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ALICO, INC.

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ANNUAL MEETING

Friday, February 11, 2005, 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

John R. Alexander

Chairman of the Board
Alico, Inc.
President, Chief Executive Officer and Director
Atlantic Blue Trust, Inc.
Lake Wales, Florida
Member
Executive Committee

Richard C. Ackert

Former President and CEO
(retired December 2004)
SouthTrust Bank, N.A.
Fort Myers, Florida
Member
Audit, Compensation, Investment
and Nominating Committees

J.D. Alexander

Senator
District 17, Florida Senate
Director
Atlantic Blue Trust, Inc.
Partner
Scenic Highland Groves
Lake Wales, Florida
Member
Executive and Investment Committees

William L. Barton, P.E.

President
Mitigation Land Partners Inc.
Naples, Florida
Member
Audit, Compensation, Investment
and Nominating Committees

Larry Carter, CPA

Former President and Chief Operating Officer
Conagra Foods - Food Ingredients Group
Omaha, Nebraska
Member
Audit, Compensation, Investment
and Nominating Committees

W. Bernard Lester

President and Chief Executive Officer
Alico, Inc.
LaBelle, Florida
Member
Executive Committee

Stephen M. Mulready

Former President and Chief Executive Officer
USA Operations of Royal and Sunalliance
Farmington, Connecticut
Member
Audit, Compensation, Investment
and Nominating Committees

Thomas E. Oakley

Vice-chairman of the Board
Alico, Inc.
President
Oakley Transport Inc.
Lake Wales, Florida
Member
Executive, Audit, Compensation,
Investment and Nominating Committees

Baxter G. Troutman

Representative
District 66, Florida House of Representatives
Director
Atlantic Blue Trust, Inc.
CEO
Florida Labor Solutions, Inc.
Frostproof, Florida
Member
Executive Committee

Officers

W. Bernard Lester, President and Chief Executive Officer
L. Craig Simmons, Vice President and Chief Financial Officer
Steven M. Smith, Vice President, Citrus Division
B. Wade Grigsby, Vice President, Ranch Division
Robert P. Miley, Vice President, Heavy Equipment Division
Denise Plair, Corporate Secretary

Letter to Shareholders

January 21, 2005

To Our Stockholders:

On February 26, 2004, beneficial ownership of the shares of Alico, Inc. previously controlled by Ben Hill Griffin, III as Trustee of the Ben Hill Griffin Jr. Irrevocable Trust, transferred to Atlantic Blue Trust, Inc., a corporation owned by his sisters and their lineal descendants. Upon the transfer of the beneficial ownership of these shares, Ben Hill Griffin III, resigned as Chairman of the Board, Chief Executive Officer and as a director, and Walker E. Blount, Jr., Monterey Campbell III, Amy Gravina and K.E. Hartsaw resigned as directors and were replaced by five new directors.

The five new directors are John R. Alexander, president and CEO and a director of Atlantic Blue Trust, Inc.; Senator J.D. Alexander, District 17, Florida Senate, director of Atlantic Blue Trust, Inc. and partner, Scenic Highland Groves, Lake Wales, Florida; Larry Carter, CPA, and former president and COO of Conagra Foods - Food Ingredients Group, Omaha, Nebraska; Stephen M. Mulready, former president and CEO, USA Operations of Royal and Sunalliance, Farmington Connecticut; and Representative Baxter G. Troutman, District 66, Florida House of Representatives, director of Atlantic Blue Trust, Inc. and CEO of Florida Labor Solutions, Inc., Frostproof, Florida.

Our corporate philosophy encompasses a love of land and an understanding and commitment to Florida agriculture while managing Alico's operations and real estate to maximize their value for the long term. We are working with the Alico staff to enhance shareholder value and commit to working diligently for the benefit of all of the shareholders. We plan to continue the company's involvement in the Central and Southwest Florida regions and its close association with Florida Gulf Coast University.

Net income for the year ended August 31, 2004 was \$17.8 million or \$2.47 per share, compared to \$12.7 million or \$1.78 per share last year.

Income from operations was higher in fiscal 2004 than fiscal 2003 (\$6.7 million in fiscal 2004 vs. \$4.7 million in fiscal 2003). The increase in income was primarily due to increased royalty income from rock and sand products mined from the Company's Lee County property. Mining activity has increased due to continued development around Southwest Florida.

With the enhanced effort of our associates, together with the support of our suppliers, customers and stockholders, we are confident that Alico will grow and produce even better results in the future. We appreciate your continuing support.

Sincerely,



John R. Alexander
Chairman of the Board

Selected financial data

	Years Ended August 31				
	(in thousands except per share amounts)				
	2004	2003	2002	2001	2000
Operating revenue	\$ 52,057	\$ 48,285	\$ 49,185	\$ 51,533	\$ 45,207
Operating expenses	45,390	43,582	50,313	45,083	38,258
Income (loss) from continuing operations	6,667	4,703	(1,128)	6,450	6,949
Income (loss) from continuing operations per weighted average common share	0.92	0.66	(0.16)	0.92	0.99
Total Revenue	87,779	66,532	63,545	69,710	62,540
Total Costs and Expenses	59,979	47,448	53,752	49,598	41,965
Income Taxes	9,987	6,425	2,258	4,046	6,464
Net Income	17,813	12,659	7,535	16,066	14,111
Average Number of Shares Outstanding	7,219	7,106	7,070	7,033	7,028
Net Income Per Share	2.47	1.78	1.07	2.29	2.01
Cash Dividend Declared Per Share	0.60	0.35	1.00	1.00	0.30
Current Assets	125,925	90,204	66,267	61,345	56,578
Total Assets	238,242	216,545	191,910	179,134	176,876
Current Liabilities	10,136	10,124	9,543	7,691	12,346
Ratio-Current Assets to Current Liabilities	12.42:1	8.91:1	6.94:1	7.98:1	4.58:1
Working Capital	115,789	80,080	56,724	53,654	44,232
Long-Term Obligations	82,908	80,239	69,149	58,818	60,985
Total Liabilities	93,044	90,363	78,692	66,509	73,331
Stockholders' Equity	145,198	126,182	113,218	112,625	103,545

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 prices, by fiscal quarter, during the years ended August 31, 2004 and 2003 are below:

	2004		2003	
	High	Low	High	Low
First Quarter	35.99	26.18	28.80	22.25
Second Quarter	39.75	32.79	28.04	21.15
Third Quarter	38.99	30.50	27.30	21.00
Fourth Quarter	46.20	34.02	28.70	22.72

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 11, 2002	October 25, 2002	\$.35
October 17, 2003	October 31, 2003	\$.60

The Company's Board of Directors, at its meeting on October 8, 2004, voted to defer its annual dividend until a special committee of the board which has been formed has completed its consideration of any restructuring proposal from Atlantic Blue Trust, Inc., a Florida corporation which in February of 2004 acquired ownership of 3,493,777 shares (the "Shares") of the Company's common stock from Ben Hill Griffin III, as Trustee of the Ben Hill Griffin, Jr. Irrevocable Trust. 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.

Business

Alico, Inc. is an agribusiness company, primarily engaged in the production of citrus, cattle, sugarcane, sod and forest products. Agricultural operations have combined to produce from 90 to 95 percent of annual operating revenues during the past 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 3 to 7 percent of annual operating revenues during the last five years. The Company also engages in land rentals for farming, cattle grazing, recreation, oil exploration and miscellaneous uses. Gross revenue from these activities during the past five years has ranged from 5 to 9 percent of annual operating revenue.

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.

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. During fiscal 2004, Agri began providing coverage for Tri County, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock. 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.

Properties

From the inception of the Company's initial development program in 1948, the goal has been to develop its 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 sales of such surplus real property are made from time to time.

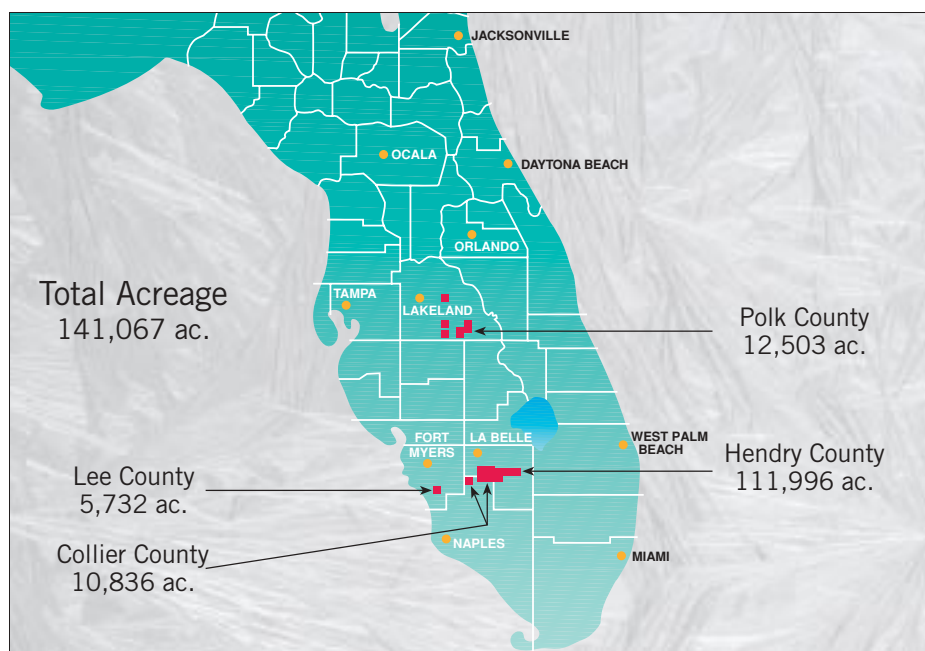
Management believes that each of the major operating segments are adequately supported by agricultural equipment, buildings, fences, irrigation systems and other amenities required for the operation of the projects.

At August 31, 2004, the Company owned a total of 141,067 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:

Alico, Inc. & Subsidiaries Land Use Summary

	Lee	Hendry	Polk	Collier	Total
Citrus					
Producing acres	–	3,765	3,253	4,129	11,147
Support and nonproductive*	–	1,890	650	3,197	5,737
Total Citrus	–	5,655	3,903	7,326	16,884
Sugarcane					
Producing acres	–	13,083	–	–	13,083
Support and nonproductive*	–	10,796	–	–	10,796
Total Sugarcane	–	23,879	–	–	23,879
Ranch					
Improved pasture	–	22,627	295	–	22,922
Semi-improved pasture	–	20,038	602	1,112	21,752
Native pasture	–	11,846	5,949	1,718	19,513
Support and nonproductive*	–	23,302	1,540	680	25,522
Total Ranch	–	77,813	8,386	3,510	89,709
Farming					
Leased acres	130	2,802	–	–	2,932
Support and nonproductive*	21	1,008	–	–	1,029
Total farming	151	3,810	–	–	3,961
Sod					
Producing acres	–	500	–	–	500
Support and nonproductive*	–	335	–	–	335
Total sod	–	835	–	–	835
Rock and Sand Mining					
	5,573	–	–	–	5,573
Commercial & Residential					
	8	4	214	–	226
Totals	5,732	111,996	12,503	10,836	141,067

* Includes buildings, roads, water management systems and wetlands.



Selected quarterly financial data

(Unaudited)

Summarized quarterly financial data (in thousands except for per share amounts) for the years ended August 31, 2004 and August 31, 2003, is as follows:

	Quarters Ended							
	November 30		Feb. 29	Feb. 28	May 31		August 31	
	2003	2002	2004	2003	2004	2003	2004	2003
Revenue								
Citrus	\$ 1,354	\$ 1,621	\$ 8,539	\$ 9,774	\$ 9,686	\$ 9,247	\$ 4,970	\$ 3,465
Sugarcane	2,591	2,748	5,615	5,212	3,459	4,977	733	436
Ranch	3,344	2,118	1,080	1,146	4,650	3,086	604	825
Property sales	14	535	32,175	134	1,002	178	290	16,143
Interest	450	276	804	245	748	229	517	451
Other revenue	1,215	957	1,470	942	1,290	703	1,179	1,084
Total revenue	8,968	8,255	49,683	17,453	20,835	18,420	8,293	22,404
Costs and expenses								
Citrus	2,254	1,580	8,033	9,405	8,081	7,385	2,447	1,736
Sugarcane	2,107	2,224	4,436	4,062	2,932	3,476	198	426
Ranch	2,620	2,214	991	1,025	4,045	2,658	522	893
Interest	488	541	491	483	406	518	440	539
Other	1,425	1,347	15,321	1,398	1,392	1,436	1,350	4,102
Total costs and expenses	8,894	7,906	29,272	16,373	16,856	15,473	4,957	7,696
Income before income taxes	74	349	20,411	1,080	3,979	2,947	3,336	14,708
Provision for income taxes	25	91	7,667	290	1,639	882	656	5,162
Net income	\$ 49	\$ 258	\$ 12,744	\$ 790	\$ 2,340	\$ 2,065	\$ 2,680	\$ 9,546
Basic earnings per share	\$.01	\$.04	\$ 1.77	\$.11	\$.32	\$.29	\$.37	\$ 1.34
Weighted-average shares outstanding	7,140	7,097	7,180	7,108	7,263	7,110	7,288	7,111

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

Cautionary Statement

Some of the statements in this document include statements about future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. These forward-looking statements, which include references to one or more potential transactions, and strategic alternatives under consideration, are predictive in nature or depend upon or refer to future events or conditions and are subject to known as well as unknown risks and uncertainties that may cause actual results to differ materially from our expectations. There can be no assurance that any future transactions will occur or be structured in the manner suggested or that any such transaction will be completed. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend", "expect" 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 \$79.9 million at August 31, 2004, compared with \$55.2 million at August 31, 2003. Working capital was \$115.8 million and \$80.1 million at August 31, 2004 and August 31, 2003 respectively.

Cash outlay for land, equipment, buildings, and other improvements totaled \$7.3 million during fiscal 2004, compared to \$7.3 million during fiscal 2003 and \$9.3 million during fiscal 2002, respectively. Land preparation for citrus re-development and capital maintenance continued, as did expenditures for replacement equipment and raising of breeding cattle.

The Company, through Agri, supplies catastrophic business interruption coverage for Tri-County Grove, LLC a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock. Total coverage under the policy is \$2.7 million. This represents the only underwriting exposure at August 31, 2004. In August and September 2004, a series of three hurricanes struck southwest Florida. The current estimate of the State's crop loss is approximately 27%. Due to the extensive damages incurred throughout the state, a final assessment of damages has not yet been completed. The Company does expect a claim to be filed; however, the amount of the claim is not yet determinable. Total potential exposure under the policy for this claim is \$900 thousand.

Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds. The sale of a Lee County parcel is expected to close by August 2005. If the contract should close as written, it would provide approximately \$13.8 million cash due at closing. The contracts were filed as attachments to the Company's quarterly report on Form 10-Q/A for the nine months ended May 31, 2004. Also in connection with real estate transactions, the Company received a \$10.0 million mortgage note in December 2003. The note matured in December 2004 and was paid in full.

Management also expects continued profitability from the Company's agricultural operations in fiscal 2005. Total earnings from agricultural operations in fiscal 2005 should approximate fiscal 2004. The outlook is for gross profits from citrus operations to potentially increase in fiscal 2005 when compared to fiscal 2004. Florida's citrus production is expected to decline as a result of crop damages sustained during a series of hurricanes that hit Florida in August and September of 2004. The reduction in the supply of citrus is expected to result in improved market prices. The damage to the Company's groves was limited to approximately \$400 thousand. Provided there are no other catastrophic or unfavorable weather events, citrus earnings could improve.

Management expects gross profits from sugarcane operations to decline in fiscal 2005, due to government imposed quotas that will limit the amount of raw cane the Company can deliver to processors. Gross profits from the Company's cattle operations in fiscal 2005 are expected to remain similar to the fiscal 2004 results.

Management expects royalties from rock and sand products to approximate or exceed fiscal 2004 levels in 2005, due to continued increases in production caused by development in Southwest Florida. However, mining royalties will cease upon the final disposition of the Lee County land. The final sale is expected to close within the next two fiscal years.

In August 2004 Atlantic Blue Trust, Inc., the Company's largest stockholder, requested that the Company consider a restructuring of the Company. While Atlantic Blue Trust did not propose the specific terms of a transaction, Atlantic Blue Trust discussed with the Company's Board of Directors the advisability of combining Atlantic Blue Trust's cattle ranch, citrus operations and other acreage with Alico's business in an effort to both lower costs and improve joint operations with Alico remaining a public company. To facilitate such a possible restructuring, Atlantic Blue Trust urged consideration of (a) paying a special cash dividend to all Alico stockholders; and (b) merging Atlantic Blue Trust with Alico or one of its subsidiaries with shareholders of Atlantic Blue Trust receiving shares of Alico common stock in the merger. The Company has established a special committee comprised of all of the independent directors to analyze the possible restructuring. The special committee has retained outside financial and legal advisors to assist with this analysis. Alico directors affiliated with Atlantic Blue Trust or employed by Alico have not participated and will not participate in the evaluation of a possible restructuring. As of this date no formal proposal has been made by Atlantic Blue Trust.

The Company has credit commitments that provide for revolving credit of up to \$54.0 million, of which \$10.8 million was available for the Company's general use at August 31, 2004 (see Note 6 of Notes to consolidated financial statements).

Results of Operations

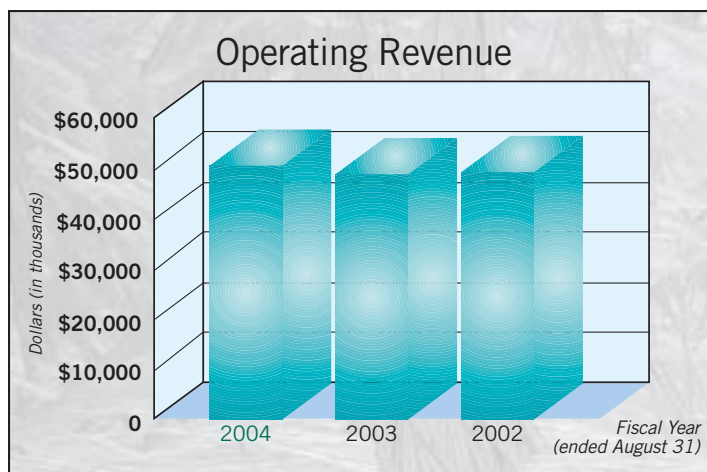
Summary of results (in thousands)

	Years Ended August 31		
	2004	2003	2002
Operating revenue	\$52,057	\$48,285	\$49,185
Gross profit	13,138	11,022	9,678
General & administrative expenses	6,471	6,319	10,806
Income (loss) from operations	6,667	4,703	(1,128)
Profit on sale of real estate	20,311	14,994	11,641
Interest and investment income	2,519	1,201	1,471
Interest expense	1,825	2,081	2,421
Other income	128	267	230
Provision for income taxes	9,987	6,425	2,258
Effective income tax rate	35.9%	33.7%	23.1%
Net income	\$17,813	\$12,659	\$7,535

Operating Revenue

Operating revenues for fiscal 2004 increased compared to fiscal 2003. Increases in revenues from rock and sand royalties and from agricultural activities were the most significant factors in the increase.

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.



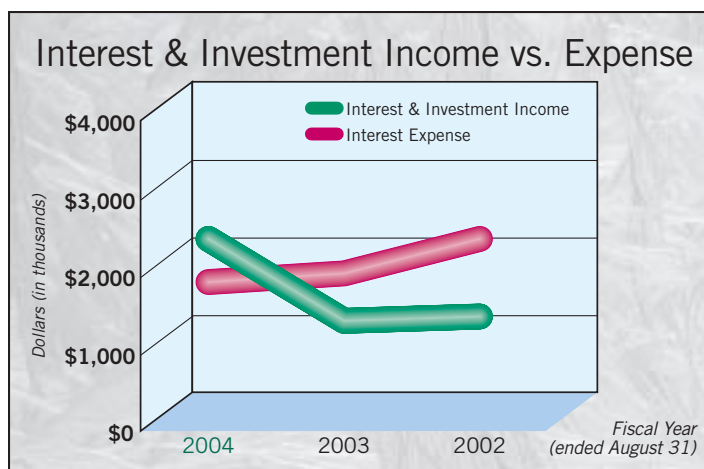
Income (loss) from Operations

Income from operations was higher in fiscal 2004 than fiscal 2003 (\$6,667 in fiscal 2004 vs. \$4,703 in fiscal 2003). The increase in income was primarily due to increased royalty income from rock and sand products mined from the Company's Lee County property. Mining activity has increased due to continued development around southwest Florida.

Income (loss) 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 income from operations 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. The entire donation was accrued and included in general and administrative expenses during fiscal 2002. The remaining increase in income from operations in fiscal 2003 compared to fiscal 2002 was due to an increase in earnings from agricultural activities.

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 2004, 2003 and 2002, increasing investment levels during each year.



Interest and investment income increased in fiscal 2004 when compared to fiscal 2003 (\$2.5 million vs. \$1.2 million in fiscal 2004 and 2003, respectively). The increase was caused by an increase in investment level in fiscal 2004 when compared to fiscal 2003 (\$55.6 million at August 31, 2004 vs. \$38.8 million at August 31, 2003), coupled with improved conditions in the financial markets. The investment levels increased due to the reinvestment of realized investment earnings, together with additional invested capital provided by proceeds from the sale of bulk excess real estate in December of 2003.

The decrease in fiscal 2003 and 2002 interest and investment income resulted from unfavorable conditions in the financial markets.

Interest Expense

Interest expense declined during fiscal 2004 when compared to fiscal 2003. The Company was able to pay down principal on higher interest notes using its existing revolving credit facility, effectively lowering its overall interest rate.

Interest expense decreased during fiscal 2003, compared to fiscal 2002. This was due to a decline in interest rates on borrowings.

Individual Operating Divisions

Gross profits for the individual operating divisions, for fiscal 2004, 2003 and 2002, are presented in the following schedule and are discussed in subsequent sections:

	Years Ended August 31		
	2004	2003	2002
Citrus			
Revenues			
Sales	\$ 24,549	\$ 24,107	\$ 25,105
Cost & expenses			
Harvesting & marketing	9,533	8,910	9,364
Direct production**	7,677	7,671	8,594
Allocated cost*	3,605	3,525	3,463
Total	20,815	20,106	21,421
Gross profit, citrus	3,734	4,001	3,684

	Years Ended August 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sugarcane			
Revenues			
Sales	12,398	13,373	11,789
Costs and expenses			
Harvesting and marketing	2,353	2,915	2,239
Direct production	4,164	3,844	3,965
Allocated cost*	3,156	3,429	3,253
Total	<u>9,673</u>	<u>10,188</u>	<u>9,457</u>
Gross profit, sugarcane	<u>2,725</u>	<u>3,185</u>	<u>2,332</u>
Ranch			
Revenues			
Sales	9,678	7,175	9,102
Costs and expenses			
Direct production	5,750	4,937	6,087
Allocated cost*	2,428	1,853	2,428
Total	<u>8,178</u>	<u>6,790</u>	<u>8,515</u>
Gross profit, ranch	<u>1,500</u>	<u>385</u>	<u>587</u>
Total gross profit, agriculture	<u>7,959</u>	<u>7,571</u>	<u>6,603</u>
Other operations			
Revenue			
Rock products and sand	3,448	2,154	1,999
Land rentals and oil lease	1,171	973	721
Forest products	407	292	355
Other	128	267	230
Total	<u>5,154</u>	<u>3,686</u>	<u>3,305</u>
Costs and expenses			
Allocated cost*	1,174	882	735
General & administrative, all operations	5,297	5,437	10,071
Total	<u>6,471</u>	<u>6,319</u>	<u>10,806</u>
Gross (loss) income, other operations	<u>(1,317)</u>	<u>(2,633)</u>	<u>(7,501)</u>
Total gross profit (loss)	<u>6,642</u>	<u>4,938</u>	<u>(898)</u>
Interest & dividends			
Revenue	2,519	1,201	1,471
Expense	1,825	2,081	2,421
Interest & dividends, net	<u>694</u>	<u>(880)</u>	<u>(950)</u>

	Years Ended August 31		
	2004	2003	2002
Real estate			
Revenue			
Sale of real estate	33,481	16,990	12,773
Expenses			
Cost of sales	12,987	1,925	1,076
Other costs	30	39	56
Total	13,017	1,964	1,132
Gain on sale of real estate	20,464	15,026	11,641
Income before income taxes	\$ 27,800	\$ 19,084	\$ 9,793

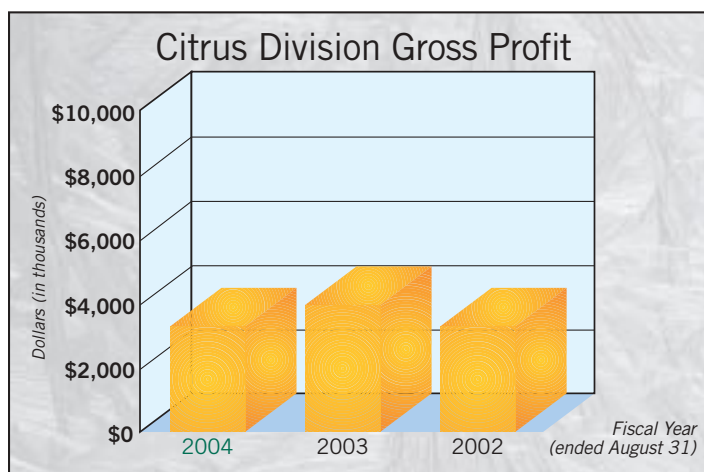
* Allocated cost includes ad valorem and payroll taxes, depreciation and insurance.

** Excludes capitalized maintenance cost of groves less than five years of age consisting of \$2.2 million on 1,276 acres in 2004, \$2.3 million on 1,617 acres in 2003, and \$2.5 million on 1,326 acres in 2002.

Citrus

Gross profit was \$3.7 million in fiscal 2004, \$4.0 million in fiscal 2003, and \$3.7 million for fiscal 2002.

Revenue from citrus sales increased 2% during fiscal 2004 compared to fiscal 2003 (\$24.5 million in fiscal 2004 vs. \$24.1 million in fiscal 2003). Total field boxes of citrus harvested increased to 4.6 million in fiscal 2004 from 4.3 million in fiscal 2003, due to favorable growing conditions, and was the primary cause of the increase. The favorable



growing conditions also contributed to industry wide production increases, resulting in a record Florida citrus crop. The increased supply caused citrus prices to decrease as a whole, and the Company experienced a 4% decline in fruit prices. Additionally, during August and September of 2004 a series of three hurricanes struck a portion of the Company's citrus groves in Polk County Florida. The resulting damage compelled the Company to write its crop inventory down \$0.4 million. The amount was charged to fiscal 2004 operations.

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 in sales revenue.

Harvesting and marketing costs increased in fiscal 2004 when compared to fiscal 2003 (\$9.5 million in fiscal 2004 vs. \$8.9 million in fiscal 2003) due to the increased number of boxes harvested. Direct production and allocated costs were approximately the same for both fiscal 2004 and fiscal 2003 (\$11.3 million in fiscal 2004 vs. \$11.2 million in fiscal 2003).

Harvesting and marketing costs decreased in fiscal 2003 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% in fiscal 2003 when compared to fiscal 2002, due to a decrease in the costs of cultivation and irrigation impacted by improved weather conditions.

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, and the differences between estimated and final results can be either positive or negative. Revenues collected in excess of prior year and year end estimates were \$728 thousand, \$198 thousand, and \$568 thousand during fiscal 2004, 2003 and 2002, respectively.

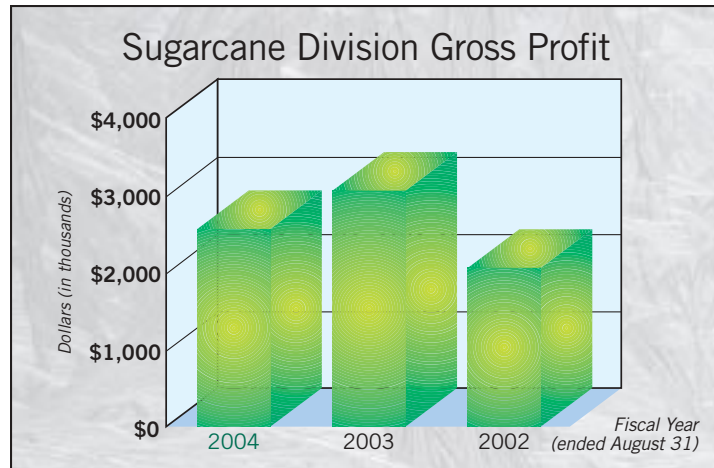
Sugarcane

Gross profit for fiscal 2004 was \$2.7 million, compared to \$3.2 million in fiscal 2003 and \$2.3 million in fiscal 2002. The 2004, 2003, and 2002 fiscal year crops yielded approximately 465,000, 523,000 and 466,000 standard tons, respectively. Yields per acre were 44.25, 45.51, and 41.37 for the 2004, 2003 and 2002 fiscal years, respectively.

Sales revenue from sugarcane decreased to \$12.4 million in fiscal 2004 from \$13.4 million in the prior fiscal year. Due to normal crop rotation and replanting in the current year, fewer acres were harvested (11,131 in fiscal 2004 vs. 11,840 in fiscal 2003).

This was the primary cause of the current year decrease in sales revenue. The reduced acres harvested in fiscal 2004 also resulted in lower harvesting and marketing costs than in the prior year (\$2.4 million in fiscal 2004 vs. \$2.9 million in fiscal 2003). Direct production and allocated costs were a combined \$7.3 million for both fiscal 2004 and 2003.

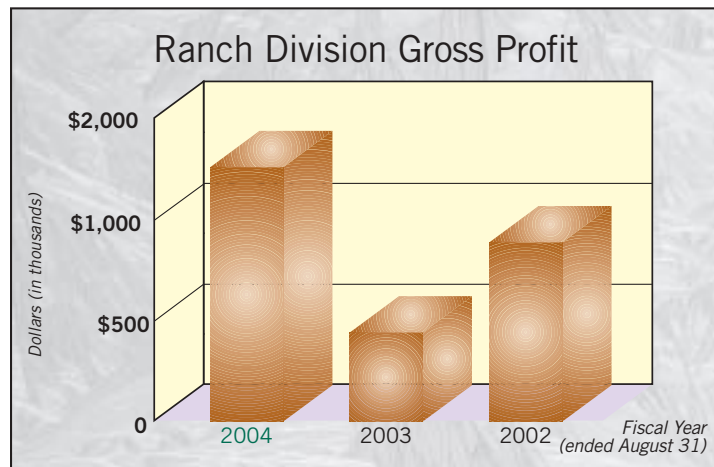
Sales revenue from sugarcane increased 13% during fiscal 2003, compared to fiscal 2002 (\$13.4 million vs. \$11.8 million, respectively). The increase was the result of an improvement in the yield per acre brought about by favorable weather conditions during the growing season. Combined direct production and allocated costs were approximately the same in fiscal 2003 as in fiscal 2002 (\$7.3 million vs. \$7.2 million, respectively).



Ranching

The gross profit from ranch operations for fiscal 2004, 2003 and 2002 was \$1.5 million, \$0.4 million, and \$0.6 million, respectively.

Revenues from cattle sales increased by 35% to \$9.7 million in fiscal 2004, compared to \$7.2 million in the previous fiscal year. The increase was due to an increase in the number of head sold (10,603 in fiscal 2004 vs. 9,062 in fiscal 2003) coupled with increased prices for beef cattle. More animals of the age and size required by meat packers were available



for sale in fiscal 2004 than in fiscal 2003 due to the timing of placements into western feedlots. Prices increased as a result of a decrease in the domestic beef supply.

As a result of the increase in the number of cattle sold in fiscal 2004, direct and allocated costs increased to \$8.2 million in fiscal 2004 from \$6.8 million in fiscal 2003.

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. Less animals of the age and size required by meat packers were available for sale in fiscal 2003 than in 2002 because of the timing of placements into western feedlots. Total head sold was 9,062 and 12,166 for fiscal 2003 and 2002, respectively.

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

Other Operations

Returns from rock products and sand were \$3.4 million for fiscal 2004, \$2.2 million for 2003 and \$2.0 million during 2002. Mining activity has continued to increase due to continued development around southwest Florida. Rock and sand supplies are sufficient to meet current demand, and no major price changes have occurred over the past 3 years.

Revenues from land rentals and oil royalties were \$1.2 million in fiscal 2004 as compared to \$1.0 million in fiscal 2003 and \$0.7 million for fiscal 2002. During fiscal 2004, in response to increased demand for Southwest Florida real estate, the Company raised its rental rates for properties. The fiscal 2003 improvement is primarily due to an increase in the amount of land leased for farming.

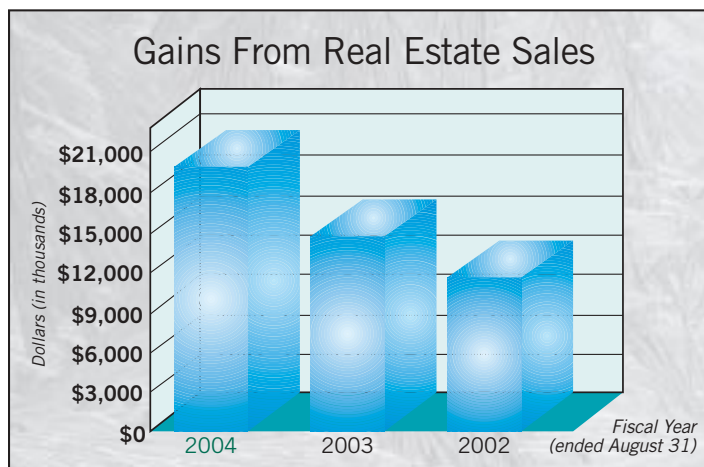
Profits from the sale of sabal palms and other horticultural items, for landscaping purposes, during fiscal 2004 were \$0.4 million compared to \$0.3 million and \$0.4 million for fiscal years 2003 and 2002, respectively.

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 \$6.5 million during fiscal 2004, compared to \$6.3 million during fiscal 2003 and to \$10.8 million during fiscal 2002. 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 fiscal 2004, and \$800 thousand will be paid each year over the next three 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 that year.

Profit on Sale of Real Estate

Profit from retail land sales, made through Saddlebag, were \$153 thousand in fiscal 2004, vs. \$32 thousand in fiscal 2003 and breakeven during fiscal 2002. Profit from bulk land sales were \$20.3 million in fiscal 2004, \$15.0 million in fiscal 2003 and \$11.6 million in fiscal 2002.

As discussed below, sales contracts are in place for all of the remaining Lee County property with closing dates expected over the next two fiscal years. The total sales price of



the contracts is \$138.4 million. When or if the contracts do close, they are expected to result in gains in excess of \$124.0 million. The Board of Directors has not specified how these funds will be used if received.

General Corporate

The Company is continuing its marketing and permitting activities for its land that surrounds Florida Gulf Coast University in Lee County, Florida. There are sales contracts in place for all this property, totaling \$138.4 million. The agreements are at various stages in the due diligence process with closing dates expected over the next two fiscal years. The contracts are subject to various contingencies and there is no assurance that they will close.

The Company formed 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 its insureds for the loss of the revenue stream resulting from a catastrophic event. To expedite the creation of the capital liquidity necessary to underwrite the Company's exposure to catastrophic losses, another 5,600 acres were transferred during fiscal 2001. Agri underwrote a limited amount of coverage for Ben Hill Griffin, Inc. during fiscal years 2001 - 2004, and in August 2002, Agri 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. Due to Agri's limited operating history, it would be difficult 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.

Agri wrote an insurance policy for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock in 2004. The coverage term is from August 2004 to July 2005. Total coverage under the policy is \$2.7 million and the premium charged was \$45 thousand.

Premiums for coverages quoted are set by independent actuaries/underwriters hired by Agri in Bermuda based on underwriting considerations established by them. Premiums vary depending upon the size of the property, its age and revenue-producing history as well as the proximity of the insured property to known disease-prone areas or other insured hazards.

During the third quarter of fiscal 2003, the Company entered into a limited partnership with Agri 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.

During the second quarter of fiscal 2004, the Company, through Alico-Agri, completed the sale of 244 acres in Lee County, Florida. The sales price was \$30.9 million and resulted in a gain of \$19.7 million. The sale generated \$20.9 million cash with the remaining \$10.0 million held in the form of a mortgage receivable due in December 2004.

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 to the State for \$617 thousand, generating a gain of \$612 thousand.

In the fourth quarter of fiscal 2003, the Company, through Alico-Agri, completed the sale of 313 acres in Lee County, Florida. 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. The sales price of the property was \$5.5 million and generated a gain of \$4.7 million.

Recent Events

In August 2004 Atlantic Blue Trust, Inc., the Company's largest stockholder, requested that the Company consider a restructuring of the Company. While Atlantic Blue Trust did not propose the specific terms of a transaction, Atlantic Blue Trust discussed with the Company's Board of Directors the advisability of combining Atlantic Blue Trust's cattle ranch, citrus operations and other acreage with Alico's business in an effort to both lower costs and improve joint operations with Alico remaining a public company. To facilitate such a possible restructuring, Atlantic Blue Trust urged consideration of (a) paying a special cash dividend to all Alico stockholders; and (b) merging Atlantic Blue Trust with Alico or one of its subsidiaries with shareholders of Atlantic Blue Trust receiving shares of Alico common stock in the merger. The Company has established a special committee comprised of all of the independent directors to analyze the possible restructuring. The special committee has retained outside financial and legal advisors to assist with this analysis. Alico directors affiliated with Atlantic Blue Trust or employed by Alico have not participated and will not participate in the evaluation of a possible restructuring. As of this date no formal proposal has been made by Atlantic Blue Trust.

The Company received an unsolicited letter from National Land Partners, LLC expressing the desire to discuss a potential acquisition of Alico by National Land. The Company's Board of Directors referred the National Land letter to the special committee. On December 16, 2004, the special committee along with representatives of Atlantic Blue Trust met with representatives of National Land Partners, LLC. At the conclusion of that meeting, such representatives of Atlantic Blue Trust and its stockholders advised National Land Partners and the Special Committee that neither Atlantic Blue Trust nor any of the holders of Atlantic Blue Trust's stock would be interested in selling the Alico shares held by Atlantic Blue Trust or supporting a sale transaction at the price offered by National Land Partners or even at a substantially higher price. National Land Partners has acknowledged that it will not proceed with a transaction to acquire Alico without the support of Atlantic Blue Trust and its stockholders.

In September 2004, the Company, through Alico-Agri, purchased the assets of La Belle Plant World, Inc. a wholesale grower and shipper of commercial vegetable transplants to commercial farmers. The purchase price was \$4.9 million for the land, office building, greenhouses and associated equipment. Alico Plant World, LLC ("Plant World") was set up as a wholly owned subsidiary of Alico-Agri, Ltd. Plant World was purchased in order to diversify Alico's agricultural operations and to take advantage of Alico's existing relationships with the farming community. Due to Plant World's limited operating history, it would be difficult to speculate about the impact that Plant World could have on the Company's financial position, results of operations and liquidity in future periods, but it is not expected to be significant in the next fiscal year.

Off Balance Sheet Arrangements

The Company, through Agri, supplies catastrophic business interruption coverage for Tri-County Grove, LLC a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock. The coverage term is from August 2004 to July 2005. Total coverage under the policy is \$2.7 million and the premium charged was \$45 thousand. In August and September 2004, a series of hurricanes struck southwest Florida. Due to the extensive damages incurred throughout the state, an assessment of damages has not yet been completed. The Company expects a claim to be filed, however, the amount of the claim is not yet determinable. Total potential exposure under the policy for this claim is \$900 thousand.

Premiums for coverages quoted are set by independent actuaries/underwriters hired by Agri in Bermuda based on underwriting considerations established by them. Premiums vary depending upon the size of the property, its age and revenue-producing history as well as the proximity of the insured property to known disease-prone areas or other insured hazards.

Disclosure of Contractual Obligations

Contractual obligations of the Company are set forth in the table below:

	Payment due by period (from August 31, 2004)				
	(in thousands)				
	Total	Less than			
		1 year	1 - 3 years	3 - 5 years	5+ years
Contractual obligations					
Long-term debt	\$ 51,585	\$ 3,319	\$ 39,875	\$ 2,585	\$ 5,806
Leases (Operating & capital)	0	0	0	0	0
Purchase obligations (donation)	2,278	764	1,514	0	0
Other long-term liabilities	33,297	434	18,718	1,764	12,381
Total	\$ 87,160	\$ 4,517	\$ 60,107	\$ 4,349	\$ 18,187

	Payment due by period (from August 31, 2003)				
	(in thousands)				
	Total	Less than			
		1 year	1 - 3 years	3 - 5 years	5+ years
Contractual obligations					
Long-term debt	\$ 57,448	\$ 3,321	\$ 39,576	\$ 4,633	\$ 9,918
Leases (Operating & capital)	0	0	0	0	0
Purchase obligations (donation)	2,983	754	1,459	770	0
Other long-term liabilities	24,142	350	11,584	1,944	10,264
Total	\$ 84,573	\$ 4,425	\$ 52,619	\$ 7,347	\$ 20,182

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 net realizable value. 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 with 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. Differences between the estimates and the final realization of revenues can be significant, and the differences between estimated and final results can be either positive or negative. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from prior years' crop totaling \$728 thousand, \$198 thousand, and \$568 thousand during fiscal 2004, 2003, and 2002, 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 capitalized Agri by contributing real estate located in Lee County, Florida. The real estate was transferred at its historical cost basis. Agri received a determination letter from the Internal Revenue Service (IRS) stating that Agri was exempt from taxation provided that net premium levels, consisting only of premiums with third parties, were below an annual stated level (\$350 thousand). Third party premiums have remained below the stated annual level. As the Lee county real estate was sold, substantial gains were generated in Agri, creating permanent book/tax differences.

Since receiving the favorable IRS determination letter, certain transactions, entered into by other taxpayers under the same IRS Code Section came under scrutiny and criticism by the news media. In reaction, Management has recorded a contingent liability of \$17.0 million for income taxes in the event of an IRS challenge. Management's decision has been influenced by perceived changes in the regulatory environment. The Company believes that it can successfully defend any such challenge, however, because it is probable that a challenge will be made and possible that it may be successful, Management has provided for the contingency.

The IRS is in the process of examining the Company tax returns for the fiscal years ended August 31, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2002, 2001 and 2000. Any adjustments resulting from the examination will be currently due and payable. A Revenue Agent has issued a report challenging Agri's tax exempt status for the years examined, however, the report did not quantify the adjustment proposed. Quantification of the adjustment is expected when the IRS concludes its audits of Alico. No adjustments have been proposed to date for Alico. The Revenue Agent's findings regarding Alico could occur within the next fiscal year.

TEDDER, JAMES, WORDEN & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGGLADREY NETWORK

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Alico, Inc.:

We have audited the accompanying consolidated balance sheet of Alico, Inc. and subsidiaries as of August 31, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alico, Inc. and subsidiaries at August 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Tedder, James, Worden • Associates, P.A.

Orlando, Florida
October 29, 2004

Report of Independent Registered Public Accounting Firm

To the Stockholders and
Board of Directors
Alico, Inc.:

We have audited the consolidated balance sheet of Alico, Inc. and subsidiaries as of August 31, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years ended August 31, 2003 and 2002. In connection with our audits of the related 2003 and 2002 consolidated financial statements, we also have audited the related 2003 and 2002 consolidated financial statement schedules as listed in Item 15(a)(2) herein. These consolidated financial statements and financial statements schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the results of their operations and their cash flows for the years ended August 31, 2003 and 2002†in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related 2003 and 2002 consolidated financial statement schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

KPMG, LLP
Orlando, Florida
October 10, 2003

Consolidated balance sheets

(in thousands)

	August 31	
	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash, including time deposits and other cash investments of \$24,171 in 2004 and \$16,303 in 2003	\$ 24,299	\$ 16,352
Marketable securities available for sale, at estimated fair value in 2004 and in 2003 (note 2)	55,570	38,820
Accounts receivable (\$6,470 in 2003 due from affiliate) (note 12)	9,118	9,680
Mortgages and notes receivable, current portion (note 3)	9,983	2,534
Land inventories	5,501	–
Inventories (note 4)	20,772	21,845
Other current assets	682	973
Total current assets	<u>125,925</u>	<u>90,204</u>
Other assets:		
Land inventories	–	16,587
Mortgages and notes receivable, net of current portion (note 3)	662	234
Investments	1,069	886
Cash surrender value of life insurance, restricted (note 10)	4,900	3,797
Total other assets	<u>6,631</u>	<u>21,504</u>
Property, buildings and equipment (note 5)	147,756	144,578
Less accumulated depreciation	(42,070)	(39,741)
Net property, buildings and equipment	<u>105,686</u>	<u>104,837</u>
Total assets	<u>\$238,242</u>	<u>\$216,545</u>

	August 31	
	<u>2004</u>	<u>2003</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,743	\$ 2,110
Due to profit sharing plan (note 10)	434	350
Accrued ad valorem taxes	1,678	1,519
Current portion of notes payable (note 6)	3,319	3,321
Accrued expenses	1,068	390
Income taxes payable	753	-
Deferred income taxes (note 11)	376	1,680
Donation payable	<u>765</u>	<u>754</u>
Total current liabilities	10,136	10,124
Deferred revenue	266	91
Notes payable (note 6)	48,266	54,127
Deferred income taxes (note 11)	11,445	9,668
Deferred retirement benefits (note 10)	4,464	4,515
Other noncurrent liabilities (note 8)	16,954	9,609
Donation payable	<u>1,513</u>	<u>2,229</u>
Total liabilities	<u>93,044</u>	<u>90,363</u>
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 7,309 in 2004 and 7,116 in 2003	7,309	7,116
Additional Paid in Capital	7,800	3,074
Accumulated other comprehensive income	1,529	961
Retained earnings	<u>128,560</u>	<u>115,031</u>
Total stockholders' equity	<u>145,198</u>	<u>126,182</u>
Total liabilities and stockholders' equity	<u>\$238,242</u>	<u>\$216,545</u>

See accompanying notes to consolidated financial statements.

Consolidated statements of operations

(in thousands except per share amounts)

	Years Ended August 31		
	2004	2003	2002
Revenue			
Citrus (including revenues from affiliate (note 12))	\$ 24,549	\$ 24,107	\$ 25,105
Sugarcane	12,398	13,373	11,789
Ranch	9,678	7,175	9,102
Rock and sand royalties	3,448	2,154	1,999
Land rentals and oil lease	1,171	973	721
Forest products	407	292	355
Retail land sales	406	211	114
Operating revenue	52,057	48,285	49,185
Costs of sales			
Citrus production, harvesting and marketing (including charges from affiliate) (note 12)	20,815	20,106	21,421
Sugarcane production, harvesting and hauling	9,673	10,188	9,457
Ranch	8,178	6,790	8,515
Retail land sales	253	179	114
Total costs of sales	38,919	37,263	39,507
Gross profit	13,138	11,022	9,678
General and administrative expenses	6,471	6,319	10,806
Income (loss) from operations	6,667	4,703	(1,128)
Other income (expenses)			
Profit on sales of real estate:			
Sales	33,075	16,779	12,659
Cost of sales	12,764	1,785	1,018
Profit on sales of real estate, net	20,311	14,994	11,641
Interest and investment income	2,519	1,201	1,471
Interest expense (note 6)	(1,825)	(2,081)	(2,421)
Other	128	267	230
Total other income, net	21,133	14,381	10,921
Income before income taxes	27,800	19,084	9,793
Provision for income taxes (note 11)	9,987	6,425	2,258
Net Income	\$ 17,813	\$ 12,659	\$ 7,535
Weighted-average number of shares outstanding	7,219	7,106	7,070
Weighted-average number of dilutive shares outstanding	7,295	7,256	7,188
Per share amounts			
Basic	\$2.47	\$1.78	\$1.07
Diluted	\$2.44	\$1.74	\$1.05
Dividends	\$.60	\$.35	\$1.00

See accompanying Notes to Consolidated Financial Statements.

Consolidated statements of stockholders' equity and other comprehensive income

(in thousands)

	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares Issued	Amount				
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
Comprehensive income:						
Net income for the year ended August 31, 2004	-	-	-	-	17,813	17,813
Unrealized gains on securities, net of taxes of \$234 and reclassification adjustment	-	-	-	568	-	568
Total comprehensive income:						18,381
Dividends paid	-	-	-	-	(4,284)	(4,284)
Stock options exercised	193	193	2,963	-	-	3,156
Stock based compensation	-	-	1,763	-	-	1,763
Balances, August 31, 2004	7,309	\$ 7,309	\$ 7,800	\$ 1,529	\$ 128,560	\$ 145,198
Disclosure of reclassification amount				2004	2003	2002
Unrealized holding gains (losses) arising during the period				\$ 787	\$ 2,651	\$ (1,774)
Less: reclassification adjustment for gains (losses) included in net income				219	1,258	(471)
Net unrealized gains (losses) on securities				\$ 568	\$ 1,393	\$ (1,303)

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(in thousands)

	Years Ended August 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Increase (Decrease) in Cash and Cash Investments			
Cash flows from operating activities			
Net Income	\$ 17,813	\$ 12,659	\$ 7,535
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	6,509	6,723	6,982
(Gain) Loss on breeding herd sales	(108)	(16)	(84)
Deferred income tax expense, net	472	582	1,263
Deferred retirement benefits	(1,154)	1	(31)
Net (gain) loss on sale of marketable securities	(723)	(691)	381
(Gain) Loss on disposal of property and equipment	–	606	(150)
Gain on real estate sales	(20,311)	(15,026)	(11,758)
Stock options granted below fair market value	1,763	839	891
Cash provided by (used for) changes in:			
Accounts receivable	561	(218)	692
Inventories	474	(173)	1,059
Other assets	291	111	57
Accounts payable and accrued expenses	7,194	5,840	2,944
Income taxes payable	753	42	(294)
Deferred revenues	176	(23)	48
Net cash provided by operating activities	<u>13,710</u>	<u>11,256</u>	<u>9,535</u>
Cash flows from investing activities			
Increase in land inventories	(423)	(684)	(9,785)
Purchases of property and equipment	(7,280)	(7,325)	(9,270)
Proceeds from disposals of property and equipment	738	431	1,257
Proceeds from sale of real estate	21,356	15,911	12,789
Purchases of other investments	(320)	–	(126)
Purchases of marketable securities	(21,072)	(20,257)	(8,047)
Proceeds from sales of marketable securities	5,643	4,958	3,673
Collection of mortgages and notes receivable	2,586	2,377	2,449
Net cash used for investing activities	<u>1,228</u>	<u>(4,589)</u>	<u>(7,060)</u>

	Years Ended August 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash flows from financing activities			
Proceeds from exercising stock options	3,156	555	529
Proceeds of bank loans	23,922	33,169	43,597
Repayment of bank loans	(29,785)	(31,697)	(35,627)
Dividends paid	(4,284)	(2,482)	(7,059)
Net cash provided by (used for) financing activities	<u>(6,991)</u>	<u>(455)</u>	<u>1,440</u>
Net increase in cash and cash investments	7,947	6,212	3,915
Cash and cash investments			
At beginning of year	<u>16,252</u>	<u>10,140</u>	<u>6,225</u>
At end of year	<u>\$ 24,299</u>	<u>\$ 16,352</u>	<u>\$ 10,140</u>
Supplemental disclosures of cash flow information			
Cash paid for interest, net of amount capitalized	<u>\$ 1,518</u>	<u>\$ 1,767</u>	<u>\$ 2,124</u>
Cash paid for income taxes, including related interest (note 11)	<u>\$ 1,370</u>	<u>\$ 1,060</u>	<u>\$ 943</u>
Noncash investing activities			
Fair value adjustments to securities available for sale	<u>\$ 802</u>	<u>\$ 1,945</u>	<u>\$ (1,925)</u>
Income tax effect related to fair value adjustment	<u>\$ 234</u>	<u>\$ 552</u>	<u>\$ (622)</u>
Reclassification of breeding herd to property and equipment	<u>\$ 599</u>	<u>\$ 700</u>	<u>\$ 515</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended August 31, 2004, 2003 and 2002

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 inter-company 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 combined with 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. Differences between the estimates and the final realization of revenues can be significant, and the differences between estimated and final results can be either positive or negative. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from prior years' crop totaling \$728 thousand, \$198 thousand, and \$568 thousand during fiscal 2004, 2003, and 2002, respectively.

Income from sugarcane under a pooled agreement is recognized at the time the crop is harvested. Based on the processor's advance payment, past sugarcane prices and its experience in the industry, 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 \$325 thousand, \$356 thousand and \$318 thousand during the fiscal year's 2004, 2003, and 2002, respectively.

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

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.

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. 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 is 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 net realizable value. 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 net realizable value. 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 three 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 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 consist 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. Land inventory is considered current if sales contracts are expected to close within one year of the balance sheet date.

Other Investments. Other investments are carried at cost. These primarily include 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.

In September 2004, the Company purchased the assets of La Belle Plant World, Inc. a wholesale grower and shipper of commercial fruit and vegetable transplants. Prior to the closing, the Company paid refundable costs in connection with the purchase. These costs have been included in the balance sheet as other investments.

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 issued 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 affect 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 transactions with commercial lenders at interest rates that vary with market conditions and fixed rates that approximate market.

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 these cattle hedges in costs of goods sold. At August 31, 2004 and 2003, the Company had no open positions in cattle futures. The

Company also purchases corn futures in order to lock in the cost of raising feeder cattle over the feeding term. The Company had open positions in 30 corn futures contracts at August 31, 2004. The Company, through its investment portfolio, also may hedge using options or short sales. These transactions are recorded as interest and investment revenue.

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 Stockbased Compensation” (SFAS 123) and amended by Statement of Financial Accounting Standards No. 148 (SFAS 148) “Accounting for Stock-Based Compensation - Transition and Disclosure”.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	Years ended August 31		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income as reported	\$ 17,813	\$ 12,659	\$ 7,535
Add: Total stock-based employee compensation expense determined under the intrinsic value based method for all awards, net of related tax effects	1,100	523	556
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(1,063)</u>	<u>(529)</u>	<u>(484)</u>
Pro forma net income	\$ 17,850	\$ 12,653	\$ 7,607
Earnings per share			
Basic - as reported	\$2.47	\$1.78	\$1.07
Basic - pro forma	\$2.47	\$1.78	\$1.08
Diluted - as reported	\$2.44	\$1.74	\$1.05
Diluted - pro forma	\$2.45	\$1.74	\$1.06

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 2003 and 2002 have been reclassified to conform to the 2004 presentation.

Major customers. Alico is a producer of agricultural commodities. Due to the limited number of processors of its raw product, geographic limitations and historic success, the Company's citrus and sugarcane sales are concentrated to a few customers. Details concerning the sales and receivables from these customers are as follows for the years ended August 31:

	Accounts receivable			Revenues		
	2004	2003	2002	2004	2003	2002
Citrus fruit marketer	\$ 5,437	\$ 6,470	\$ 6,457	\$ 18,385	\$ 17,656	\$ 19,103
Sugar cane processor	\$ 2,887	\$ 2,404	\$ 2,083	\$ 12,398	\$ 13,373	\$ 11,789

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, 2004 and 2003 (in thousands) were as follows:

	2004				2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities:								
Preferred stocks	\$ 1,513	\$ 82	\$ (3)	\$ 1,592	\$ 2,504	\$ 85	\$ (65)	\$ 2,524
Common stocks	6,307	494	(535)	6,266	1,893	221	(306)	1,808
Mutual funds*	22,418	2,579	(434)	24,563	10,181	1,801	-	11,982
Total equity securities	30,238	3,155	(972)	32,421	14,578	2,107	(371)	16,314
Debt securities:								
Municipal bonds	3,225	74	(10)	3,289	515	28	-	543
Mutual funds	3,628	81	(78)	3,631	8,435	421	(609)	8,247
Fixed maturity funds	2,581	-	(29)	2,552	11,146	-	(31)	11,115
Corporate bonds	13,726	30	(79)	13,677	2,762	22	(183)	2,601
Total debt securities	23,160	185	(196)	23,149	22,858	471	(823)	22,506
Marketable securities available for sale	53,398	3,340	(1,168)	55,570	37,436	2,578	(1,194)	38,820

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

The aggregate fair value of investments in debt instruments (net of mutual funds of \$3,628) as of August 31, 2004, by contractual maturity date, consisted of the following:

	<u>Aggregate Fair Values</u> <u>(in thousands)</u>
Due in one year or less	\$ 8,100
Due between one and five years	7,123
Due between five and ten years	1,593
Due thereafter	<u>2,716</u>
	<u>\$ 19,532</u>

Realized gains and losses on the disposition of securities were as follows:

	<u>Years ended August 31</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Realized gains	\$ 815	\$ 834	\$ 345
Realized losses	<u>(92)</u>	<u>(143)</u>	<u>(726)</u>
Net	<u>\$ 723</u>	<u>\$ 691</u>	<u>\$ (381)</u>

Note 3. Mortgage and Notes Receivable

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

	<u>Years ended August 31</u>	
	<u>2004</u>	<u>2003</u>
Mortgage notes receivable on retail land sales	\$ 265	\$ 235
Mortgage notes receivable on bulk land sales	10,290	2,420
Other notes receivable	<u>90</u>	<u>113</u>
Total mortgage and notes receivable	10,645	2,768
Less current portion	<u>9,983</u>	<u>2,534</u>
Non-current portion	<u>\$ 662</u>	<u>\$ 234</u>

Maturities of the notes receivable are as follows:

Due within 1 year	\$ 9,983
Due between 1 and 2 years	87
Due between 2 and 3 years	400
Due between 3 and 4 years	31
Due between 4 and 5 years	31
Due beyond five years	<u>113</u>
Total	<u>\$ 10,645</u>

In December 2003, Alico-Agri received a non-interest bearing mortgage note in exchange for land sold. The note totaled \$10.0 million and is due in full in December 2004. The note was discounted by \$244 thousand to reflect the prevailing market rate of interest. The unamortized portion of the discount totaled \$81 thousand at August 31, 2004.

Note 4. Inventories

A summary of the Company's inventories (in thousands) at August 31, 2004 and 2003 is shown below:

	<u>2004</u>	<u>2003</u>
Unharvested fruit crop on trees	\$ 7,712	\$ 8,135
Unharvested sugarcane	5,124	5,159
Beef cattle	7,172	7,892
Sod	<u>764</u>	<u>659</u>
Total inventories	<u>\$ 20,772</u>	<u>\$ 21,845</u>

The Company's unharvested sugarcane and cattle are partially uninsured. During August and September of 2004 a series of three hurricanes struck a portion of the Company's citrus groves in Polk County Florida. The resulting damage compelled the Company to write its crop inventory down \$0.4 million. The amount was charged to fiscal 2004 operations.

Note 5. Property, Buildings and Equipment

A summary of the Company's property, building and equipment (in thousands) at August 31, 2004 and 2003 is shown below:

	<u>2004</u>	<u>2003</u>	<u>Estimated Useful Lives</u>
Breeding herd	\$ 13,242	\$ 12,711	5-7 years
Buildings	3,930	3,875	5-40 years
Citrus trees	33,572	31,109	22-40 years
Sugarcane	8,371	8,350	4-15 years
Equipment and other facilities	<u>29,410</u>	<u>29,526</u>	3-40 years
Total depreciable properties	88,525	85,571	
Less accumulated depreciation	<u>42,070</u>	<u>39,741</u>	
Net depreciable properties	46,455	45,830	
Land and land improvements	<u>59,231</u>	<u>59,007</u>	
Net property, building and equipment	<u>\$105,686</u>	<u>\$104,837</u>	

Note 6. Indebtedness

A summary of the Company's notes payable is provided in the following table:

August 31, 2004

	<u>Principal Balance</u>	<u>Additional Credit Available</u>	<u>Interest Rate*</u>	<u>Collateral</u>
a) Revolving credit line	\$18,248	\$7,752	Libor +1%	Unsecured
b) Revolving credit line	15,000	–	Libor +.8%	Unsecured
c) Demand note	–	3,000	Libor +1%	Unsecured
d) Credit line	6,000	–	5.80%	Unsecured
e) Mortgage note payable	12,139	–	6.68%	Real estate
Other	198	–	7.00%	Real estate
Total	<u>\$51,585</u>	<u>\$10,752</u>		

August 31, 2003

	<u>Principal Balance</u>	<u>Additional Credit Available</u>	<u>Interest Rate*</u>	<u>Collateral</u>
a) Revolving credit line	\$20,791	\$5,209	Libor +1%	Unsecured
b) Revolving credit line	15,000	–	Libor +.8%	Unsecured
c) Demand note	–	3,000	Libor +1%	Unsecured
d) Credit line	8,000	–	5.80%	Unsecured
e) Mortgage note payable	13,406	–	6.68%	Real estate
Other	251	–	7.00%	Secured
Total	<u>\$57,448</u>	<u>\$8,209</u>		

- a) Line of credit with commercial bank, due in full January 2006. Interest due quarterly.
b) Line of credit with commercial lender, renews annually. Subject to review June 2005. Interest due quarterly.
c) Working capital loan with commercial bank due on demand. Interest due quarterly.
d) 5-year fixed rate term loan with commercial lender. \$2 million principal due annually. Interest due quarterly.
e) First mortgage on 7,680 acres of cane, citrus, pasture and improvements in Hendry County, Florida with commercial lender. Monthly principal payments of \$106 thousand plus accrued interest.

Maturities of the Company's debt is as follows:

	August 31	
	<u>2004</u>	<u>2003</u>
Due within 1 year	\$ 3,319	\$ 3,321
Due between 1 and 2 years	36,560	36,264
Due between 2 and 3 years	3,315	3,312
Due between 3 and 4 years	1,318	3,315
Due between 4 and 5 years	1,267	1,318
Due beyond five years	5,806	9,918
Total	<u>\$51,585</u>	<u>\$57,448</u>

LIBOR was 1.79% and 1.14% at August 31, 2004 and 2003, respectively. The Company's variable interest rates, based on LIBOR at August 31, 2004 and 2003 was 2.79%, 2.59% and 2.14%, respectively.

Interest costs expensed and capitalized (in thousands) during the three years ended August 31, 2004, 2003 and 2002 was as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expense	\$ 1,825	\$ 2,081	\$ 2,421
Interest capitalized	<u>275</u>	<u>267</u>	<u>322</u>
Total interest cost	<u>\$ 2,100</u>	<u>\$ 2,348</u>	<u>\$ 2,743</u>

The Company renewed its \$26 million line of credit in accordance with the “evergreen” provision in the original loan agreement during November 2004, which extends the due date from January 31, 2005 to January 31, 2006. Accordingly, the Company has classified obligations under this agreement as non-current. Since the inception of the original note, Management and the bank, as a matter of routine, have agreed to exercise this provision.

Note 7. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. Additionally, the Company, through Agri, supplies catastrophic business interruption coverage for Tri-County, LLC a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock. Total coverage under the policy is \$2.7 million. This represents the only underwriting exposure at August 31, 2004. In August and September 2004, a series of three hurricanes struck southwest Florida. The current estimate of the State's crop loss is approximately 27%. Due to the extensive damages incurred throughout the state, a final assessment of damages has not yet been completed. The Company does expect a claim to be filed; however, the amount of the claim is not yet determinable. Total potential exposure under the policy for this claim is \$900 thousand.

Premiums for coverages quoted are set by independent actuaries/underwriters hired by Agri in Bermuda based on underwriting considerations established by them. Premiums vary depending upon the size of the property, its age and revenue-producing history as well as the proximity of the insured property to known disease-prone areas or other insured hazards.

Agri is required to maintain liquidity equal to its outside underwriting risk. As of August 31, 2004, Agri's liquidity was sufficient to cover its underwriting risk. Notwithstanding the undetermined hurricane loss discussed above, 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 capitalized Agri by contributing real estate located in Lee County, Florida. The real estate was transferred at its historical cost basis. Agri received a determination letter from the Internal Revenue Service (IRS) stating that Agri was exempt from taxation provided that net premium levels, consisting only of premiums with third parties, were below an annual stated level (\$350 thousand). Third party premiums have remained below the stated annual level. As the Lee County real estate was sold, substantial gains were generated in Agri, creating permanent book/tax differences.

Since receiving the favorable IRS determination letter, certain transactions, entered into by other taxpayers under the same IRS Code Section came under scrutiny and criticism by the news media. In reaction, Management has recorded a contingent liability of \$17.0 million at August 31, 2004 and \$9.6 million at August 31, 2003 for income taxes in the event of an IRS challenge. Management's decision has been influenced by perceived changes in the regulatory environment. The Company believes that it can successfully defend any such challenge, however, because it is probable that a challenge will be made and possible that it may be successful, Management has provided for the contingency.

The IRS is in the process of examining the Company tax returns for the fiscal years ended August 31, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2002, 2001 and 2000. Any adjustments resulting from the examination will be currently due and payable. A Revenue Agent has issued a report challenging Agri's tax exempt status for the years examined, however, the report did not quantify the adjustment proposed. Quantification of the adjustment is expected when the IRS concludes its audits of Alico. No adjustments have been proposed to date for Alico. The Revenue Agent's findings regarding Alico could occur within the next fiscal year.

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 granted have a strike price and vesting schedules that are at the discretion of the Board of Directors and determined on the effective date of the grant. The strike price cannot be less than 50% of the market price.

The Company applies APB Opinion No. 25 for issuances to directors and employees in accounting for its plan. All stock options have been granted to directors or employees with an exercise price equal to at least 55% of the fair value of the common stock at the date of grant and a vesting period of one year.

	<u>Shares under option</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (in years)</u>
Balance outstanding, August 31, 2001	84,080	\$14.62	<u>7</u>
Granted	69,598	15.68	
Exercised	<u>35,831</u>	<u>14.76</u>	
Balance outstanding, August 31, 2002	117,847	15.20	<u>7</u>
Granted	67,280	15.68	
Exercised	<u>35,726</u>	<u>15.53</u>	
Balance outstanding, August 31, 2003	<u>149,401</u>	<u>15.34</u>	<u>9</u>
Granted	119,462	18.18	
Exercised	<u>193,237</u>	<u>16.33</u>	
Balance outstanding, August 31, 2004	<u>75,626</u>	<u>\$17.29</u>	<u>9</u>

On August 31, 2004 and 2003, there were 292,844 and 412,356 shares available for grant, respectively.

All stock options outstanding were exercisable at August 31, 2004.

Stock options granted and compensation recognized were as follows:

Grant date	Options Granted	Exercise Price	Market Price at time of grant	Compensation recognized under APB 25 (thousands)
April 6, 1999	34,750	\$ 14.62	\$ 14.83	\$ 7
September 9, 1999	14,992	14.62	15.81	18
September 12, 2000	51,074	14.62	16.31	86
September 11, 2001	69,598	15.68	28.48	891
September 10, 2002	67,280	15.68	28.15	839
September 9, 2003	65,081	15.68	28.30	821
February 3, 2004	54,381	\$ 21.17	\$ 38.49	\$ 942

The fair value of stock options granted was \$1.7 million in 2004, \$.8 million in 2003 and \$.8 million in 2002 on the date of the grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Volatility	8.28%	8.39%	8.39%
Dividend paid	1.87%	2.23%	6.38%
Risk-free interest rate	2.26%	4.75%	4.75%
Expected life in years	1	1	1

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 \$434, \$350 and \$285 for the years ended August 31, 2004, 2003 and 2002, 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:

	<u>2004</u>	<u>2003</u>
Beginning benefit obligation	\$ 4,515	\$ 3,785
Service cost	135	626
Interest cost	150	234
Benefits paid	(338)	(132)
Actuarial losses	—	—
Other	2	2
Ending benefit obligation	4,464	4,515
Changes in plan assets		
Beginning plan assets	3,797	3,666
Return on plan assets	126	109
Employer contributions	1,200	39
Plan participant contributions	115	115
Benefit paid	(338)	(132)
Ending plan assets	4,900	3,797
Net pension liability (asset)	\$ (436)	\$ 718

Components of net pension cost

	Years ended August 31		
	2004	2003	2002
Service cost, net of participant contributions	\$ 20	\$ 511	\$ 301
Interest cost	275	234	185
Expected return on plan assets	(334)	–	–
Prior service cost amortization	2	2	2
Net pension cost for defined benefit plan	\$ (37)	\$ 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, 2004, 2003 and 2002 is summarized as follows:

	2004	2003	2002
Current:			
Federal income tax	\$ 8,733	\$ 5,872	\$ 3,713
State income tax	933	628	396
	<u>9,666</u>	<u>6,500</u>	<u>4,109</u>
Deferred:			
Federal income tax	290	(68)	(1,673)
State income tax	31	(7)	(178)
	<u>321</u>	<u>(75)</u>	<u>(1,851)</u>
Total provision for income taxes	\$ 9,987	\$ 6,425	\$ 2,258

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, 2004, 2003 and 2002:

	2004	2003	2002
Expected income tax	\$ 9,452	\$ 6,489	\$ 3,330
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	636	410	144
Nontaxable interest and dividends	(93)	(97)	(102)
Internal Revenue Service examinations	11	14	11
Income from Agri-Insurance Company, Ltd.	–	(752)	(1,156)
Stock options exercised	(675)	30	27
Other reconciling items, net	656	331	4
Total provision for income taxes	\$ 9,987	\$ 6,425	\$ 2,258

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):

	<u>2004</u>	<u>2003</u>
Deferred Tax Assets:		
Contribution carry forward	\$ (1,514)	\$ (1,632)
Deferred retirement benefits	(1,144)	(932)
Prepaid sales commissions	(352)	(802)
Land inventories	(488)	(488)
Stock options appreciation	(492)	(352)
IRS adjustments	(820)	(514)
Other	(586)	(390)
Total gross deferred tax assets	<u>(5,396)</u>	<u>(5,110)</u>
Deferred Tax Liabilities:		
Revenue recognized from citrus and sugarcane	432	607
Property and equipment (principally due to depreciation and soil and water deductions)	13,140	12,981
Inventories	1,315	1,205
Deferred real estate gains	1,625	1,625
Unrealized security gains	643	–
Other	62	40
Total gross deferred tax liabilities	<u>17,217</u>	<u>16,458</u>
Net deferred income tax liabilities	<u>\$ 11,821</u>	<u>\$ 11,348</u>

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, 2003, 2002, 2001 and 2000.

The IRS is in the process of examining the Company tax returns for the fiscal years ended August 31, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2002, 2001 and 2000. Any adjustments resulting from the

examination will be currently due and payable. A Revenue Agent has issued a report challenging Agri's tax exempt status for the years examined, however, the report did not quantify the adjustment proposed. Quantification of the adjustment is expected when the IRS concludes its audits of Alico. No adjustments have been proposed to date for Alico. The Revenue Agent's findings regarding Alico could occur within the next fiscal year.

Note 12. Related Party Transactions

Citrus. Citrus revenues of \$18.4 million, \$17.7 million and \$19.1 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, 2004, 2003 and 2002, respectively. Griffin and its subsidiaries was the owner of approximately 49.85 percent of the Company's common stock prior to February 26, 2004. Accounts receivable, resulting from citrus sales, include amounts due from Griffin totaling \$5.4 million at August 31, 2004 and \$6.5 million at August 31, 2003. 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 \$7.2 million, \$6.6 million, and \$7.1 million for the years ended August 31, 2004, 2003 and 2002, respectively. In addition, Griffin provided the harvesting services for citrus sold to unrelated processors. The aggregate cost of these services was \$2.1 million; \$2.1 million and \$2.0 million for the years ended August 31, 2004, 2003 and 2002, respectively. The accompanying consolidated balance sheets include accounts payable to Griffin for citrus production, harvesting and processing costs in the amount of \$498 thousand and \$435 thousand at August 31, 2004 and 2003, respectively.

Other Transactions. In fiscal 2004, Agri began providing coverage for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.7% of the Company's common stock. The coverage term is from August 2004 to July 2005. Total coverage under the policy is \$2.7 million and the premium charged was \$45 thousand.

Premiums for coverages quoted are set by independent actuaries/underwriters hired by Agri in Bermuda based on underwriting considerations established by them. Premiums vary depending upon the size of the property, its age and revenue-producing history as well as the proximity of the insured property to known disease-prone areas or other insured hazards.

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 \$5.3 million; \$6.4 million and \$6.2 million during the years ended August 31, 2004, 2003 and 2002, respectively.

Griffin purchased catastrophic business interruption coverage from Agri during fiscal 2003 and 2002. The total coverage under the policy was \$3.5 million and \$3.2 million for the fiscal years 2003 and 2002, respectively. The premiums charged under this policy were \$138 thousand and \$128 thousand for 2003 and 2002, respectively.

Note 13. Future Application of Accounting Standards

In November 2003, the EITF reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF Issue No. 03-1 provides guidance on other-than-temporary impairment and its application to debt and equity investments. The requirements apply to investments in debt and marketable equity securities that are accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The provisions of Issue No. 03-1 are effective for reporting periods beginning after June 15, 2004. To determine whether an investment is other than temporarily impaired, the statement requires the Company to evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost;

the financial health of and business outlook for the investment, including factors such as industry and sector performance; changes in technology, operational and financing cash flow; the investment's financial position, including its appraisal and net asset value; market prices; and the Company's intent and ability to hold the investment. In the opinion of management, the adoption of this statement will not have a significant impact on the Company's consolidated financial statements.

Note 14. 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, 2004, 2003 and 2002 is summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues			
Agriculture:			
Citrus	\$ 24,549	\$ 24,107	\$ 25,105
Sugarcane	12,398	13,373	11,789
Ranch	<u>9,678</u>	<u>7,175</u>	<u>9,102</u>
Total revenues from external customers for reportable segments	46,625	44,655	45,996
Other revenues from external customers	<u>5,432</u>	<u>3,630</u>	<u>3,189</u>
Total operating revenue	<u>\$ 52,057</u>	<u>\$ 48,285</u>	<u>\$ 49,185</u>
Costs of sales			
Citrus	\$ 20,815	\$ 20,106	\$ 21,421
Sugarcane	9,673	10,188	9,457
Ranch	<u>8,178</u>	<u>6,790</u>	<u>8,515</u>
Total costs of sales for reportable segments	38,666	37,084	39,393
Other costs of sales	<u>253</u>	<u>179</u>	<u>114</u>
Total consolidated costs of sales	<u>\$ 38,919</u>	<u>\$ 37,263</u>	<u>\$ 39,507</u>
Gross profit			
Agriculture:			
Citrus	\$ 3,734	\$ 4,001	\$ 3,684
Sugarcane	2,725	3,185	2,332
Ranch	<u>1,500</u>	<u>385</u>	<u>587</u>
Total profit for reportable segments	7,959	7,571	6,603
Other gross profit	<u>5,179</u>	<u>3,451</u>	<u>3,075</u>
Consolidated gross profit	<u>13,138</u>	<u>11,022</u>	<u>9,678</u>
Unallocated amounts:			
Profit on sale of bulk real estate	20,311	14,994	11,641
Other corporate expense	<u>(5,649)</u>	<u>(6,932)</u>	<u>(11,526)</u>
Income before income taxes	<u>\$ 27,800</u>	<u>\$ 19,084</u>	<u>\$ 9,793</u>

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Capital expenditures			
Agriculture:			
Citrus	\$ 2,872	\$ 3,216	\$ 4,704
Sugarcane	1,804	1,451	1,293
Ranch	<u>2,218</u>	<u>2,245</u>	<u>3,240</u>
Total agriculture capital expenditures for reportable segments	6,894	6,912	9,237
Other capital expenditures	985	1,113	548
Cattle transferred from inventory held for sale into breeding stock	<u>(599)</u>	<u>(700)</u>	<u>(515)</u>
Total consolidated capital expenditures	<u>\$ 7,280</u>	<u>\$ 7,325</u>	<u>\$ 9,270</u>
Depreciation, depletion and amortization			
Agriculture:			
Citrus	\$ 2,361	\$ 2,354	\$ 2,394
Sugarcane	2,220	2,414	2,527
Ranch	<u>1,429</u>	<u>1,474</u>	<u>1,573</u>
Total depreciation, depletion and amortization for reportable segments	6,010	6,242	6,494
Other depreciation, depletion, and amortization	<u>499</u>	<u>481</u>	<u>488</u>
Total consolidated depreciation, depletion and amortization	<u>\$ 6,509</u>	<u>\$ 6,723</u>	<u>\$ 6,982</u>
Assets			
Agriculture:			
Citrus	\$ 54,120	\$ 54,549	\$ 53,876
Sugarcane	51,640	52,283	52,015
Ranch	<u>22,012</u>	<u>22,430</u>	<u>21,920</u>
Total assets for reportable segments	127,772	129,262	127,811
Other assets	<u>110,470</u>	<u>87,283</u>	<u>64,099</u>
Total consolidated assets	<u>\$ 238,242</u>	<u>\$ 216,545</u>	<u>\$ 191,910</u>

Identifiable assets represent assets on hand at year-end that 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.

