	15,953	3,435	112,222
• Collier	1,882	1,700	1,112	—	4,129	—	—	2,333	11,156
Totals	8,748	60,080	23,044	580	11,147	14,358	17,413	6,394	141,764

Selected quarterly financial data

(Unaudited)

Summarized quarterly financial data (in thousands except for per share amounts) for the years ended August 31, 2003 and August 31, 2002, is as follows:

	Quarters Ended							
	November 30,		February 28,		May 31,		August 31,	
	2002	2001	2003	2002	2003	2002	2003	2002
Revenue								
Citrus	**$ 1,621**	$ 1,506	**$ 9,774**	$ 7,689	**$ 9,247**	$ 9,889	**$ 3,465**	$ 6,021
Sugarcane	**2,748**	2,255	**5,212**	6,978	**4,977**	1,883	**436**	673
Ranch	**2,118**	3,590	**1,146**	2,013	**3,086**	2,536	**825**	963
Property sales	**535**	2,819	**134**	8,547	**178**	252	**16,143**	1,155
Interest	**276**	497	**245**	336	**229**	403	**451**	235
Other revenues	**957**	879	**942**	569	**703**	983	**1,084**	874
Total revenue	**8,255**	11,546	**17,453**	26,132	**18,420**	15,946	**22,404**	9,921
Costs and expenses								
Citrus	**1,580**	1,485	**9,405**	7,348	**7,385**	7,605	**1,736**	4,983
Sugarcane	**2,224**	1,855	**4,062**	5,497	**3,476**	1,864	**426**	241
Ranch	**2,214**	3,010	**1,025**	1,857	**2,658**	2,434	**893**	1,214
Interest	**541**	514	**483**	531	**518**	682	**539**	694
Other	**1,347**	1,401	**1,398**	5,888	**1,436**	1,341	**4,102**	3,308
Total costs and expenses	**7,906**	8,265	**16,373**	21,121	**15,473**	13,926	**7,696**	10,440
Income (loss) before income taxes	**349**	3,281	**1,080**	5,011	**2,947**	2,020	**14,708**	(519)
Provision for income taxes	**91**	277	**290**	295	**882**	1,589	**5,162**	97
Net income (loss)	**$ 258**	$ 3,004	**$ 790**	$ 4,716	**$ 2,065**	$ 431	**$ 9,546**	$ (616)
Basic earnings (loss) per share	**$ .04**	$ .43	**$ .11**	$ .66	**$ .29**	$ .06	**$ 1.34**	$ (.08)
Weighted-average shares outstanding	**7,097**	7,056	**7,108**	7,065	**7,110**	7,073	**7,111**	7,076

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

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", "expect" 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.

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

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 $55.2 million at August 31, 2003, compared with $31.6 million at August 31, 2002. Working capital was $79.5 million and $56.7 million at August 31, 2003 and August 31, 2002 respectively.

Cash outlay for land, equipment, buildings, and other improvements totaled $7.3 million during fiscal 2003, compared to $9.3 million during fiscal 2002 and $8.5 million during fiscal 2001, respectively. Land preparation for citrus development and capital maintenance continued, as did expenditures for replacement equipment and raising of breeding cattle.

Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds. In addition, the Company has credit commitments which provide for revolving credit of up to $54.0 million, of which $10.2 million was available for the Company's general use at August 31, 2003 (see Note 6 of Notes to consolidated financial statements).

Results of Operations

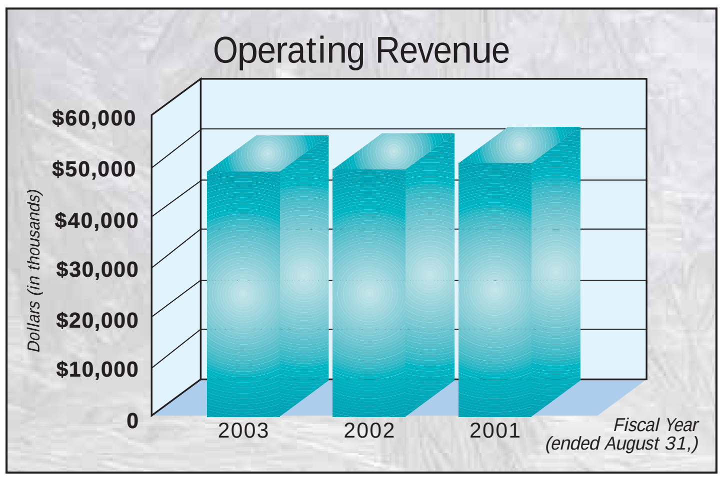
Summary of results (in thousands):

	Years Ended August 31,		
	2003	2002	2001
Operating revenue	**$48,285**	$49,185	$51,533
Gross profit	**11,022**	9,678	11,921
General & administrative expenses	**6,319**	10,806	5,471
Income (loss) from operations	**4,703**	(1,128)	6,450
Profit on sale of real estate	**14,994**	11,641	11,354
Interest and investment income	**1,201**	1,471	2,124
Interest expense	**2,081**	2,421	3,029
Other income	**267**	230	3,213
Provision for income taxes	**6,425**	2,258	4,046
Effective income tax rate	**33.7%**	23.1%	20.1%
Net income	**12,659**	7,535	16,066

Operating Revenue

Operating revenues for fiscal 2003 decreased compared to fiscal 2002. A decrease in revenues from agricultural activities was the most significant factor in the decline.

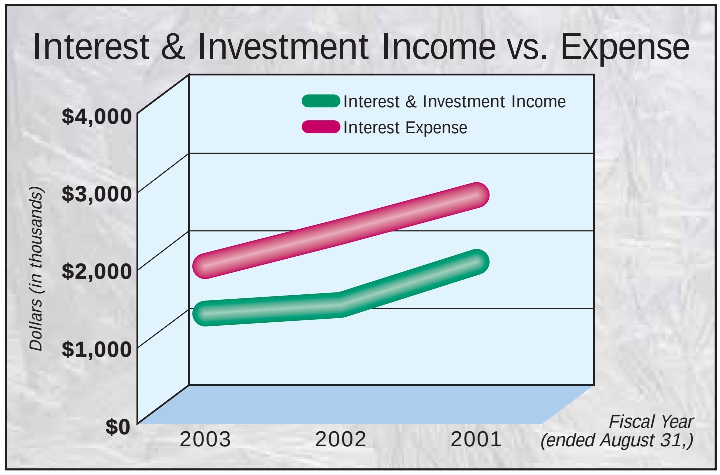
Operating revenues for fiscal 2002 decreased when compared to those of fiscal 2001. A decrease in revenues from agricultural activities was the most significant factor in the decline.



Income (loss) from Operations

Income from operations increased significantly during fiscal 2003 when compared to the prior year ($ 4,703 in fiscal 2003 vs. $(1,128) in fiscal 2002). The improvement in earnings was largely impacted by the Company's fiscal 2002 commitment to donate $5.0 million to Florida Gulf Coast University (the University) in December 2001, for a new athletic complex, scholarships and athletic programs. In accordance with the Company’s agreement with the University, $1.0 million was paid in fiscal 2002, $800 thousand was paid in fiscal 2003, and $800 thousand will be paid each year over the next four years. The entire donation was accrued and included in general and administrative expenses during fiscal 2002. The remaining increase in gross profits from operations was due to an increase in earnings from agricultural activities.

Income from operations decreased 117% during fiscal 2002 when compared to fiscal 2001, due to increased general and administrative expenses resulting from the accrued University donation.



Interest and Investment Income

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 2003, 2002 and 2001, increasing investment levels during each year. The decrease in fiscal 2003, 2002 and 2001, interest and realized and unrealized investment income resulted from unfavorable conditions in the financial markets.

Interest Expense

Interest expense declined during fiscal 2003 when compared to fiscal 2002, as interest rates on borrowings have declined.

Interest expense decreased during fiscal 2002, compared to fiscal 2001. This was due to a decline in interest rates on borrowings.

Individual Operating Divisions

Gross profits (in thousands) for the individual operating divisions, for fiscal 2003, 2002 and 2001, are presented in the following schedule and are discussed in subsequent sections:

	Years Ended August 31,		
	2003	2002	2001
Citrus			
Revenues			
Sales	**$ 24,107**	$ 25,105	$ 27,570
Less harvesting & marketing	**8,910**	9,364	10,046
Net sales	**15,197**	15,741	17,524
Costs and expenses			
Direct production**	**7,671**	8,594	8,932
Allocated cost*	**3,525**	3,463	3,472
Total	**11,196**	12,057	12,404
Gross profit, citrus	**4,001**	3,684	5,120

	Years Ended August 31,		
	2003	2002	2001
Sugarcane			
Revenues			
Sales	**13,373**	11,789	12,450
Less harvesting & hauling	**2,915**	2,239	2,516
Net sales	**10,458**	9,550	9,934
Costs and expenses			
Direct production	**3,844**	3,965	4,094
Allocated cost*	**3,429**	3,253	3,018
Total	**7,273**	7,218	7,112
Gross profit, sugarcane	**3,185**	2,332	2,822
Ranch			
Revenues			
Sales	**7,175**	9,102	8,788
Costs and expenses			
Direct production	**4,937**	6,087	5,287
Allocated cost*	**1,853**	2,428	2,107
Total	**6,790**	8,515	7,394
Gross profit, ranch	**385**	587	1,394
Total gross profit, agriculture	**7,571**	6,603	9,336
Other operations			
Revenues			
Rock products and sand	**2,154**	1,999	1,726
Oil leases and land rentals	**973**	721	770
Forest products	**292**	355	91
Recovery of citrus eradication costs in excess of basis	**–**	–	2,968
Other	**267**	230	245
Total	**3,686**	3,305	5,800
Costs and expenses			
Allocated cost*	**882**	735	604
General and administrative, all operations	**5,437**	10,071	4,867
Total	**6,319**	10,806	5,471
Gross income (loss), other operations	**(2,633)**	(7,501)	329
Total gross profit (loss)	**4,938**	(898)	9,665
Interest & dividends			
Revenue	**1,201**	1,471	2,124
Expense	**2,081**	2,421	3,029
Interest & dividends, net	**(880)**	(950)	(905)

	Years Ended August 31,		
	2003	2002	2001
Real estate			
Revenue			
Sale of real estate	**16,990**	12,773	12,978
Expenses			
Cost of sales	**1,925**	1,076	1,393
Other Costs	**39**	56	233
Total	**1,964**	1,132	1,626
Gain on sale of real estate	**15,026**	11,641	11,352
Income before income taxes	**$ 19,084**	$ 9,793	$ 20,112

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

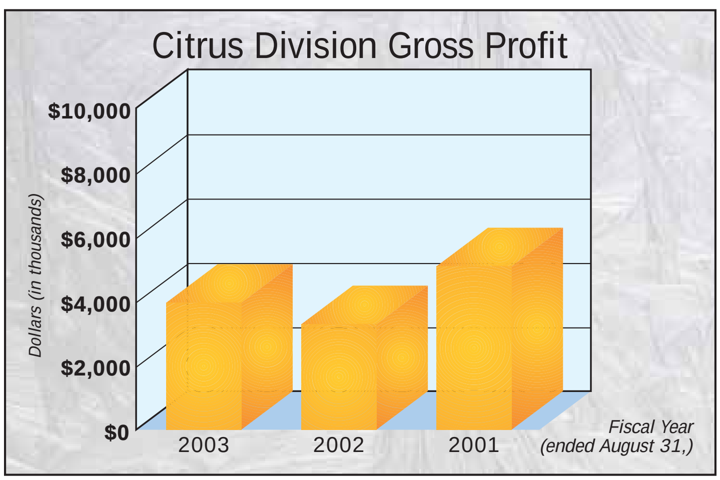
** Excludes capitalized maintenance cost of groves less than five years of age consisting of $2.3 million on 1,617 acres in 2003, $2.5 million on 1,326 acres in 2002, and $200 thousand on 570 acres in 2001.

Citrus

Gross profit was $4.0 million in fiscal 2003, $3.7 million in fiscal 2002, and $5.1 million for fiscal 2001.

Revenue from citrus sales decreased 4% during fiscal 2003, compared to fiscal 2002 ($24.1 million during fiscal 2003 vs. $25.1 million during fiscal 2002).

Pounds of fruit solids per box decreased during fiscal 2003, compared to fiscal 2002, and was the primary cause of the decline.



Harvesting and marketing costs decreased when compared to fiscal 2002 due to procedural efficiencies that resulted in a decrease in the per box rate during the year. Direct production and allocated costs decreased 7% due to a decrease in the costs of cultivation and irrigation caused by improved weather conditions.

Citrus 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	—	—	—	—	118	—	30	—	148
Hamlin Oranges	314	—	22	—	63	—	159	2,934	3,492
Red Grapefruit	—	—	—	—	—	—	73	335	408
Tangelos	—	—	—	—	—	—	—	38	38
Navel Oranges	—	—	—	—	—	—	—	138	138
Mid Season									
Pineapple Oranges	—	—	—	102	—	—	—	518	620
Honey Tangerines	—	—	—	76	—	—	—	143	219
Midsweet Oranges	46	71	—	164	—	—	—	—	281
Late									
Valencia Oranges	1,259	206	237	585	366	959	271	1,920	5,803
Totals	1,619	277	259	927	547	959	533	6,026	11,147

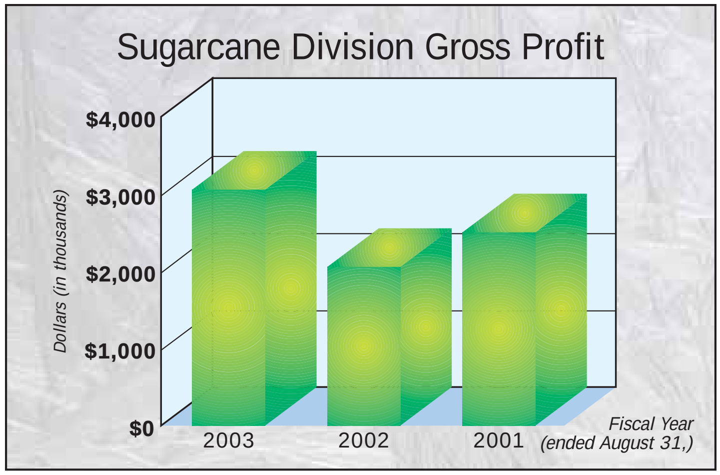
Revenue from citrus sales decreased 9% during fiscal 2002, compared to fiscal 2001 ($25.1 million during fiscal 2002 vs. $27.6 million during fiscal 2001).

Production decreased during fiscal 2002, compared to fiscal 2001 and was the primary cause of the decline.

Harvesting and marketing costs decreased in fiscal 2002 compared to fiscal 2001, corresponding to a decrease in boxes harvested. Direct production and allocated costs decreased 3% due to a decline in the number of producing acres.

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 $198 thousand, $568 thousand, and $617 thousand during fiscal 2003, 2002 and 2001, respectively.

Sugarcane

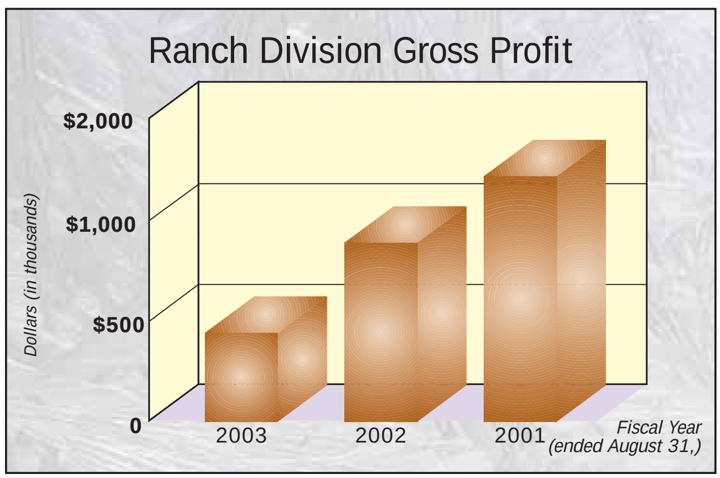


Gross profit for fiscal 2003 was $3.2 million, compared to $2.3 million in fiscal 2002 and $2.8 million in fiscal 2001.

Sales revenue from sugarcane increased 13% during fiscal 2003, compared to fiscal 2002 ($13.4 million vs. $11.8 million, respectively). The increase was the result of an improvement in the yield per acre brought about by favorable weather conditions during the growing season. Direct production costs decreased 3% during fiscal 2003, compared to fiscal 2002. This was offset by a 5% rise in allocated costs, compared to 2002 levels, due to increases in insurance costs and ad valorem taxes.

Sales revenues from sugarcane decreased 5% during fiscal 2002, compared to fiscal 2001 ($11.8 million vs. $12.5 million, respectively). The decrease in revenue and related costs was the result of lower yields resulting from a drought.

Ranching



The gross profit from ranch operations for fiscal 2003, 2002 and 2001 was $385 thousand, $587 thousand, and $1.4 million, respectively.

Revenues from cattle sales decreased 21% during fiscal 2003, compared to fiscal 2002 ($7.2 million in fiscal 2003 vs. $9.1 million in fiscal 2002). Direct and allocated production costs decreased by 20% during fiscal 2003, as compared to fiscal 2002 ($6.8 million in fiscal 2003 vs. $8.5 million in fiscal 2002). The decline in revenue and total production costs primarily resulted from a corresponding decrease in the total number of cattle sold during fiscal 2003 when compared to fiscal 2002.

Revenues from cattle sales increased 3% during fiscal 2002, compared to fiscal 2001 ($9.1 million in fiscal 2002 vs. $8.8 million in fiscal 2001) due to increased sales of feeder cattle during the year.

Direct and allocated costs increased 15% when compared to the prior year ($8.5 million during fiscal 2002 and $7.4 million during fiscal 2001) due to the increase in the number of animals sold from feedlots.

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

Other Operations

Revenues from oil royalties and land rentals were $973 thousand in fiscal 2003 as compared to $721 thousand in fiscal 2002 and $770 thousand for fiscal 2001. The fiscal 2003 improvement is primarily due to an increase in the amount of land leased for farming.

Returns from rock products and sand were $2.2 million for fiscal 2003, $2.0 million for 2002 and $1.7 million during 2001. 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 and other horticultural items, for landscaping purposes, during fiscal 2003 were $292 thousand compared to $355 thousand and $91 thousand for fiscal years 2002 and 2001, respectively.

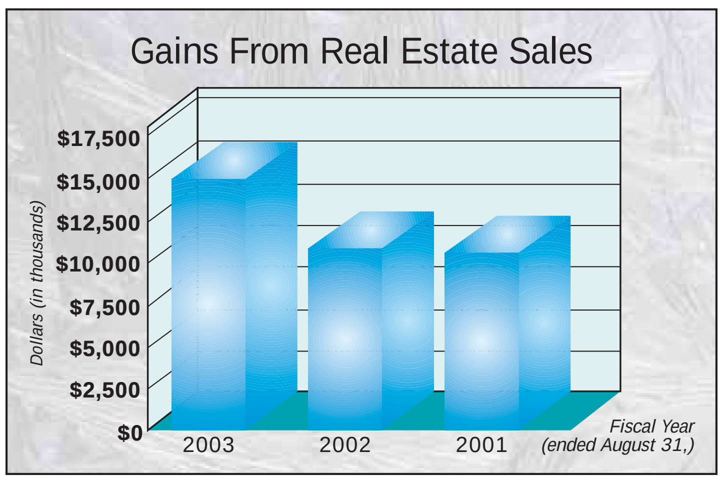
Direct and allocated expenses charged to the "Other" operations category included general and administrative and other costs not charged directly to the citrus, ranching or sugarcane divisions. These expenses totaled $6.3 million during fiscal 2003, compared to $10.8 million during fiscal 2002 and to $5.5 million during fiscal 2001. In December 2001, the Company agreed to donate $5.0 million to the Florida Gulf Coast University for a new athletic complex, scholarships and athletic programs. As per the agreement with the University, $1.0 million was paid in fiscal 2002, $800 thousand was paid in fiscal 2003 and $800 thousand will be paid each year over the next four years. The net present value of the total donation was accrued and included in general and administrative expenses in fiscal 2002 and was the primary cause for the increase in general and administrative expenses for that year.

Profit on Sale of Real Estate

Profit from retail land sales, made through Saddlebag, were $32 thousand in fiscal 2003, vs. breaking even during fiscal 2002.

Profit from bulk land sales, increased from $11.6 million in fiscal 2002 to $15.0 million in fiscal 2003.

Real estate profits increased from $11.4 million in fiscal 2001 to $11.6 million during fiscal 2002.



General Corporate

The Company is continuing its marketing and permitting activities for its land which surrounds Florida Gulf Coast University in Lee County, Florida. There are sales contracts in place for all this property, totaling $171.8 million. The agreements are at various stages in the due diligence process with closing dates expected over the next three years.

During January 2002, the Company acquired 40 acres of Lee County, Florida property for $9.5 million. The property is located near one of the interstate highway access ramps to Florida Gulf Coast University and the Southwest Florida International Airport. During the third quarter of fiscal 2003, Agri announced a contract to sell the 40 acres to Halvorsen Development. The contract price is $13.1 million and the closing may occur by December 10, 2004.

During the second quarter of fiscal 2003, Agri contracted to sell an additional 53 acres in Lee County, Florida to the Ginn Company. The contract price is $10.6 million. Agri also announced an addition to the original Ginn Company contract, adding 555 acres for a price of $13.32 million. This amendment brought the total acreage of the contract to 5,060.

During the third quarter of fiscal 2003, the Company entered into a limited partnership with its wholly owned subsidiary, Agri-Insurance Company, Ltd. The partnership was created to manage Agri's real estate holdings. Agri transferred all of the Lee County property and associated sales contracts to the limited partnership, Alico-Agri, Ltd. (Alico-Agri) in return for a 99% partnership interest. Alico, Inc. transferred $1.2 million cash for a 1% interest. The creation of the partnership allows Agri to concentrate solely on insurance matters while utilizing Alico's knowledge of real estate management. The partnership will pay Alico a management fee for real estate management and administrative services.

In the fourth quarter of fiscal 2003, the Company, through Alico-Agri, completed the sale of 313 acres in Lee County, Florida to Airport Interstate Associates, LLC. The sales price was $9.7 million and resulted in a gain of $8.7 million. Additionally, Alico-Agri completed the sale of 40 acres in Lee County, Florida to University Club Apartments/Gulf Coast, LLC. The sales price of the property was $5.5 million and generated a gain of $4.7 million.

During the fourth quarter of fiscal 2003, the Company sold 358 acres in Hendry County, Florida for $669 thousand. The sale generated a gain of $335 thousand. Additionally, the Company sold 266 acres in Polk County, Florida for $617 thousand, generating a gain of $612 thousand.

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. Through Agri, the Company has been able to underwrite previously uninsurable risk related to catastrophic crop and other losses. The coverages currently underwritten by Agri will indemnify insured's for the loss of the revenue stream resulting from a catastrophic event that would cause a grove to be replanted. 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 for Ben Hill Griffin, Inc. during fiscal 2003, 2002 and 2001 and in August 2002 began insuring the Alico, Inc., citrus groves. As Agri gains underwriting experience and increases its liquidity, it will be able to increase its insurance programs. Agri is a recently created entity. It would be difficult, if not impossible, to speculate about the impact that Agri could have on the Company's financial position, results of operations and liquidity in future periods. Since the coverages that have been written, as liquidity has been generated, are primarily for the benefit of Alico, the financial substance of this venture is to insure risk that is inherent in the Company's existing operations.

Critical Accounting Policies and Estimates

The preparation of the Company's 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 the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. The following critical accounting policies have been identified that affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

The Company 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 the 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 prior years' crop totaling $198 thousand, $568 thousand, and $617 thousand during fiscal 2003, 2002, and 2001, 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.

Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda) ("Agri") in June of 2000. Agri was formed in response to the lack of insurance availability, both in the traditional commercial insurance markets and governmental sponsored insurance programs, suitable to provide coverages for the increasing number and potential severity of agricultural related events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only prefunding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it is successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners. Alico primarily utilized its inventory of land and additional contributed capital to bolster the underwriting capacity of Agri. As Agri has converted certain of the assets contributed by Alico to cash, book and tax differences have arisen resulting from differing viewpoints related to the tax treatment of insurance companies for federal and state tax purposes. Due to the historic nature of the primary assets contributed as capital to Agri and the timing of the sales of certain of those assets by Agri, management has decided to record a contingent liability, providing for potential differences in the tax treatment of sales of Agri's assets. Management's decision has been influenced by perceived changes in the regulatory environment.

Independent Auditor's Report

The Stockholders and
Board of Directors
Alico, Inc.:

We have audited the consolidated balance sheets of Alico, Inc. and subsidiaries as of August 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended August 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alico, Inc. and subsidiaries at August 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP
Orlando, Florida
October 10, 2003

Consolidated balance sheets

(in thousands)

	Years Ended August 31, 2003	2002
Assets		
Current assets:		
Cash, including time deposits and other cash investments of $16,303 in 2003 and $10,028 in 2002	**$ 16,352**	$ 10,140
Marketable securities available for sale, at estimated fair value in 2003 and in 2002 (note 2)	**38,820**	21,417
Accounts receivable ($6,470 in 2003 and $6,457 in 2002 due from affiliate (note 12))	**9,680**	9,461
Mortgages and notes receivable, current portion (note 3)	**2,534**	2,451
Inventories (note 4)	**21,845**	21,672
Income tax refund receivable	**229**	271
Other current assets	**744**	855
Total current assets	**90,204**	66,267
Other assets:		
Land inventories	**16,587**	16,787
Mortgages and notes receivable, net of current portion (note 3)	**234**	2,693
Investments	**886**	908
Total other assets	**17,707**	20,388
Property, buildings and equipment (note 5)	**144,578**	142,355
Less accumulated depreciation	**(39,741)**	(37,100)
Net property, buildings and equipment	**104,837**	105,255
Total assets	**$212,748**	$191,910

	Years Ended August 31, 2003	2002
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 2,110**	$ 1,438
Due to profit sharing plan (note 10)	**350**	285
Accrued ad valorem taxes	**1,519**	1,524
Current portion of notes payable (note 6)	**3,321**	3,318
Accrued expenses	**988**	1,169
Deferred income taxes (note 11)	**1,680**	1,038
Donation payable	**754**	771
Total current liabilities	**10,722**	9,543
Deferred revenue	**91**	113
Notes payable (note 6)	**54,127**	52,658
Deferred income taxes (note 11)	**9,668**	9,728
Deferred retirement benefits (note 10)	**120**	119
Other noncurrent liabilities (note 8)	**9,609**	3,641
Donation payable	**2,229**	2,890
Total liabilities	**86,566**	78,692
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; issued, none	**–**	–
Common stock, $1 par value. Authorized 15,000,000 shares; issued and outstanding 7,116,070 in 2003 and 7,080,344 in 2002	**7,116**	7,080
Additional Paid in Capital	**3,074**	1,716
Accumulated other comprehensive income (loss)	**961**	(432)
Retained earnings	**115,031**	104,854
Total stockholders' equity	**126,182**	113,218
Total liabilities and stockholders' equity	**$212,748**	$191,910

See accompanying notes to consolidated financial statements.

Consolidated statements of operations

(in thousands except per share amounts)

	Years Ended August 31, 2003	2002	2001
Revenue			
Citrus (including revenues from affiliate (Note 12))	**$ 24,107**	$ 25,105	$ 27,570
Sugarcane	**13,373**	11,789	12,450
Ranch	**7,175**	9,102	8,788
Forest products	**292**	355	91
Rock and sand royalties	**2,154**	1,999	1,726
Oil lease and land rentals	**973**	721	770
Retail land sales	**211**	114	138
Operating revenue	**48,285**	49,185	51,533
Costs of sales			
Citrus production, harvesting and marketing (including charges from affiliate (Note 12))	**20,106**	21,421	22,450
Sugarcane production, harvesting and hauling	**10,188**	9,457	9,628
Ranch	**6,790**	8,515	7,394
Retail land sales	**179**	114	140
Total costs of sales	**37,263**	39,507	39,612
Gross profit	**11,022**	9,678	11,921
General and administrative expenses	**6,319**	10,806	5,471
Income (loss) from operations	**4,703**	(1,128)	6,450
Other income (expenses)			
Profit on sales of real estate:			
Sales	**16,779**	12,659	12,840
Cost of sales	**1,785**	1,018	1,486
Profit on sales of real estate, net	**14,994**	11,641	11,354
Interest and investment income	**1,201**	1,471	2,124
Recovery of citrus eradication costs in excess of basis (Note 14)	**–**	–	2,968
Interest expense (Note 6)	**(2,081)**	(2,421)	(3,029)
Other	**267**	230	245
Total other income, net	**14,381**	10,921	13,662
Income before income taxes	**19,084**	9,793	20,112
Provision for income taxes (Note 11)	**6,425**	2,258	4,046
Net Income	**$ 12,659**	$ 7,535	$ 16,066
Weighted-average number of shares outstanding	**7,106**	7,070	7,033
Weighted-average number of dilutive shares outstanding	**7,256**	7,188	7,057
Per share amounts			
Basic	**$1.78**	$1.07	$2.29
Diluted	**$1.74**	$1.05	$2.28
Dividends	**$ .35**	$1.00	$1.00

See accompanying Notes to Consolidated Financial Statements.

Consolidated statements of stockholders' equity and other comprehensive income (loss)

(in thousands)

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances, August 31, 2000	7,028	$ 7,028	$ 18	$ 1,159	$ 95,340	$ 103,545
Comprehensive income:						
Net income for the year ended August 31, 2001	–	–	–	–	16,066	16,066
Unrealized losses on securities, net of taxes of $(174) and reclassification adjustment	–	–	–	(288)	–	(288)
Total comprehensive income:						15,778
Dividends paid	–	–	–	–	(7,028)	(7,028)
Stock options exercised	17	17	227	–	–	244
Stock based compensation	–	–	86	–	–	86
Balances, August 31, 2001	7,045	$ 7,045	$ 331	$ 871	$ 104,378	$ 112,625
Comprehensive income:						
Net income for the year ended August 31, 2002	–	–	–	–	7,535	7,535
Unrealized losses on securities, net of taxes of $(622) and reclassification adjustment	–	–	–	(1,303)	–	(1,303)
Total comprehensive income:						6,232
Dividends paid	–	–	–	–	(7,059)	(7,059)
Stock options exercised	35	35	494	–	–	529
Stock based compensation	–	–	891	–	–	891
Balances, August 31, 2002	**7,080**	**$ 7,080**	**$ 1,716**	**$ (432)**	**$ 104,854**	**$ 113,218**
Comprehensive income:						
Net income for the year ended August 31, 2003	**–**	**–**	**–**	**–**	**12,659**	**12,659**
Unrealized gains on securities, net of taxes of $552 and reclassification adjustment	**–**	**–**	**–**	**1,393**	**–**	**1,393**
Total comprehensive income:						**14,052**
Dividends paid	**–**	**–**	**–**	**–**	**(2,482)**	**(2,482)**
Stock options exercised	**36**	**36**	**519**	**–**	**–**	**555**
Stock based compensation	**–**	**–**	**839**	**–**	**–**	**839**
Balances, August 31, 2003	**7,116**	**$ 7,116**	**$ 3,074**	**$ 961**	**$ 115,031**	**$ 126,182**

Disclosure of reclassification amount:	**2003**	2002	2001
Unrealized holding gains (losses) arising during the period	**$ 2,651**	$ (1,774)	$ (207)
Less: reclassification adjustment for gains (losses) included in net income	**1,258**	(471)	81
Net unrealized gains (losses) on securities	**$ 1,393**	$ (1,303)	$ (288)

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(in thousands)

	Years Ended August 31,		
	2003	2002	2001
Increase (Decrease) in Cash and Cash Investments			
Cash flows from operating activities			
Net Income	**$ 12,659**	$ 7,535	$ 16,066
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**6,723**	6,982	6,946
(Gain) Loss on breeding herd sales	**(16)**	(84)	(77)
Deferred income tax expense, net	**582**	1,263	1,179
Deferred retirement benefits	**1**	(31)	(102)
Net (gain) loss on sale of marketable securities	**(691)**	381	(160)
(Gain) Loss on disposal of property and equipment	**606**	(150)	1,642
Gain on real estate sales	**(15,026)**	(11,758)	(11,586)
Stock options granted below fair market value	**839**	891	86
Cash provided by (used for) changes in:			
Accounts receivable	**(218)**	692	1,847
Inventories	**(173)**	1,059	(1,702)
Other assets	**111**	57	(600)
Accounts payable and accrued expenses	**5,840**	2,944	(112)
Income taxes payable	**42**	(294)	(4,147)
Deferred revenues	**(23)**	48	53
Net cash provided by operating activities	**11,256**	9,535	9,333
Cash flows from investing activities			
Increase in land inventories	**(684)**	(9,785)	(925)
Purchases of property and equipment	**(7,325)**	(9,270)	(8,502)
Proceeds from disposals of property and equipment	**431**	1,257	959
Proceeds from sale of real estate	**15,911**	12,789	2,880
Purchases of other investments	**–**	(126)	(212)
Purchases of marketable securities	**(20,257)**	(8,047)	(3,013)
Proceeds from sales of marketable securities	**4,958**	3,673	2,039
Issuances of mortgages and notes receivable	**–**	(79)	(381)
Collection of mortgages and notes receivable	**2,377**	2,528	2,630
Net cash used for investing activities	**(4,589)**	(7,060)	(4,525)

	Years Ended August 31,		
	2003	2002	2001
Cash flows from financing activities			
Proceeds from exercising stock options	**555**	529	244
Proceeds of bank loans	**33,169**	43,597	43,194
Repayment of bank loans	**(31,697)**	(35,627)	(36,789)
Dividends paid	**(2,482)**	(7,059)	(7,028)
Net cash provided by (used for) financing activities	**(455)**	1,440	(379)
Net increase in cash and cash investments	**6,212**	3,915	4,429
Cash and cash investments			
At beginning of year	**10,140**	6,225	1,796
At end of year	**$ 16,352**	$ 10,140	$ 6,225
Supplemental disclosures of cash flow information			
Cash paid for interest, net of amount capitalized	**$ 1,767**	$ 2,124	$ 3,102
Cash paid for income taxes, including related interest (note 11)	**$ 1,060**	$ 943	$ 3,116
Noncash investing activities			
Fair value adjustments to securities available for sale	**$ 1,945**	$ (1,925)	$ (462)
Income tax effect related to fair value adjustment	**$ 552**	$ (622)	$ (174)
Reclassification of breeding herd to property and equipment	**$ 700**	$ 515	$ 370

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

Years Ended August 31, 2003, 2002 and 2001

Note 1. Summary of Significant Accounting Policies

Basis of Consolidated Financial Statement Presentation. The consolidated financial statements include the accounts of Alico, Inc. (the Company) and its wholly owned subsidiaries, Saddlebag Lake Resorts, Inc. (Saddlebag), Agri-Insurance Company, Ltd. (Agri), and Alico-Agri, Ltd. after elimination of all significant intercompany balances and transactions.

Revenue Recognition. Income from the sale of citrus is recognized at the time the crop is harvested. Based on fruit buyers' and processors' advances to growers, stated cash and futures markets, management reviews the reasonableness of the 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 $198 thousand, $568 thousand, and $617 thousand during fiscal years 2003, 2002 and 2001, respectively.

Income from sugarcane under a pooled agreement is recognized at the time the crop is harvested. Based on the processor's advance payment, management reviews the reasonableness of the sugarcane revenue accrual. Adjustments are made as additional relevant information regarding the sugar market becomes available. Market price increases to the sugar pool have caused the Company to recognize additional revenue from the prior year's crop totaling $356 thousand, $318 thousand and $49 thousand during the fiscal year's 2003, 2002, and 2001, respectively.

The Company recognizes revenue from cattle sales at the time the cattle are sold at auction.

Real Estate. Real estate sales are recorded under the accrual method of accounting. Residential retail land sales made through Saddlebag are not recognized until the buyer's initial investment or cumulative payments of principal and interest equal or exceed 10 percent of the contract sales price. Commercial or bulk land sales, made mostly through Alico-Agri, Ltd. 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. At August 31, 2000, the Company did not recognize gross profit totaling $9,540,000 related to commercial real estate which was sold subject to a mortgage note receivable (note 3). The terms of the sale called for 10% of the contract price of $10,600,000 to be paid at closing. The $1,060,000 less the land basis and closing costs was recognized as a gain on the sale of real estate totaling $287,880 during the year ended August 31, 2000.

During the year ended August 31, 2001, the purchaser made the first of four equal annual installments, required in the mortgage, totaling $2,385,000, plus interest. The deferred profit on the sale was then recognized as 32.5 percent of the contract price was received and the buyer's continuing investment became adequate to demonstrate its commitment to pay for the property.

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

Tangible assets that are purchased during the period to aid in the sale of the project as well as costs for services performed to obtain regulatory approval of the sales are capitalized as land and land improvements to the extent they are estimated to be recoverable from the sale of the property. Land and land improvement costs are allocated to individual parcels on a per lot basis using the relative sales value method.

The Company has entered into an agreement with a real estate consultant to assist in obtaining the necessary regulatory approvals for the development and marketing of a tract of raw land. The marketing costs under this agreement are being expensed as incurred. The costs incurred to obtain the necessary regulatory approvals are capitalized into land costs when paid. These costs will be expensed as cost of sales when the underlying real estate is sold.

Marketable Securities Available for Sale. Marketable securities available for sale are carried at their estimated fair value. Net unrealized investment gains and losses are recorded net of related deferred taxes in accumulated other comprehensive income within stockholders' equity until realized.

Fair value for debt and equity investments is based on quoted market prices at the reporting date for those or similar investments. The cost of all marketable securities available for sale are determined on the specific identification method.

Inventories. The costs of growing crops 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.

Beef cattle inventories are stated at the lower of cost or market. The cost of the beef cattle inventory is based on the accumulated cost of developing such animals for sale.

Unharvested crops are stated at the lower of cost or market. The cost for unharvested crops is based on accumulated production costs incurred during the eight month period from January 1 through August 31.

Property, Buildings and Equipment. Property, buildings and equipment are stated at cost. Properties acquired from the Company's predecessor corporation in exchange for common stock issued in 1960, at the inception of the Company, are stated on the basis of cost to the predecessor corporation. Property acquired as part of a land exchange trust is valued at the carrying value of the property transferred to the trust.

All costs related to the development of citrus groves, through planting, are capitalized. Such costs include land clearing, excavation and construction of ditches, dikes, roads, and reservoirs, etc. After the planting, caretaking costs or pre-productive maintenance costs are capitalized for four years. After four years, a grove is considered to have reached maturity and the accumulated costs, except for land excavation become the depreciable basis of a grove and are written off over 25 years.

Development costs for sugarcane are capitalized the same as citrus. However, sugarcane matures in one year and the Company is able to harvest an average of 3 crops (1 per year) from one planting. As a result, cultivation/caretaking costs are expensed as the crop is harvested, while the appropriate development and planting costs are depreciated over 3 years.

The breeding herd consists of purchased animals and animals raised on the ranch. Purchased animals are stated at cost. The cost of animals raised on the ranch is based on the accumulated cost of developing such animals for productive use.

Depreciation for financial reporting purposes is computed on straight-line or accelerated methods over the estimated useful lives of the various classes of depreciable assets.

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement requires the long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Land Inventories. Land inventories are carried at cost and consists of property located in Lee County, Florida and owned by Alico-Agri, Ltd., and residential lots in Polk County, Florida and owned by Saddlebag. The Lee County property is held for sale as commercial real estate.

Other Investments. Other investments are carried at cost which primarily includes stock owned in agricultural cooperatives. The Company uses cooperatives to process and sell sugarcane and citrus. Cooperatives typically require members to acquire ownership as a term of use of its services.

Income Taxes. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Earnings Per Share. Outstanding stock options issued by the Company represent the only dilutive effect reflected in the computation of weighted average shares outstanding assuming dilution. Options do not impact the numerator of the earnings per share computation.

There were no stock options that could potentially dilute basic earnings per share in the future that were not included in the computation of earnings per share assuming dilution.

Cash Flows. For purposes of the cash flows, cash and cash investments include cash on hand and amounts due from financial institutions with an original maturity of less than three months.

Use of Estimates. In preparing the consolidated financial statements, management is required to make estimates and assumptions that effect the reported amounts of assets and liabilities. Actual results could differ significantly from those estimates. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The valuation of the Company's inventories and the recognition of citrus and sugarcane revenues are two of the more significant estimates made by Management.

Financial Instruments and Accruals. The carrying amounts in the consolidated balance sheets for accounts receivable, mortgage and notes receivable, accounts payable and accrued expenses approximate fair value, because of the immediate or short term maturity of these items. The carrying amounts reported for the Company's long-term debts approximate fair value, because they are arms length transactions with commercial lenders at market interest rates.

Derivative and Hedging Instruments. The Company engages in cattle futures trading activities for the purpose of economically hedging against price fluctuations. The Company records gains and losses related to economic hedges in costs of goods sold. At August 31, 2003 and 2002, the Company had no open positions.

Accumulated Other Comprehensive Income. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes both net income and other comprehensive income. Items included in other comprehensive income are classified based on their nature. The total of other comprehensive income for a period has been transferred to an equity account and displayed as "accumulated other comprehensive income".

Stock-Based Compensation. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) for stock options and other stock-based awards while disclosing pro forma net income and net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards No. 123,"Accounting for Stock-based Compensation" (SFAS 123), and amended by Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure".

Reportable Segments. The Company has three reportable segments: citrus, sugarcane, and ranch. The citrus segment produces fruit for both the fresh fruit and processed juice markets. The sugarcane segment produces sugarcane for processing. The ranch segment raises beef cattle to be sold in the wholesale market.

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different operating strategies.

Reclassifications. Certain amounts from 2002 have been reclassified to conform to the 2003 presentation.

Note 2. Marketable Securities Available for Sale

The Company has classified 100% of its investments in marketable securities as available for sale and, as such, the securities are carried at estimated fair value. Any unrealized gains and losses, net of related deferred taxes, are recorded as a net amount in a separate component of stockholders' equity until realized.

The cost and estimated fair values of marketable securities available for sale at August 31, 2003 and 2002 (in thousands) were as follows:

	2003				2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities:								
Preferred stocks	$ 2,504	$ 85	$ (65)	$ 2,524	$ 3,160	$ 65	$ (79)	$ 3,146
Common stocks	1,893	221	(306)	1,808	1,734	135	(242)	1,627
Mutual funds*	10,181	1,801	-	11,982	9,908	479	(147)	10,240
Total equity securities	14,578	2,107	(371)	16,314	14,802	679	(468)	15,013
Debt securities:								
Municipal bonds	515	28	-	543	559	36	-	595
Mutual funds	8,435	421	(609)	8,247	5,418	232	(882)	4,768
Fixed maturity funds	11,146	-	(31)	11,115	282	15	(1)	296
Corporate bonds	2,762	22	(183)	2,601	882	14	(151)	745
Total debt securities	22,858	471	(823)	22,506	7,141	297	(1,034)	6,404
Marketable securities available for sale	37,436	2,578	(1,194)	38,820	21,943	976	(1,502)	21,417

* Includes shares held by regulated investment companies as well as a limited partnership hedge fund primarily investing in marketable equity securities.

At August 31, 2003, debt instruments (net of mutual funds of $8,435) are collectible as follows: $8,115 within one year, $4,454 between one and five years, $1,335 between five and ten years, and $519 there after.

Note 3. Mortgage and Notes Receivable

Mortgage and notes receivable arose from real estate sales. The balances (in thousands) are as follows:

	August 31,	
	2003	2002
Mortgage notes receivable on retail land sales	**$ 235**	$ 193
Mortgage notes receivable on bulk land sales	**2,420**	4,926
Other notes receivable	**113**	25
Total mortgage and notes receivable	**2,768**	5,144
Less current portion	**2,534**	2,451
Non-current portion	**$ 234**	$ 2,693

In July 2000, the Company received a mortgage note in exchange for land sold. The note totaled $9,540,000 and principal payments of $2,385,000 are due annually on July 14, bearing interest at LIBOR, over four years.

Note 4. Inventories

A summary of the Company's inventories (in thousands) at August 31, 2003 and 2002 is shown below:

	2003	2002
Unharvested fruit crop on trees	**$ 8,135**	$ 8,599
Unharvested sugarcane	**5,159**	5,274
Beef cattle	**7,892**	7,507
Sod	**659**	292
Total inventories	**$ 21,845**	$ 21,672

Note 5. Property, Buildings and Equipment

A summary of the Company's property, buildings and equipment (in thousands) at August 31, 2003 and 2002 is shown below:

	2003	2002	Estimated Useful Lives
Breeding herd	**$ 12,711**	$ 12,618	5-7 years
Buildings	**3,875**	3,945	5-40 years
Citrus trees	**31,109**	28,555	22-40 years
Sugarcane	**8,350**	8,360	4-15 years
Equipment and other facilities	**29,526**	29,996	3-40 years
Total depreciable properties	**85,571**	83,474	
Less accumulated depreciation	**39,741**	37,100	
Net depreciable properties	**45,830**	46,374	
Land and land improvements	**59,007**	58,881	
Net property, buildings and equipment	**$104,837**	$105,255	

The Company's unharvested sugarcane and cattle are partially uninsured.

Note 6. **Indebtedness**

The Company has financial agreements with commercial banks that permit the Company to borrow up to $54 million. The financing agreements allow the Company to borrow up to $41 million which is due in 2005 and up to $3 million which is due on demand. In December 2001, the Company entered into an additional financing agreement to borrow $10 million to be paid in equal principal installments over five years with interest to be paid quarterly. The outstanding debt under these agreements was $43.8 million and $41.0 million at August 31, 2003 and 2002, respectively.

In March 1999, the Company mortgaged 7,680 acres for $19 million in connection with a $22.5 million acquisition of producing citrus and sugarcane operations. The outstanding debt under the mortgage was $13.4 million and $14.7 million as of August 31, 2003 and 2002, respectively.

The total long-term portion of the Company's indebtedness at August 31, 2003 and 2002 was $54.1 million and $52.7 million, respectively.

Maturities of the indebtedness of the Company over the next five years (in thousands) are as follows: 2004- $3,321; 2005- $36,264; 2006-$3,312; 2007- $3,315; 2008- $1,318 and $9,918 thereafter.

Interest cost expensed and capitalized (in thousands) during the three years ended August 31, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Interest expense	**$ 2,081**	$ 2,421	$ 3,029
Interest capitalized	**267**	322	175
Total interest cost	**$ 2,348**	$ 2,743	$ 3,204

Note 7. **Commitments and Contingencies**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operation or liquidity.

Note 8. **Other non-current liability**

Alico formed a wholly owned insurance subsidiary, Agri Insurance Company, Ltd. (Bermuda) ("Agri") in June of 2000. Agri was formed in response to the lack of insurance availability, both in the traditional commercial insurance markets and governmental sponsored insurance programs, suitable to provide coverages for the increasing number and potential severity of agricultural related events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only prefunding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it is successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners. Alico primarily utilized its inventory of land and additional contributed capital to bolster the underwriting capacity of Agri. As Agri has converted certain of the assets contributed by Alico to cash, book and tax differences have arisen resulting from differing viewpoints related to the tax treatment of insurance companies for federal and state tax purposes. Due to the historic nature of the primary assets contributed as capital to Agri and the timing of the sales of certain of those assets by Agri, management has decided to record a contingent liability, providing for potential differences in the tax treatment of sales of Agri's assets operation. Management's decision has been influenced by perceived changes in the regulatory environment.

Note 9. **Stock Option Plan**

On November 3, 1998, the Company adopted the Alico, Inc., Incentive Equity Plan ("The Plan") pursuant to which the Board of Directors of the Company may grant options, stock appreciation rights, and/or restricted stock to certain directors and employees. The Plan authorizes grants of shares or options to purchase up to 650,000 shares of authorized but unissued common stock. Stock options have vesting schedules which are at the discretion of the Board of Directors and determined on the effective date of the grant.

	Shares under option	Weighted average exercise price	Weighted average remaining contractual life (in years)
Balance outstanding, August 31, 2001	84,080	14.62	7
Granted	69,598	15.68	
Exercised	35,831	14.76	
Balance outstanding, August 31, 2002	117,847	15.20	7
Granted	67,280	15.68	
Exercised	35,726	15.53	
Balance outstanding, August 31, 2003	**149,401**	**$15.34**	**9**

On August 31, 2003 and 2002, there were 412,356 and 479,636 shares available for grant, respectively.

The fair value of stock options granted was $845 thousand in 2003 and $819 thousand in 2002 on the date of the grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2003	2002
Volatility	**8.39%**	8.39%
Dividend paid	**2.23%**	6.38%
Risk-free interest rate	**4.75%**	4.75%
Expected life in years	**1**	1

All stock options granted, except as noted in the paragraph below, have been granted to directors or employees with an exercise price equal to the fair value of the common stock at the date of the grant and a vesting period of one year. The Company applies APB Opinion No. 25 for issuances to directors and employees in accounting for its Plan. No compensation cost was recognized in the consolidated financial statements through August 31, 2001, as options were issued at or above fair value. On September 9, 1999, the Company granted 14,992 stock options with an exercise price of $14.62 and a fair value of $15.813. The Company recorded $18 thousand of unearned compensation at the date of the grant. On September 12, 2000, the Company granted an additional 51,074 stock options with an exercise price of $14.62 and a fair value of $16.313. The Company recorded $86 thousand of unearned compensation at the date of the grant.

On September 11, 2001, the Company granted an additional 69,598 stock options with an exercise price of $15.68 and a fair value of $28.48. The Company recorded $891 thousand of unearned compensation at the date of the grant. On September 10, 2002, the Company granted an additional 67,280 stock options with an exercise price of $15.68 and a fair value of $28.15. The Company recorded $839 thousand of unearned compensation at the date of the grant.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have changed to the pro forma amounts indicated below (in thousands):

	2003	2002
Net income as reported	$ 12,659	$ 7,535
Pro forma net income	$ 12,653	$ 7,607
Basic earning per share, as reported	$1.78	$1.07
Pro forma basic earning per share	$1.78	$1.08

Note 10. Employee Benefit Plans

The Company has a profit sharing plan covering substantially all employees. The plan was established under Internal Revenue Code section 401(k). Contributions made to the profit sharing plan (in thousands) were $350, $285 and $444 for the years ended August 31, 2003, 2002, and 2001, respectively.

Additionally, the Company has a nonqualified defined benefit retirement plan covering the officers and other key management personnel of the Company. Details concerning this plan are as follows:

	August 31, 2003	August 31, 2002
Change in benefit obligation		
Beginning benefit obligation	$ 3,785	$ 2,446
Service cost	626	714
Interest cost	234	185
Benefits paid	(132)	(79)
Actuarial losses	–	517
Other	2	2
Ending benefit obligation	4,515	3,785
Changes in plan assets		
Beginning plan assets	3,666	2,299
Return on plan assets	109	834
Employer contributions	39	545
Plan participant contributions	115	67
Benefits paid	(132)	(79)
Ending plan assets	3,797	3,666
Net pension liability	718	119
Less: currently payable	(598)	-
Long term portion	120	119
Components of net pension cost		
Service cost, net of participant contributions	511	301
Interest cost	234	185
Expected return on plan assets	–	-
Prior service cost amortization	2	2
Net pension cost for defined benefit plan	747	488

The net benefit obligation was computed using a discount rate of 6.25%.

Note 11. Income Taxes

The provision for income taxes (in thousands) for the years ended August 31, 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
Current:			
Federal income tax	$ 5,872	$ 3,713	$ 2,428
State income tax	628	396	439
	6,500	4,109	2,867
Deferred:			
Federal income tax	(68)	(1,673)	1,058
State income tax	(7)	(178)	121
	(75)	(1,851)	1,179
Total provision for income taxes	$ 6,425	$ 2,258	$ 4,046

Following is a reconciliation of the expected income tax expense computed at the U.S. Federal statutory rate of 34% and the actual income tax provision (in thousands) for the years ended August 31, 2003, 2002 and 2001:

	2003	2002	2001
Expected income tax	$ 6,489	$ 3,330	$ 6,838
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	410	144	328
Nontaxable interest and dividends	(97)	(102)	(113)
Internal Revenue Service examinations	14	11	479
Income from Agri-Insurance Company, Ltd.	(752)	(1,156)	(3,829)
Other reconciling items, net	361	31	343
Total provision for income taxes	$ 6,425	$ 2,258	$ 4,046

Some items of revenue and expense included in the statement of operations may not be currently taxable or deductible on the income tax returns. Therefore, income tax assets and liabilities are divided into a current portion, which is the amount attributable to the current year's tax return, and a deferred portion, which is the amount attributable to another year's tax return. The revenue and expense items not currently taxable or deductible are called temporary differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	2003	2002
Deferred Tax Assets:		
Contribution carry forward	$ (1,632)	$ (1,698)
Pension	(183)	(168)
Prepaid sales commissions	(802)	(789)
Land inventories	(488)	(480)
Deferred retirement benefits	(749)	(502)
Other	(1,256)	(1,380)
Total gross deferred tax assets	(5,110)	(5,017)

	2003	2002
Deferred Tax Liabilities:		
Revenue recognized from citrus and sugarcane	**607**	458
Property and equipment (principally due to depreciation and soil and water deductions)	**12,981**	12,645
Mortgage notes receivable	**11**	10
Inventories	**1,205**	886
Deferred real estate gains	**1,625**	1,600
Other	**29**	184
Total gross deferred tax liabilities	**16,458**	15,783
Net deferred income tax liabilities	**$11,348**	$10,766

Based on the Company's history of taxable earnings and its expectations for the future, management has determined that its taxable income will more likely than not be sufficient to fully recognize all deferred tax assets.

Agri Insurance Company, Ltd. (Agri), a wholly owned insurance company subsidiary of Alico, is treated as a U.S. taxpayer, pursuant to an election under Internal Revenue Code Section 953 (d), for all purposes except for consolidating an operating loss by virtue of the dual consolidated loss rules. (Dual consolidated losses prevent operating losses (not capital losses) from occurring in insurance companies domiciled outside of the United States from offsetting operating income irrespective of the fact that the insurance company is a member of the consolidated return group.)

Agri was established to provide agricultural insurance that falls outside of the Federal Crop Insurance Program, for catastrophic perils. Agri was domiciled in Bermuda because it offers easy access to reinsurance markets.

Agri issued its initial policy in August 2000 to a third party. Agri's ability to underwrite insurance risks has been limited to its operational liquidity, by the Registrar of Companies in Bermuda. Agri will be able to underwrite additional insurance as its liquidity is increased from additional asset sales and as payments are received on prior sales. For Federal income tax purposes, only premiums received by Agri from policies of insurance issued to parties other than its parent, Alico, are considered insurance premiums. The preceding limiting factors resulted in Agri not incurring a tax liability on underwriting profits or investment income. Agri's tax status resulted in it filing its Federal tax return on a stand alone basis for the calendar year periods ending December 31, 2002, 2001 and 2000.

The Internal Revenue Service has notified the Company of its intent to examine the Company tax returns for the years ended August 31, 2001 and 2002. Any adjustments resulting from the examination will be currently due and payable. No adjustments have been proposed to date.

Note 12. Related Party Transactions

Citrus. Citrus revenues of $17.7 million, $19.1 million and $19.9 million were recognized for a portion of citrus crops sold under a marketing agreement with Ben Hill Griffin, Inc. (Griffin) for the years ended August 31, 2003, 2002 and 2001, respectively. Griffin and its subsidiaries is the owner of approximately 49.85 percent of the Company's common stock. Accounts receivable, resulting from citrus sales, include amounts due from Griffin totaling $6.5 million at both August 31, 2003 and 2002. These amounts represent estimated revenues to be received periodically under pooling agreements as sale of pooled products is completed.

Harvesting, marketing, and processing costs, related to the citrus sales noted above, totaled $6.6 million, $7.1 million, and $7.6 million for the years ended August 31, 2003, 2002 and 2001, respectively. In addition, Griffin provided the harvesting services for citrus sold to unrelated processors. The aggregate cost of these services was $2.1 million, $2.0 million and $2.2 million for the years ended August 31, 2003, 2002 and 2001, respectively. The accompanying consolidated balance sheets include accounts payable to Griffin for citrus production, harvesting and processing costs in the amount of $435 thousand and $594 thousand at August 31, 2003 and 2002, respectively.

Other Transactions. The Company purchased fertilizer and other miscellaneous supplies, services, and operating equipment from Griffin, on a competitive bid basis, for use in its cattle, sugarcane, sod and citrus operations. Such purchases totaled $6.4 million, $6.2 million and $6.0 million during the years ended August 31, 2003, 2002 and 2001, respectively.

Griffin purchased catastrophic business interruption coverage from Agri during fiscal 2003, 2002 and 2001. The total coverage under the policy was $3.5 million, $3.2 million and $3.2 million for the fiscal years 2003, 2002 and 2001, respectively. The policy renews annually in December for a one year term. The premiums charged under this policy were $138 thousand, $110 thousand and $104 thousand for 2003, 2002 and 2001, respectively.

Note 13. Future Application of Accounting Standards

In May 2003 the FASB issued SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this Statement is not expected to have a significant impact on the financial position or results of operations of the Company.

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities." Interpretation No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of interpretation No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which an enterprise obtains an interest after that date, and for variable interest entities created before that date, the provisions are effective July 1, 2003. The adoption of Interpretation No. 46 is not expected to have a material effect on the financial condition, results of operations, or liquidity of the Company.

Note 14. Recovery of Citrus Canker Eradication Costs in Excess of Basis

The Company incurred losses during the year ended August 31, 2001 related to citrus canker eradication. The eradication program called for the removal of 507 acres of citrus trees from a grove in Hendry County, Florida. While the trees were insured under the Federal Crop Insurance Program, additional relief funding was available and secured by the Company from both Federal and State government sources. A summary of the recovery sources, related basis of the trees removed and the crop inventory losses are summarized (in thousands) as follows:

	2003	2002	2001
Recovery Sources			
Federal	**$ –**	$ –	$ 2,830
State	**–**	–	157
Insurance	**–**	–	219
Total Recovery	**–**	–	3,206
Loss Basis			
Net Book Value of Trees	**–**	–	238
Fruit Inventory	**–**	–	–
Total Basis	**–**	–	238
Excess of Recovery over Basis	**$ –**	$ –	$ 2,968

Note 15. Reportable Segment Information

The Company is primarily engaged in agricultural operations, which are subject to risk, including market prices, weather conditions and environmental concerns. The Company is also engaged in retail land sales and, from time to time, sells real estate considered surplus to its operating needs. Information about the Company's reportable segments (in thousands) for the years ended August 31, 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
Revenues			
Agriculture:			
Citrus	**$ 24,107**	$ 25,105	$ 27,570
Sugarcane	**13,373**	11,789	12,450
Ranch	**7,175**	9,102	8,788
Total revenues from external customers for reportable segments	**44,655**	45,996	48,808
Other revenues from external customers	**3,630**	3,189	2,725
Total consolidated operating revenues	**$ 48,285**	$ 49,185	$ 51,533
Costs of sales			
Citrus	**$ 20,106**	$ 21,421	$ 22,450
Sugarcane	**10,188**	9,457	9,628
Ranch	**6,790**	8,515	7,394
Total costs of sales for reportable segments	**37,084**	39,393	39,472
Other costs of sales	**179**	114	140
Total consolidated costs of sales	**$ 37,263**	$ 39,507	$ 39,612

	2003	2002	2001
Gross profit			
Agriculture:			
Citrus	$ 4,001	$ 3,684	$ 5,120
Sugarcane	3,185	2,332	2,822
Ranch	385	587	1,394
Total profit for reportable segments	7,571	6,603	9,336
Other gross profit	3,451	3,075	2,585
Consolidated gross profit	11,022	9,678	11,921
Unallocated amounts:			
Profit on sale of bulk real estate	14,994	11,641	11,354
Other corporate expense	(6,932)	(11,526)	(3,163)
Income before income taxes	$ 19,084	$ 9,793	$ 20,112
Capital expenditures			
Agriculture:			
Citrus	$ 3,216	$ 4,704	$ 3,310
Sugarcane	1,451	1,293	2,632
Ranch	2,245	3,240	2,157
Total agriculture capital expenditures for reportable segments	6,912	9,237	8,099
Other capital expenditures	1,113	548	773
Cattle transferred from inventory held for sale into breeding stock	(700)	(515)	(370)
Total consolidated capital expenditures	$ 7,325	$ 9,270	$ 8,502
Depreciation and amortization			
Agriculture:			
Citrus	$ 2,354	$ 2,394	$ 2,405
Sugarcane	2,414	2,527	2,587
Ranch	1,474	1,573	1,456
Total depreciation and amortization for reportable segments	6,242	6,494	6,448
Other depreciation and amortization	481	488	498
Total consolidated depreciation and amortization	$ 6,723	$ 6,982	$ 6,946
Assets			
Agriculture:			
Citrus	$ 54,549	$ 53,876	$ 53,266
Sugarcane	52,283	52,015	51,678
Ranch	22,430	21,920	22,205
Total assets for reportable segments	129,262	127,811	127,149
Other assets	83,486	64,099	51,985
Total consolidated assets	$ 212,748	$ 191,910	$ 179,134

Identifiable assets represent assets on hand at year-end which are allocable to a particular segment either by their direct use or by allocation when used jointly by two or more segments. Other assets consist principally of cash, temporary investments, mortgage notes receivable, bulk land inventories, and property and equipment used in general corporate business.