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ALICO, INC.

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ANNUAL MEETING

Friday, January 6, 2006, 10:00 a.m.

Hilton Gardens
12600 University Drive
Fort Myers, Florida 33907

STOCK TRANSFER AGENT

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

Selected financial data

	Years Ended August 31				
	(in thousands except per share amounts)				
	2005	2004	2003	2002	2001
Operating revenue	\$ 55,525	\$ 52,057	\$ 48,285	\$ 49,185	\$ 51,533
Operating expenses	53,204	45,390	43,582	50,313	45,083
Income (loss) from operations	2,321	6,667	4,703	(1,128)	6,450
Income (loss) from operations per weighted average common share	0.32	0.92	0.66	(0.16)	0.92
Total Revenue	75,384	87,779	66,532	63,545	69,710
Total Costs and Expenses	66,146	59,979	47,448	53,752	49,598
Income Taxes	3,148	9,987	6,425	2,258	4,046
Net Income	\$ 6,090	\$ 17,813	\$ 12,659	\$ 7,535	\$ 16,066
Weighted Average Number of Shares Outstanding	7,331	7,219	7,106	7,070	7,033
Net Income Per Share	\$ 0.83	\$ 2.47	\$ 1.78	\$ 1.07	\$ 2.29
Cash Dividend Declared Per Share	1.25	0.60	0.35	1.00	1.00
Current Assets	128,977	125,925	90,204	66,267	61,345
Total Assets	247,694	238,242	216,545	191,910	179,134
Current Liabilities	17,819	10,136	10,124	9,543	7,691
Ratio-Current Assets to Current Liabilities	7.24:1	12.42:1	8.91:1	6.94:1	7.98:1
Working Capital	111,158	115,789	80,080	56,724	53,654
Long-Term Obligations	85,689	82,908	80,239	69,149	58,818
Total Liabilities	103,508	93,044	90,363	78,692	66,509
Stockholders' Equity	144,186	145,198	126,182	113,218	112,625

Common stock prices

The common stock of Alico, Inc. is traded over the counter on the NASDAQ National Market System under the symbol ALCO. The high and low prices, by fiscal quarter, during the years ended August 31, 2005 and 2004 are below:

	2005 Bid Price		2004 Bid Price	
	High	Low	High	Low
First Quarter	\$55.59	\$41.25	\$35.99	\$26.18
Second Quarter	\$62.05	\$51.25	\$39.75	\$32.79
Third Quarter	\$58.01	\$46.63	\$38.99	\$30.50
Fourth Quarter	\$56.20	\$47.14	\$46.20	\$34.02

Approximate Number of Holders of Common Stock

As of November 1, 2005, there were approximately 473 holders of record of the Company's Common Stock as reported by the Company's Transfer Agent.

Dividend Information

During the last three fiscal years the dividends were as follows:

Record Date	Payment Date	Amount Paid Per Share
October 11, 2002	October 25, 2002	\$0.35
October 17, 2003	October 31, 2003	\$0.60
June 30, 2005	July 15, 2005	\$1.00
September 30, 2005	October 15, 2005	\$0.25

At the Board of Directors meeting held June 10, 2005, the Board declared a dividend of \$1.00 per share payable to stockholders of record as of June 30, 2005 with payment to be made on July 15, 2005. Additionally, the Board changed the payment of dividends from an annual to a quarterly basis and declared a quarterly dividend of \$.25 per share payable to all stockholders of record as of September 30, 2005, with payment to be made on October 15, 2005. At the Board of Directors meeting held September 30, 2005, the Board declared a quarterly dividend of \$0.25 per share payable to stockholders of record as of December 31, 2005, with payment expected on or about January 15, 2006. Dividends are paid at the discretion of the Company's Board of Directors. The Company foresees no change in its ability to pay 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.

Letter to Shareholders

November 30, 2005

To Our Shareholders:

The 2005 fiscal year was possibly one of the most challenging and demanding our Company has ever faced. Company properties were hit by multiple hurricanes, citrus canker was found in two groves, the Company had to implement the provisions of Sarbanes Oxley 404, IRS audits are continuing at Alico and Agri Insurance Ltd. relating to years prior to my becoming the Chairman, and various personnel changes occurred including the resignation of five of our directors. However, I am very pleased with the manner our Company has handled each of these challenges. We have an outstanding group of managers, employees, advisors, suppliers and customers without which the circumstances of the past year could have been even more problematic.

The Company is being guided by highly qualified, experienced and capable directors. The Board is now working well together, has initiated a policy of paying quarterly dividends and is in the process of developing a new strategic plan to guide Management in moving the Company forward, including evaluating the Company's properties as to their highest and best use.

The hurricanes which struck south and central Florida during calendar year 2004, together with the direct hit the Company properties experienced by Hurricane Wilma on October 24, 2005, caused major damage to crops and infrastructure. The winds from these storms also spread citrus canker to several of our grove properties. However, as a result of these events, prices for citrus and sugarcane have improved in the short term. We expect that these price increases, together with indemnities to be received from filed insurance claims, will somewhat compensate for the production losses from these events.

Despite the many obstacles faced, fiscal 2005 was a profitable year for the Company and in numerous ways was a banner year. Net income was \$6.1 million or \$.83 per share for fiscal year 2005 compared with \$17.8 million or \$2.47 per share in fiscal 2004. While the net income was lower in fiscal year 2005 compared with the prior year, \$46.2 million of revenue was deferred pending collection on a mortgage note related to a land sale in Lee County, Florida. This sale represented the single largest transaction the Company has ever completed. Pre-tax income from agricultural operations, the Company's primary business, was \$9.5 million in fiscal 2005 primarily due to higher prices for citrus and beef products. This represented the highest level of income from agricultural operations since 1998.

In October 2005, we obtained a \$175 million line of credit from Farm Credit of Southwest Florida. This credit facility will provide the necessary funds as we work to diversify the Company's agricultural operations and continue to explore real estate acquisitions and development beyond our holdings.

Alico is working to expand its agriculture operations and to diversify its agriculture base. The Company is expanding sod production by approximately 500 acres to take advantage of the strong demand for sod in the south Florida housing market. In September 2004, the assets of LaBelle Plant World, a vegetable transplant business, were purchased and during the 2005-06 season, the Company's wholly-owned subsidiary, Alico Plant World, LLC, is expected to grow and market over 100 million plants. In September 2005, we began planting green beans and sweet corn for the high value fresh vegetable winter market. We are also considering growing other high value vegetables as the farming enterprise is expanded. Additionally, Alico is beginning to mine rock and fill from its property to meet strong demand for earth materials for road construction and land development.

I look forward to the coming year with the knowledge that we have persevered through the adversities of fiscal 2005 and assure you that we intend to continue to strive to achieve superior results for our Company and for you, its shareholders. Thank you for your on-going support and encouragement.

Sincerely,



John R. Alexander
Chairman of the Board

Business

Alico, Inc. (the “Company”), which was formed February 29, 1960 as a spinoff of the Atlantic Coast Line Railroad Company, is an agribusiness company operating in Central and Southwest Florida. The Company’s primary asset is 136,081 acres of land located in Collier, Hendry, Lee and Polk Counties. (See table on Page 10 for location and acreage by current primary use.) The Company is involved in citrus fruit production, cattle ranching, sugarcane and sod production, wholesale greenhouse operations, vegetable production and forestry. The Company also leases land for farming, cattle grazing, recreation, and oil exploration.



Alico citrus grove



Harvesting Floratam sod

operations, are important components of the Company’s land utilization and operation. Gross revenue from these activities during the past five years has ranged from 5 to 9 percent of annual operating revenue.

The Company is not in the retail land sales and development business, except through its wholly owned subsidiary, Saddlebag Lake Resorts, Inc. However, it does from time to time sell properties which, in the judgment of Management and the Board of Directors, are surplus to the Company’s primary operations. Additionally, the Company’s wholly owned subsidiary, Alico-Agri, Ltd., engages in bulk land sales.

For further discussion of the relative importance of the various segments of the Company’s operations, including financial information regarding revenues, operating profits and assets attributable to each major segment of the Company’s business, see Note 13 of Notes to Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this document.



Harvesting sugarcane

The Company’s land is managed for multiple uses wherever possible. For example, cattle ranching, forestry and land leased for farming, grazing, recreation and oil exploration utilize the same acreage in some instances.

During the past five years, agricultural operations have produced between 90 and 95 percent of annual operating revenues. Within the Company’s agriculture operations, citrus groves generate the highest gross operating revenue, the sugarcane and sod division ranks second in average operating revenue production during the past five years and the cattle ranching operation, while it utilizes the largest acreage, ranks third. Approximately 5,602 acres of the Company’s property are classified as timberlands; however, these lands are not highly rated for timber production. They are also utilized as native range in the ranching operation and are leased out for recreation and oil exploration.

Leasing of lands for rock mining and oil and mineral exploration, rental of land for grazing, farming, recreation and other uses, while not classified as agricultural

Subsidiary Operations

The Company has four wholly owned subsidiaries: Saddlebag Lake Resorts, Inc. ("Saddlebag"), Agri-Insurance Company, Ltd. ("Agri"), Alico-Agri, Ltd. ("Alico-Agri"), and Alico Plant World, LLC ("Plant World").

Saddlebag has been active in the subdividing, development and sale of real estate since its inception in 1971. Saddlebag has two subdivisions near Frostproof, Florida, that have been developed and are actively marketing lots. One of the subdivisions has sold all of its units, and approximately 95% of the lots in the second development have been sold.

Agri, formed during fiscal 2000, was created to write crop insurance against catastrophic losses due to weather and disease. Independent third party actuaries compute premiums and coverage amounts for policies issued by Agri. Premiums for indemnities 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 provided catastrophic business interruption insurance for Ben Hill Griffin, Inc. ("Griffin") during fiscal 2003, 2002 and 2001. Agri provided coverage for Tri-County, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock, in fiscal year 2004. Additionally, Agri directly underwrote catastrophic business interruption coverage for its parent company, Alico, Inc., during fiscal 2005, 2004, 2003 and 2002.

Alico-Agri, Ltd. was formed during fiscal 2003 to manage the real estate holdings of Agri. In September 2004, the Company, through Alico-Agri, purchased the assets of LaBelle Plant World, Inc. a wholesale grower and shipper of vegetable transplants to commercial farmers. Plant World was purchased for the purpose of diversifying Alico's agricultural operations



Herding cattle to the cowpens



Screening material for fill dirt



Inside greenhouse

and to leverage Alico's existing relationships with the farming community.

The financial results of the operation of these subsidiaries are consolidated with those of the Company. Intercompany activities and balances are eliminated in consolidation.

At August 31, 2005, the Company owned a total of 136,081 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

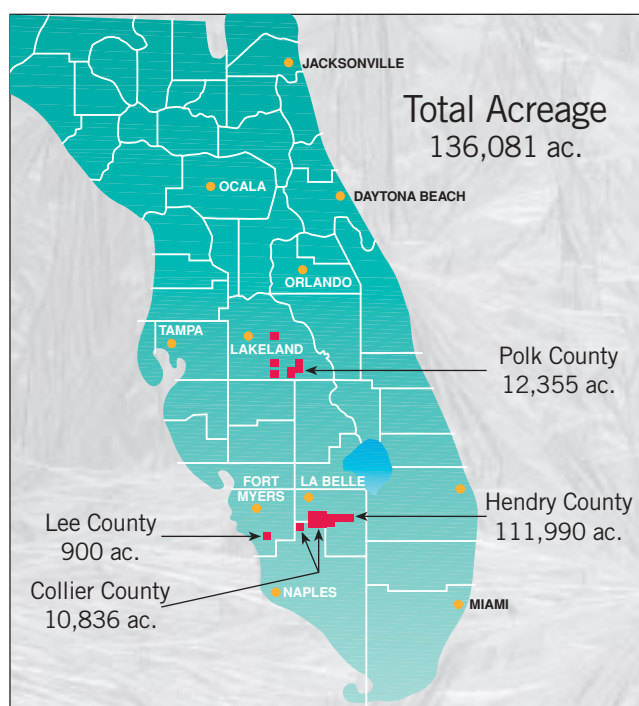
	Lee	Hendry	Polk	Collier	Total
Citrus					
Producing acres	–	2,901	3,114	4,129	10,144
Support and nonproductive*	–	2,754	789	3,197	6,740
Total Citrus	–	5,655	3,903	7,326	16,884
Sugarcane					
Producing acres	–	13,069	–	–	13,069
Support and nonproductive*	–	10,810	–	–	10,810
Total Sugarcane	–	23,879	–	–	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*	–	23,296	1,540	680	25,516
Total Ranch	–	77,807	8,386	3,510	89,703
Farming					
Leased acres	–	2,802	–	–	2,802
Support and nonproductive*	–	1,008	–	–	1,008
Total farming	–	3,810	–	–	3,810
Sod					
Producing acres	–	500	–	–	500
Support and nonproductive*	–	335	–	–	335
Total sod	–	835	–	–	835
Rock and Sand Mining	–	–	–	–	–
Commercial & Residential	900	4	66	–	970
Totals	900	111,990	12,355	10,836	136,081

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

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.



Directors

John R. Alexander

Chairman of the Board, President and Chief Executive Officer
Alico, Inc.

Robert E. Lee Caswell

Founder and Operations Manager
PC Management Company Inc.

Charles L. Palmer*

President and Chief Executive Officer
North American Company, LLLP

Evelyn D'An *

President
D'An Financial Services, Inc.

Rep. Baxter G. Troutman

Representative
District 66, Florida House of Representatives

Phillip S. Dingle*

Managing Partner
and a Founder
HealthEdge
Investment Partners, LLC

CEO

Florida Labor Solutions, Inc.

Prof. Gordon Walker *

Chairman
Department of Strategy
and Entrepreneurship
Southern Methodist University

Gregory T. Mutz*

Lead Director
Alico, Inc.

Chairman of the Board and CEO
AMLI Residential Properties Trust

* Independent Directors

Audit Committee

Gregory T. Mutz, Chairman
Evelyn D'An
Phillip S. Dingle
Gordon Walker

Nominating and Governance Committee

Gordon Walker, Chairman
Gregory T. Mutz
Charles L. Palmer

Compensation Committee

Charles L. Palmer, Chairman
Gregory T. Mutz
Gordon Walker

Strategic Planning Committee

Gordon Walker, Chairman
Gregory T. Mutz
Charles L. Palmer
Baxter G. Troutman

Officers

John R. Alexander, President and Chief Executive Officer

Patrick W. Murphy, Vice President and Chief Financial Officer

Steven M. Smith, Vice President, Citrus Division

B. Wade Grigsby, Vice President, Ranch Division

Dwight Rockers, Vice President, Sugarcane/Farming/Farm Leases

Robert P. Miley, Vice President, Heavy Equipment Division

Denise Plair, Corporate Secretary

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, 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, should, 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 \$84.2 million at August 31, 2005, compared with \$79.9 million at August 31, 2004. Working capital was \$111.2 million at August 31, 2005 and \$115.8 million at August 31, 2004. Management believes that the Company will be able to meet its working capital requirements for the foreseeable future with internally generated funds.

Cash outlay for land, equipment, buildings, and other improvements totaled \$12.9 million during fiscal year 2005, compared to \$7.3 million during fiscal year 2004 and \$7.3 million during fiscal year 2003, respectively. Land preparation for sugarcane and farming re-development and capital maintenance continued in fiscal year 2005, as did expenditures for replacement equipment and raising breeding cattle. In September 2004, the Company, through Alico-Agri, purchased the assets of LaBelle 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. An additional \$1.1 million was spent to refurbish the property in fiscal year 2005.

The Company, through Agri, supplied catastrophic business interruption coverage for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock. Total coverage under the policy was \$2.7 million. This represents the only underwriting exposure at August 31, 2005. Tri-County Grove, LLC discovered citrus canker in their groves in 2005, requiring the total destruction of the majority of their citrus trees. Agri accrued a loss reserve in fiscal year 2005 equal to the total potential exposure under the policy for this claim of \$1.4 million.

The sale of a Lee County parcel closed in escrow during July 2005. The sales price was \$62.9 million consisting of \$6.2 million in cash at closing with the balance held as a 2.5% mortgage note receivable of \$56.7 million payable in four equal principal installments together with accrued interest annually for the next four years. Both the cash and mortgage note were placed in escrow to allow for the possibility of like-kind exchanges. In October 2005, the Company exchanged a portion of the escrowed funds for a \$9.2 million parcel of property in Polk County, Florida. The Company has identified and entered into agreements to acquire several other parcels as candidates for exchange, and should they close, the escrowed funds will be used for like-kind exchanges. However, the agreements are subject to various contingencies, and there is no assurance that they will close. To qualify for like-kind exchange treatment, the identified property acquisitions must occur on or before January 2006.

Another sale in Lee County is expected to close in fiscal year 2007. This contract is for a gross sales price of \$75.5 million, consisting of \$7.6 million in cash at closing with the balance payable over four years as a 2.5% mortgage note receivable of \$67.9 million. The Company is exploring its options under the contract, including the possibility of a like-kind exchange. The agreement is subject to various contingencies and there is no assurance that it will close or that it will close within the time period stated.

In March 2005, the Company entered into a contract to sell approximately 280 acres of citrus grove land located south of Labelle, Florida in Hendry County for \$5.6 million. The transaction is expected to close in fiscal year 2006. The Company will retain operating rights to the grove until residential development begins.

Hurricane Wilma, a category three hurricane, swept through southwest Florida on October, 24, 2005, causing extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. Preliminary estimates indicate a loss of approximately 28% of the Company's citrus crop, 50% of the Company's sugarcane crop, and 100% of the Company's vegetable crops. Approximately 83% of the Company's greenhouses sustained varying levels of damage along with numerous other buildings and structures used to support the Company's agribusiness operations in Collier and Hendry Counties. Due to the large amount of rainfall in the area, much of the Company's property remained under water for weeks after the storm, which may affect the Company's cattle herd. Insurance proceeds are expected to cover a portion of the losses. The losses related to hurricane Wilma will be recognized in the first quarter of fiscal year 2006. The Company is still working to quantify the loss. Management expects continued profitability from the Company's agricultural operations in fiscal 2006, but at significantly reduced levels from fiscal year 2005 due to the hurricane.

Gross profits from citrus operations are expected to decrease in fiscal year 2006 when compared to fiscal year 2005. Due to increased citrus canker discoveries, hurricane damage, and real estate development in Florida, the Florida citrus crop is forecast to be much smaller than the previous five year average. The smaller crop should cause the price of citrus products to increase. However, due primarily to the damages sustained during the hurricane, consisting of the crop loss described above, citrus profits are expected to be significantly less than their fiscal year 2005 levels.

Management expects sugarcane operations to post a loss in fiscal year 2006, due to the damages experienced by Hurricane Wilma. The Company's cattle operations in fiscal year 2006 are expected to remain profitable but at lower levels than in fiscal year 2005. To take advantage of favorable market conditions in fiscal year 2005, the Company elected to sell a portion of its calves instead of delivering them to feedlots for later sales. This election caused beef cattle inventory to decrease at August 31, 2005 compared to the prior year and will ultimately result in less units available for sale in fiscal year 2006 compared with fiscal year 2005.

Royalties from rock and sand products will decrease significantly if not cease altogether in fiscal year 2006. The Lee County property on which the mining operations were located was sold in fiscal year 2005. The Company is currently exploring sites suitable for rock and sand mining.

At its meeting on June 10, 2005 the Board of Directors authorized the payment of regular quarterly dividends beginning with the end of the Company's fourth quarter on August 31, 2005. The first such dividend in the amount of \$0.25 was paid to shareholders of record as of September 30, 2005 on October 15, 2005. Additionally, at its Board of Directors meeting held on September 30, 2005, the Board declared a quarterly dividend of \$0.25 per share payable to stockholders of record as of December 31, 2005, with payment expected on or about January 15, 2006.

In October 2003 the IRS began an examination of the Company tax returns for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. Any assessments resulting from the examinations will be currently due and payable. No assessments have been proposed to date. A revenue agent issued a report in May 2004 that challenged Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputes the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent has proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. Currently, discussions are ongoing between the agents and Agri as to the technical requirements and the appropriate scope for the proposed TAM filing. The IRS has not proposed any adjustments to date for Alico. The Company cannot predict what position the IRS will ultimately take with respect to this matter. The Revenue Agent's report regarding Alico could be issued within the current fiscal year.

At August 31, 2005 the Company had credit commitments that provided for revolving credit of up to \$44.0 million, of which \$7.7 million was available for the Company's general use (see Note 6 of Notes to consolidated financial statements).

In October 2005, Alico, Inc. entered into a Credit Facility with a commercial lender. The Credit Facility provides the Company with a \$175 million revolving line of credit until August 1, 2010 to be used for general corporate purposes including: (i) the normal operating needs of the Company and its operating divisions, (ii) to refinance existing lines of credit and (iii) to finance the Ginn Receivable (as defined in the Loan Agreement). The terms also allow an annual extension at the lender's option.

Under the Credit Facility, revolving borrowings require quarterly interest payments beginning January 1, 2006 at LIBOR plus a variable rate between 0.8% and 1.5% depending on the Company's debt ratio. Alico is required to reduce the line of credit annually by approximately \$14 million in August 2006, \$31 million in August 2007 and \$31 million in August 2008, leaving a remaining balance of \$100 million from August 1, 2008 to the note's maturity at August 1, 2010.

The line of credit is secured by a first mortgage on approximately 7,680 acres of agricultural property in Hendry County, Florida and any subsequent real estate acquisitions by the Company obtained with advances under the Credit Facility.

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

The Credit Facility also contains numerous restrictive covenants including those requiring the Company to maintain minimum levels of net worth, retain certain Debt, Current and Fixed Charge Coverage Ratios, and set limitations on the extension of loans or additional borrowings by the Company or any subsidiary.

A copy of the Credit Facility is included as Exhibits 10.01 and 10.02 to the Company's Form 8-K dated October 11, 2005, and such Exhibits are incorporated by references.

Results of Operations

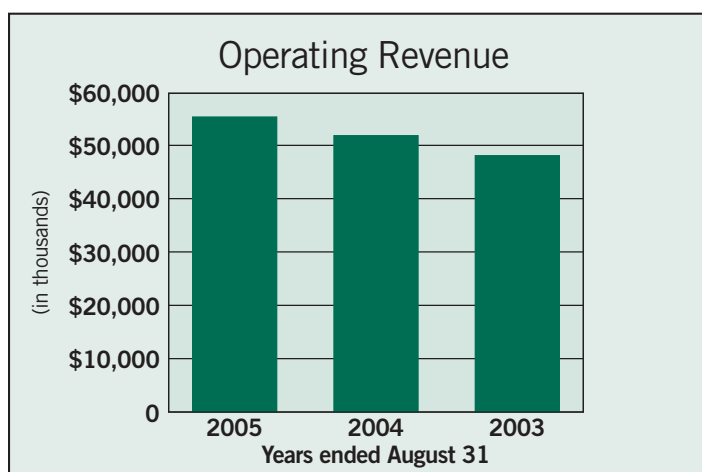
Summary of results (in thousands)

	Years Ended August 31		
	2005	2004	2003
Operating revenue	\$55,525	\$52,057	\$48,285
Gross profit	12,985	13,138	11,022
General and administrative expenses	10,664	6,471	6,319
Income from operations	2,321	6,667	4,703
Profit on sale of real estate	5,465	20,311	14,994
Interest and investment income	4,443	2,519	1,201
Interest expense	2,295	1,825	2,081
Other income	(696)	128	267
Provision for income taxes	3,148	9,987	6,425
Effective income tax rate	34.1%	35.9%	33.7%
Net income	\$6,090	\$17,813	\$12,659

Operating Revenue

Operating revenues for fiscal year 2005 increased compared with fiscal year 2004. An increase in revenues from agricultural activities (discussed separately below) was the most significant factor causing the increase.

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



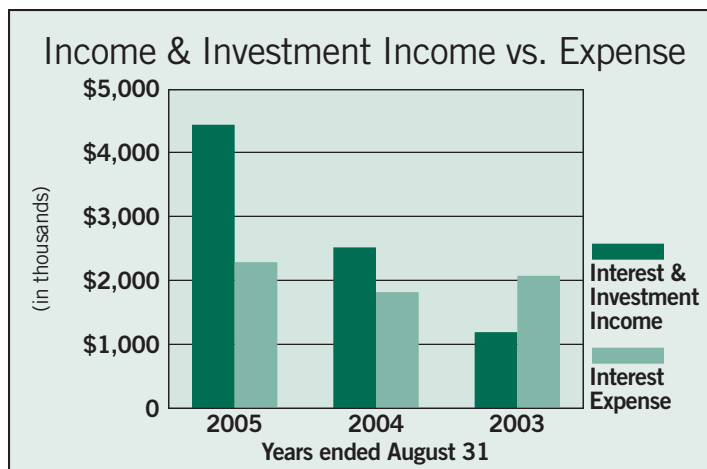
Income (loss) from Operations

Income from operations was lower in fiscal year 2005 than fiscal year 2004 (\$2.3 million in fiscal year 2005 as compared with \$6.7 million in fiscal year 2004). The decreased income was due to several factors, most notably an increase in general and administrative costs related to the evaluation of a merger possibility (\$1.5 million), costs incurred for compliance with Sarbanes Oxley Section 404 (\$0.7 million), consulting (\$0.5 million), Director fees (\$0.5 million) and continuing costs related to the IRS audits (\$0.5 million) contributed to the increase in general and administrative expenses.

Income from operations was higher in fiscal year 2004 than fiscal year 2003 (\$6.7 million in fiscal year 2004 vs. \$4.7 million in fiscal year 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 increased due to continued development around southwest Florida.

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 years 2005, 2004 and 2003, increasing investment levels during each year.



Interest and investment income increased in fiscal year 2005 when compared with fiscal year 2004 (\$4.4 million vs. \$2.5 million in fiscal year 2005 and 2004, respectively). The increase was caused by an increase in investment level in fiscal year 2005 when compared with fiscal year 2004 (\$70.8 million at August 31, 2005 vs. \$55.6 million at August 31, 2004), coupled with improved conditions in the financial markets and higher interest rates. The investment levels increased due to the reinvestment of realized investment earnings, together with additional invested capital.

Interest and investment income increased in fiscal year 2004 when compared with fiscal year 2003 (\$2.5 million vs. \$1.2 million in fiscal year 2004 and 2003, respectively). The increase was caused by an increase in investment level in fiscal year 2004 when compared with fiscal year 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.

Interest Expense

Interest expense increased during fiscal year 2005 when compared to fiscal year 2004 due to higher interest rates. The majority of the Company's borrowings are based on the London interbank offered rate (LIBOR). The LIBOR increased by approximately 1% during the year to 3.69%.

Interest expense declined during fiscal year 2004 when compared to fiscal year 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.

Individual Operating Divisions

Gross profits for the individual operating divisions, for fiscal years 2005, 2004 and 2003, are presented in the following schedule and are discussed in subsequent sections:

(in thousands)	Years Ended August 31		
	2005	2004	2003
Citrus			
Revenue	\$ 26,231	\$ 24,549	\$ 24,107
Expense	19,984	20,407	20,106
Gross profit, citrus	6,247	4,142	4,001
Sugarcane and Sod			
Revenue	\$ 9,725	\$ 12,398	\$ 13,373
Expense	9,304	9,673	10,188
Gross profit, sugarcane and sod	421	2,725	3,185
Ranch			
Revenue	\$ 11,017	\$ 9,678	\$ 7,175
Expense	8,908	8,178	6,790
Gross profit, ranch	2,109	1,500	385
Plants and Trees			
Revenue	\$ 2,818	\$ 407	\$ 292
Expense	2,128	—	—
Gross profit, plants and trees	690	407	292
Total gross profit, agriculture	\$ 9,467	\$ 8,774	\$ 7,863
Other Operations			
Revenue			
Rock products and sand	\$ 2,991	\$ 3,448	\$ 2,154
Land rentals	1,933	1,171	973
Other revenue	—	128	267
Total revenue, other operations	4,924	4,767	3,394
Costs and expenses			
General and administrative, all operations	\$ 10,664	\$ 6,471	\$ 6,319
Other costs and expenses	696	—	—
Casualty loss	1,888	408	—
Total costs and expenses, other operations	13,248	6,879	6,319
Gross profit (loss), other operations	(8,324)	(2,132)	(2,925)
Interest and Dividends			
Revenue	\$ 4,443	\$ 2,519	\$ 1,201
Expense	2,295	1,825	2,081
Interest and dividends, net	2,148	694	(880)
Real Estate			
Sale of real estate	\$ 16,226	\$ 33,481	\$ 16,990
Expense	10,279	13,017	1,964
Gain on sale of real estate	5,947	20,464	15,026
Income before income taxes	\$ 9,238	\$ 27,800	\$ 19,084

Citrus

Gross profit was \$6.2 million in fiscal year 2005, \$4.1 million in fiscal year 2004, and \$4.0 million for fiscal year 2003.

Revenue from citrus sales increased 7% during fiscal year 2005 compared with fiscal year 2004 (\$26.2 million in fiscal year 2005 vs. \$24.5 million in fiscal year 2004). Total field boxes of citrus harvested decreased to 3.9 million in fiscal year 2005 from 4.6 million in

fiscal year 2004. A series of three hurricanes struck Florida during August and September of 2004, which caused damage to much of Florida's citrus crop, including the Company's crops grown in Polk County, Florida.

The crop damages created by the hurricanes caused a reduction in the supply of Florida citrus (150 million boxes in fiscal year 2005 from 242 million boxes in fiscal year 2004), resulting in improved citrus prices (\$6.56 average per box in fiscal year 2005 vs. \$5.36 average per box in fiscal year 2004). The improvement in revenue per box is the primary cause of the profitability increase in the Citrus division.

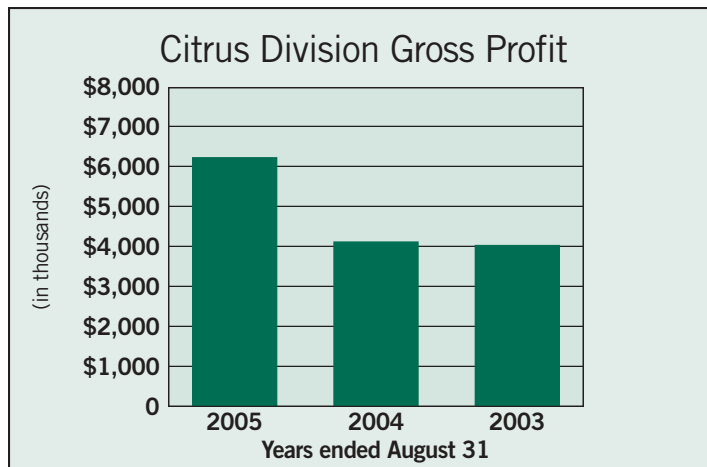
Total citrus expenses declined during fiscal year 2005 (\$20.0 million compared with \$20.4 million in fiscal years 2005 and 2004, respectively). The decline in expense was primarily due to the decreased number of field boxes harvested in fiscal year 2005 compared with fiscal year 2004 as discussed above.

Citrus canker was discovered in several of the Company's groves in Hendry and Polk Counties during fiscal year 2005. Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. In an effort to eradicate the disease, Florida law requires infected and exposed trees within 1900 feet of the canker find to be removed and destroyed. As a result of the canker discoveries, approximately 940 acres of citrus trees were destroyed. In accordance with the Florida Canker Eradication Program, citrus may not be replanted on the property until it has been determined that the property has been canker-free for two years. Accordingly, the Company is evaluating the properties for their best future use.

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

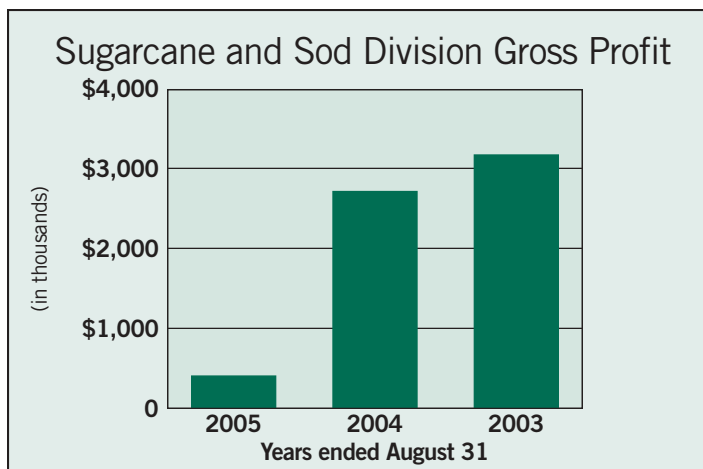
Total citrus expenses increased during fiscal year 2004 (\$20.4 million compared with \$20.1 million in fiscal year 2004 and 2003, respectively). The increased expense was primarily due to the increased number of field boxes harvested in fiscal year 2004 compared with fiscal year 2003.

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 \$357 thousand, \$728 thousand, and \$198 thousand during fiscal years 2005, 2004 and 2003, respectively.



Sugarcane and Sod

Gross profit for fiscal year 2005 was \$0.4 million, compared with \$2.7 million in fiscal year 2004 and \$3.2 million in fiscal year 2003. The 2005, 2004, and 2003 fiscal year crops yielded approximately 407,000, 465,000 and 523,000 standard tons, respectively. The total number of tons that can be harvested is limited by government imposed quotas. Yields per acre were 40.71, 44.25, and 45.51 for the 2005, 2004 and 2003 fiscal years, respectively.



Sales revenue from sugarcane and sod decreased to \$9.7 million in fiscal year 2005 from \$12.4 million in the prior fiscal year. The decrease was primarily due to two factors, the reduced number of tons harvested due to quotas as outlined above, and reduced prices (\$22.91 per ton average in fiscal year 2005 compared with \$25.02 per ton average in fiscal year 2004). The decrease in revenue was the primary reason for the gross profit decrease in fiscal year 2005 when compared with fiscal year 2004.

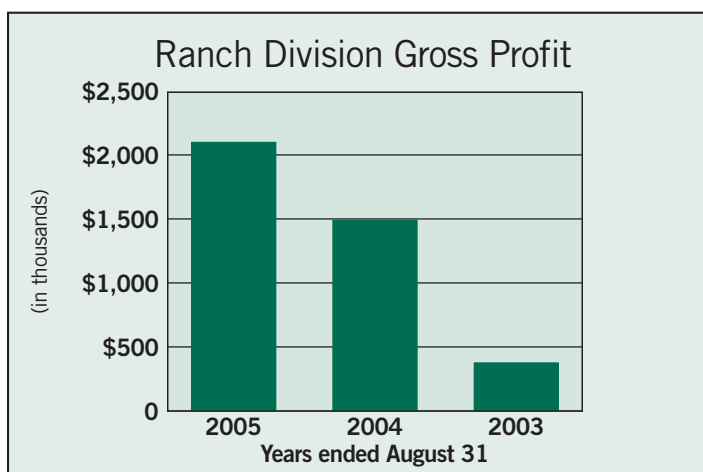
Due to the decreased number of tons harvested, total expenses in fiscal year 2005 were below fiscal year 2004 total expenses (\$9.3 million compared with \$9.7 million in fiscal year 2005 and 2004, respectively).

Sales revenue from sugarcane and sod decreased to \$12.4 million in fiscal year 2004 from \$13.4 million in fiscal year 2003. Due to normal crop rotation and replanting in fiscal year 2004, fewer acres were harvested (11,131 in fiscal year 2004 compared with 11,840 in fiscal year 2003). This was the primary cause of the decrease in sales revenue for fiscal year 2004. The reduced acres harvested in fiscal year 2004 also resulted in lower total expenses than in the prior year (\$9.7 million in fiscal year 2004 vs. \$10.2 million in fiscal year 2003).

Ranch

The gross profit from ranch operations for fiscal years 2005, 2004 and 2003 was \$2.1 million, \$1.5 million, and \$0.4 million, respectively.

Revenues from cattle sales increased by 14% to \$11.0 million in fiscal year 2005, compared to \$9.7 million in the previous fiscal year. The increase in revenue was due to an increase in the number of cattle sold (13,257 in fiscal year 2005 compared with 10,603 in fiscal year 2004) coupled with increased



prices for beef cattle (\$0.90 per pound average in fiscal year 2005 compared with \$0.82 per pound average in fiscal year 2004). Prices increased as a result of a decrease in the domestic beef supply. In order to take advantage of a favorable marketing opportunity, the Company sold 3,480 calves in lieu of placing the calves into the feedlot. This resulted in the Company selling more cattle in fiscal year 2005 than in the previous year. As a result of the increase in the number of cattle sold in fiscal year 2005, total expenses likewise increased to \$8.9 million in fiscal year 2005 from \$8.2 million in fiscal year 2004.

Revenues from cattle sales increased by 35% to \$9.7 million in fiscal year 2004, compared to \$7.2 million in the previous fiscal year. The increase was due to an increase in the number of cattle sold (10,603 in fiscal year 2004 compared with 9,062 in fiscal year 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 year 2004 than in fiscal year 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 year 2004, costs increased to \$8.2 million in fiscal year 2004 from \$6.8 million in fiscal year 2003.

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

Plants and Trees

In September 2004, in order to diversify Alico's agricultural operations and leverage its existing relationships within the farming community, the Company formed a subsidiary, Alico Plant World, LLC and purchased the assets of a wholesale grower and shipper of vegetable transplants to commercial farmers. During fiscal year 2005, Plant World shipped approximately 69.9 million transplants to various farmers in several states. Plant World generated revenue of \$2.6 million, incurred costs and expenses of \$2.1 million and recorded a net profit before taxes of \$0.5 million.

Profits from the sale of sabal palms and other horticultural items utilized for landscaping purposes, during fiscal year 2005 were \$0.2 million compared with \$0.4 million and \$0.3 million for fiscal years 2004 and 2003, respectively.

Other Operations

Returns from rock products and sand were \$3.0 million for fiscal year 2005, \$3.4 million for fiscal year 2004 and \$2.2 million during fiscal year 2003. Royalties from rock and sand products will decrease significantly if not cease altogether in fiscal year 2006. The Lee County property on which the mining operations were located was sold in fiscal year 2005. The Company is currently exploring sites suitable for rock and sand mining.

Revenues from land rentals were \$1.9 million in fiscal year 2005, as compared with \$1.2 million in fiscal year 2004 and \$1.0 million for fiscal year 2003. During fiscal years 2005 and 2004, in response to increased prices and demand for Southwest Florida real estate, the Company raised its rental rates for properties. The fiscal year 2004 improvement is primarily due to an increase in the amount of land leased for farming.

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 \$10.7 million during fiscal year 2005, compared with \$6.5 million during fiscal year 2004 and \$6.3 million during fiscal year 2003. The increase in general and administrative costs largely related to the evaluation of a merger possibility (\$1.5 million), costs incurred for compliance with Sarbanes Oxley section 404 (\$0.7 million), consulting (\$0.5 million), Director fees (\$0.5 million) and continuing costs related to the IRS audits (\$0.5 million).

Casualty Loss

A series of three hurricanes struck Florida during August and September of 2004, which caused damage to the Company's citrus crops grown in Polk County, Florida and the Company's sugarcane crop grown in Hendry County, Florida. Additionally, citrus canker was discovered in several of the Company's groves in Hendry and Polk Counties during fiscal year 2005. As a result of the canker discoveries, approximately 940 acres of citrus trees were destroyed. The resulting loss of \$1.9 million, consisting of inventoried costs and the basis of trees and crops destroyed net of insurance proceeds expected, was recorded in fiscal year 2005.

Profit on Sale of Real Estate

Profit from retail land sales made through Saddlebag were \$482 thousand in fiscal year 2005, \$153 thousand in fiscal year 2004 and \$32 thousand during fiscal year 2003. Profit from bulk land sales were \$5.5 million in fiscal year 2005, \$20.3 million in fiscal year 2004 and \$15.0 million in fiscal year 2003.

As discussed below, a sales contract is in place for all of the remaining Lee County property with the closing expected within the next two fiscal years. The total sales price of the contract is \$75.5 million. The Board of Directors has not decided 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 is a sales contract in place for all this property, totaling \$75.5 million. The agreement is in the due diligence stage with the closing date expected within the next two fiscal years. The contract is subject to various contingencies and there is no assurance that it will close or that it will close within the time period stated..

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.

Premiums for quoted coverages 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 underwrote a limited amount of coverage for Ben Hill Griffin, Inc. during fiscal years 2001 – 2004. Since August 2002, Agri has insured the Alico, Inc. citrus groves. 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.

In 2004, Agri wrote an insurance policy for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock. The coverage term was from August 2004 to July 2005. Total coverage under the policy was \$2.7 million and the premium charged was \$45 thousand. Tri-County Grove, LLC discovered citrus canker in their groves in 2005, requiring the total destruction of the majority of their citrus trees. Agri accrued a loss reserve in fiscal year 2005, equal to the total potential exposure under the policy for this claim of \$1.4 million.

During the third quarter of fiscal year 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.

The sale of a Lee County parcel closed in escrow during July 2005. The sales price was \$62.9 million consisting of \$6.2 million in cash at closing with the balance held as a 2.5% mortgage note receivable of \$56.7 million payable in four equal principal installments together with accrued interest annually for the next four years. Both the cash and mortgage note were placed in escrow to allow for the possibility of like-kind exchanges. In October 2005, the Company exchanged a portion of the escrowed funds for a \$9.2 million parcel of property in Polk County, Florida. The Company has identified and entered into agreements to acquire several other parcels as candidates for exchange, and should they close, the escrowed funds will be used exclusively for like-kind exchanges. However, the agreements are subject to various contingencies, and there is no assurance that they will close. To qualify for like-kind exchange treatment, the identified property acquisitions must occur on or before January 2006.

In March 2005, the Company entered into a contract to sell approximately 280 acres of citrus grove land located south of Labelle, Florida in Hendry County for \$5.6 million. The transaction is expected to close in fiscal year 2006. The Company will retain operating rights to the grove until development begins.

During the second quarter of fiscal year 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 note receivable, which was collected in December 2004.

During the fourth quarter of fiscal year 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 of Florida for \$617 thousand, generating a gain of \$612 thousand.

In the fourth quarter of fiscal year 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.

John R. Alexander, Robert E. Lee Caswell, Evelyn D'An, Phillip S. Dingle, Gregory T. Mutz, Charles Palmer, Baxter G. Troutman, and Dr. Gordon Walker were elected by the stockholders to serve as directors of the Corporation at its annual stockholders meeting held June 10, 2005. Additionally, the stockholders approved the Alico, Inc. Director Stock Compensation Plan.

At the annual meeting of the Board of Directors following the Stockholders meeting, the Board re-elected Mr. Alexander as Chairman, President and Chief Executive Officer and Mr. Gregory T. Mutz as Lead Director. Mr. Alexander had been appointed by the Board to serve as Acting Chief Executive Officer beginning March 1, 2005, following the retirement of W. Bernard Lester on February 28, 2005. Mr. Alexander previously held the office of Chief Executive Officer of the Company between February and June of 2004 when he voluntarily relinquished that position and nominated Mr. Lester to replace him. The Board also re-elected Patrick W. Murphy as Chief Financial Officer. Mr. Murphy has served as Chief Financial Officer since April 15, 2005, following the resignation of L. Craig Simmons.

On February 1, 2005, directors Richard C. Ackert, William L. Barton, Larry A. Carter, Stephen M. Mulready and Thomas E. Oakley (the "Independent Directors") resigned as directors of the board of Alico and stated that they would not run for reelection at the Company's next annual meeting of stockholders. The resignations caused the Company to be out of compliance with the independent director, compensation committee, nomination committee and audit committee requirements for continued listing on The Nasdaq Stock Market under Marketplace Rules 4350(c)(1), 4350(c)(3), 4350(c)(4)(A)

and 4350(d)(2), respectively, and was so notified by the Nasdaq Listing Qualifications Department in writing.

The Company responded with a written plan for compliance and began to solicit and consider qualified Director Nominees.

On February 24, 2005, Gregory T. Mutz and Robert E. Lee Caswell were elected to the Company's Board of Directors.

On April 1, 2005, the Company received a letter from the Listing Qualifications Department of the Nasdaq Stock Market indicating that unless appealed and their determination reversed, Alico's securities would be delisted from the Nasdaq Stock Market. On April 7, 2005, the Company filed a notice of appeal and requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff's determination. On April 4, 2005, the Company's Directors elected Dr. Gordon Walker to the Board of Directors of Alico as an Independent Director. Also on April 4, 2005, the Company accepted the resignation of Mr. J. D. Alexander as a director of the Company.

On April 6, 2005, the Company's Directors elected Messrs. Charles Palmer and Phillip S. Dingle to the Board of Directors. On April 25, 2005, the Company announced the election of Evelyn D'An to its Board of Directors. Mr. Mutz, Dr. Walker, Mr. Palmer, Mr. Dingle and Ms. D'An have been determined to be Independent Directors.

As a result of the election of these new Independent Directors, the Company was able to reconstitute its Audit Committee and its various other committees requiring the participation of Independent Directors. As a result of such compliance, the Nasdaq Listing Qualifications Panel determined that the delisting notice was moot. The Company's stock was never delisted, and the Company is now in compliance with all applicable marketplace rules.

The Company has issued press releases and filed periodic reports on Form 8-K relating to the foregoing events.

In August 2004 Atlantic Blue Trust, Inc., the Company's largest stockholder, requested that the Company consider a restructuring of the Company. On January 31, 2005, Atlantic Blue Trust, Inc. withdrew its request.

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 a 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 acknowledged that it will not proceed with a transaction to acquire Alico without the support of Atlantic Blue Trust and its stockholders.

Recent events

Hurricane Wilma, a category three hurricane, swept through southwest Florida in October, 2005, causing extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. Preliminary estimates indicate a loss of approximately 28% of the Company's total citrus crop, 50% of the Company's sugarcane crop, and 100% of the Company's vegetable crops. Approximately 83% of the Company's greenhouses sustained varying levels of damage along with numerous other buildings and structures used to support the Company's various agribusiness operations in Collier and Hendry Counties. Due to the large amount of rainfall in the area, much of the Company's property remained under water for weeks after the storm, which may affect the Company's cattle herd. Insurance proceeds are expected to cover a portion of the losses. The loss related to hurricane Wilma will be recognized in the first quarter of fiscal year 2006. The Company is still working to quantify the loss.

In October 2005, Alico, Inc. entered into a Credit Facility with a commercial lender. The Credit Facility provides the Company with a \$175 million revolving line of credit until August 1, 2010 to be used for general corporate purposes including: (i) the normal operating needs of the Company and its operating divisions, (ii) to refinance existing lines of credit and (iii) to finance the Ginn Receivable (as defined in the Loan Agreement). The terms also allow an annual extension at the lender's option.

Under the Credit Facility, revolving borrowings require quarterly interest payments beginning January 1, 2006 at LIBOR plus a variable rate between 0.8% and 1.5% depending on the Company's debt ratio. Alico is required to reduce the line of credit annually by approximately \$14 million in August 2006, \$31 million in August 2007 and \$31 million in August 2008, leaving a remaining balance of \$100 million from August 1, 2008 to the note's maturity at August 1, 2010.

The line of credit is secured by a first mortgage on approximately 7,680 acres of agricultural property in Hendry County, Florida and any subsequent real estate acquisitions by the Company obtained with advances under the Credit Facility.

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

The Credit Facility also contains numerous restrictive covenants including those requiring the Company to maintain minimum levels of net worth, retain certain Debt, Current and Fixed Charge Coverage Ratios, and set limitations on the extension of loans or additional borrowings by the Company or any subsidiary.

A copy of the Credit Facility is included as Exhibits 10.01 and 10.02 to the Company's Form 8-K dated October 11, 2005, and such Exhibits are incorporated by references.

In October 2005, the Company exchanged a portion of the escrowed funds resulting from the Lee County property sale for a \$9.2 million parcel of property in Polk County, Florida. The Company has also identified and expects to enter into agreements to acquire several other parcels as candidates for exchange. Should these agreements close, the escrowed funds will be used exclusively for like-kind exchanges. The agreements are subject to various contingencies and there is no assurance that they will close. To qualify for like-kind exchange treatment, the identified acquisitions must occur by January 2006.

At a Board of Directors meeting held September 30, 2005, the Board declared a quarterly dividend of \$0.25 per share payable to stockholders of record as of December 31, 2005, with payment expected on or about January 15, 2006.

Off Balance Sheet Arrangements

The Company, through Agri, supplied catastrophic business interruption coverage for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock. The coverage term was from August 2004 to July 2005. Total coverage under the policy was \$2.7 million and the premium charged was \$45 thousand. Tri-County Grove, LLC discovered citrus canker in their groves in 2005, requiring the total destruction of the majority of their citrus trees. Agri accrued a loss reserve of \$1.4 million in fiscal year 2005, equal to the total potential exposure under the policy for this claim.

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

The contractual obligations of the Company at August 31, 2005 are set forth in the table below:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>5+ years</u>
Long-term debt	\$ 51,348	\$ 3,309	\$ 40,957	\$ 2,585	\$ 4,497
Pension plans	4,808	432	688	688	3,000
Commissions	2,834	709	2,125	–	–
Donations	1,547	776	771	–	–
Insurance claims	1,404	1,404	–	–	–
Purchase obligations	50	50	–	–	–
Total	\$ 61,991	\$ 6,680	\$ 44,541	\$ 3,273	\$ 7,497

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 more current 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 \$357 thousand, \$728 thousand, and \$198 thousand during fiscal year 2005, 2004, and 2003, 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 changes to the sugar pool have caused the Company to adjust revenue from the prior year's crop by (\$198 thousand), \$325 thousand, and \$356 thousand during the fiscal year 2005, 2004, and 2003, respectively.

In accordance with Statement of Position 85-3 "Accounting by Agricultural Producers and Agricultural Cooperatives", the cost 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.

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 a stated annual level (\$350 thousand). Annual third party premiums have remained below the stated 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 that it may possibly be successful, Management has provided for this contingency.

In October 2003 the IRS began an examination of the Company tax returns for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. Any assessments resulting from the examinations will be currently due and payable. No assessments have been proposed to date. A revenue agent issued a report in May 2004, challenging Agri’s tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputes the facts, interpretation of law, and conclusions cited in the Agent’s report. Upon receipt of Agri’s response in July 2004, the Agent has proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. Currently, discussions are ongoing between the agents and Agri as to the technical requirements and the appropriate scope for the proposed TAM filing. The IRS has not proposed any adjustments to date for Alico. The Company cannot predict what position the IRS will ultimately take with respect to this matter. The Revenue Agent’s report regarding Alico could be issued within the current fiscal year.

Quantitative and Qualitative Disclosure About Market Risk

Alico's exposure to market rate risk and changes in interest rates relate primarily to its investment portfolio and revolving credit lines. Investments are placed with high quality issuers and, by policy, limit the amount of credit exposure to any one issuer. Alico is adverse to principal loss and provides for the safety and preservation of invested funds by limiting default, market and reinvestment risk. The Company classifies cash equivalents and short-term investments as fixed-rate if the rate of return on such instruments remains fixed over their term. These fixed-rate investments include fixed-rate U.S. government securities, municipal bonds, time deposits and certificates of deposit. Cash equivalents and short-term investments are classified as variable-rate if the rate of return on such investments varies based on the change in a predetermined index or set of indices during their term. These variable-rate investments primarily include money market accounts, mutual funds and equities held at various securities brokers and investment banks.

The table below presents the costs and estimated fair value of the investment portfolio at August 31, 2005:

Marketable Securities and Short-term Investments (1)	Cost	Estimated Fair Value
Fixed Rate	\$42,588	\$42,277
Variable Rate	\$24,875	\$28,547

(1) See definition in Notes 1 and 2 in Notes to Consolidated Financial Statements.

The aggregate fair value of investments in debt instruments (net of mutual funds of \$4,423) as of August 31, 2005, by contractual maturity date, consisted of the following:

	<u>Aggregate Fair Values</u>
Due in one year or less	\$ 6,843
Due between one and five years	8,812
Due between five and ten years	4,490
Due thereafter	<u>17,709</u>
Total	<u>\$37,854</u>

Fixed rate securities tend to decline with market rate interest increases. Variable rate securities are generally affected more by general market expectations and conditions. Additionally, the Company has debt with interest rates that vary with the LIBOR. A 1% increase in this rate would impact the Company's annual interest expense by approximately \$363 thousand based on the Company's outstanding debt under these agreements at August 31, 2005.

TEDDER, JAMES, WORDEN & ASSOCIATES, P.A.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

AN INDEPENDENTLY OWNED MEMBER OF THE RSM MCGGLADREY NETWORK

Report of Independent Registered Certified Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Alico, Inc. and Subsidiaries as of August 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the years 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 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 as of August 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Alico, Inc. and Subsidiaries internal control over financial reporting as of August 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated November 17, 2005, expressed an unqualified opinion on management's assessment of the effectiveness of Alico, Inc.'s internal control over financial reporting and an opinion that Alico, Inc. had not maintained effective internal control over financial reporting as of August 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Orlando, Florida
November 17, 2005



KPMG LLP
Suite 1600
111 North Orange Avenue
PO Box 3031
Orlando, FL 32802

Report of Independent Registered Public Accounting Firm

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

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

We conducted our audits in accordance with 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 results of operations and cash flows of Alico, Inc. and subsidiaries for the year ended August 31, 2003 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Orlando, Florida
October 10, 2003

Consolidated balance sheets

(in thousands)

	August 31	
	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 13,384	\$ 24,299
Marketable securities available for sale	70,824	55,570
Accounts receivable	11,216	9,118
Mortgages and notes receivable, current portion	2,370	9,983
Land inventories	1,809	5,501
Inventories	20,902	20,772
Deposits in escrow	6,812	-
Other current assets	<u>1,660</u>	<u>682</u>
Total current assets	<u>128,977</u>	<u>125,925</u>
Other assets		
Mortgages and notes receivable, net of current portion	6,395	662
Investments	692	1,069
Cash surrender value of life insurance, designated	<u>5,676</u>	<u>4,900</u>
Total other assets	<u>12,763</u>	<u>6,631</u>
Property, buildings and equipment	150,997	147,756
Less accumulated depreciation	<u>(45,043)</u>	<u>(42,070)</u>
Net property, buildings and equipment	<u>105,954</u>	<u>105,686</u>
Total assets	<u>\$247,694</u>	<u>\$238,242</u>

	August 31	
	<u>2005</u>	<u>2004</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 2,180	\$ 1,743
Due to profit sharing plan	432	434
Accrued ad valorem taxes	2,008	1,678
Current portion of notes payable	3,309	3,319
Dividends payable	1,842	-
Accrued expenses	2,100	1,068
Commissions payable	709	-
Insurance claims payable	1,404	-
Income taxes payable	-	753
Deposits	779	-
Deferred income taxes	2,280	376
Donation payable	776	765
	<hr/>	<hr/>
Total current liabilities	17,819	10,136
Deferred revenue	-	266
Commissions payable, net of current portion	2,125	-
Notes payable, net of current portion	48,039	48,266
Deferred income taxes	13,424	11,445
Deferred retirement benefits	4,376	4,464
Other noncurrent liabilities	16,954	16,954
Donation payable, net of current portion	771	1,513
	<hr/>	<hr/>
Total liabilities	103,508	93,044
Stockholders' equity		
Preferred stock, no par value. Authorized 1,000 shares; issued, none	-	-
Common stock, \$1 par value. Authorized 15,000 shares; issued and outstanding 7,369 in 2005 and 7,309 in 2004	7,369	7,309
Additional paid in capital	9,183	7,800
Accumulated other comprehensive income	2,195	1,529
Retained earnings	125,439	128,560
	<hr/>	<hr/>
Total stockholders' equity	144,186	145,198
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$247,694	\$238,242

See accompanying notes to consolidated financial statements.

Consolidated statements of operations

(in thousands except per share amounts)

	Years Ended August 31		
	2005	2004	2003
Revenue			
Citrus	\$ 26,231	\$ 24,549	\$ 24,107
Sugarcane and sod	9,725	12,398	13,373
Ranch	11,017	9,678	7,175
Rock and sand royalties	2,991	3,448	2,154
Land rentals	1,933	1,171	973
Plants and forest products	2,818	407	292
Retail land sales	810	406	211
Operating revenue	55,525	52,057	48,285
Costs of sales			
Citrus production, harvesting and marketing	19,984	20,407	20,106
Sugarcane and sod production, harvesting and hauling	9,304	9,673	10,188
Ranch	8,908	8,178	6,790
Plants and trees	2,128	–	–
Retail land sales	328	253	179
Casualty losses	1,888	408	–
Total costs of sales	42,540	38,919	37,263
Gross profit	12,985	13,138	11,022
General and administrative expenses	10,664	6,471	6,319
Income from operations	2,321	6,667	4,703
Other income (expenses)			
Profit on sales of real estate:			
Sales	15,416	33,075	16,779
Cost of sales	9,951	12,764	1,785
Profit on sales of real estate, net	5,465	20,311	14,994
Interest and investment income	4,443	2,519	1,201
Interest expense	(2,295)	(1,825)	(2,081)
Other income (expense)	(696)	128	267
Total other income, net	6,917	21,133	14,381
Income before income taxes	9,238	27,800	19,084
Provision for income taxes	3,148	9,987	6,425
Net Income	\$ 6,090	\$ 17,813	\$ 12,659
Weighted-average number of shares outstanding	7,331	7,219	7,106
Weighted-average number of shares outstanding assuming dilution	7,347	7,295	7,256
Per share amounts			
Basic	\$0.83	\$2.47	\$1.78
Diluted	\$0.83	\$2.44	\$1.74
Dividends	\$1.25	\$0.60	\$0.35

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, 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
Comprehensive income:						
Net income for the year ended August 31, 2005	–	–	–	–	6,090	6,090
Unrealized gains on securities, net of taxes of \$408 and reclassification adjustment	–	–	–	666	–	666
Total comprehensive income:						6,756
Dividends paid and accrued	–	–	–	–	(9,211)	(9,211)
Stock options exercised	60	60	964	–	–	1,024
Stock based compensation	–	–	419	–	–	419
Balances, August 31, 2005	7,369	\$ 7,369	\$ 9,183	\$ 2,195	\$ 125,439	\$ 144,186
Disclosure of reclassification amount				2005	2004	2003
Unrealized holding gains arising during the period				\$ 1,064	\$ 787	\$ 2,651
Less: reclassification adjustment for realized gains included in net income				398	219	1,258
Net unrealized gains on securities				\$ 666	\$ 568	\$ 1,393

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

(in thousands)

	Years Ended August 31		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities			
Net Income	\$ 6,090	\$ 17,813	\$ 12,659
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	6,957	6,509	6,723
Gain on breeding herd sales	(209)	(108)	(16)
Deferred income tax expense, net	3,209	472	582
Deferred retirement benefits	(88)	(1,154)	1
Net gain on sale of marketable securities	(2,083)	(723)	(691)
Loss on disposal of property and equipment	5,539	–	606
Gain on real estate sales	(5,465)	(20,311)	(15,026)
Stock options granted below fair market value	419	1,763	839
Cash provided by (used for) changes in:			
Accounts receivable	(2,098)	561	(218)
Inventories	(692)	474	(173)
Other assets	(765)	291	111
Accounts payable and accrued expenses	3,247	7,194	5,840
Income taxes payable	(1,741)	753	42
Deferred revenues	(266)	176	(23)
Net cash provided by operating activities	<u>12,054</u>	<u>13,710</u>	<u>11,256</u>
Cash flows from investing activities			
Increase in land inventories	(498)	(423)	(684)
Real estate deposits and accrued commissions	(11,106)	–	–
Purchases of property and equipment	(12,877)	(7,280)	(7,325)
Proceeds from disposals of property and equipment	1,762	738	431
Proceeds from sale of real estate	7,507	21,356	15,911
Purchases of marketable securities and investments	(28,351)	(21,392)	(20,257)
Proceeds from sales of marketable securities	16,897	5,643	4,958
Collection of mortgages and notes receivable	<u>10,279</u>	<u>2,586</u>	<u>2,377</u>
Net cash (used for) provided by investing activities	<u>(16,387)</u>	<u>1,228</u>	<u>(4,589)</u>

	Years Ended August 31		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from financing activities			
Proceeds from exercising stock options	1,024	3,156	555
Proceeds from bank loans	26,933	23,922	33,169
Repayment of notes payable	(27,170)	(29,785)	(31,697)
Dividends paid	<u>(7,369)</u>	<u>(4,284)</u>	<u>(2,482)</u>
Net cash used for financing activities	<u>(6,582)</u>	<u>(6,991)</u>	<u>(455)</u>
Net increase in cash and cash investments	(10,915)	7,947	6,212
Cash and cash investments			
At beginning of year	<u>24,299</u>	<u>16,352</u>	<u>10,140</u>
At end of year	<u>\$ 13,384</u>	<u>\$ 24,299</u>	<u>\$ 16,352</u>
Supplemental disclosures of cash flow information			
Cash paid for interest, net of amount capitalized	<u>\$ 2,074</u>	<u>\$ 1,518</u>	<u>\$ 1,767</u>
Cash paid for income taxes	<u>\$ 1,600</u>	<u>\$ 1,370</u>	<u>\$ 1,060</u>
Noncash investing activities			
Fair value adjustments to securities available for sale	<u>\$ 1,074</u>	<u>\$ 802</u>	<u>\$ 1,945</u>
Income tax effect related to fair value adjustments	<u>\$ 408</u>	<u>\$ 234</u>	<u>\$ 552</u>
Reclassification of breeding herd to property and equipment	<u>\$ 562</u>	<u>\$ 599</u>	<u>\$ 700</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended August 31, 2005, 2004 and 2003

(in thousands except for unit data)

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), Alico-Agri, Ltd. and Alico Plant World, LLC, after elimination of all significant intercompany balances and transactions.

Revenue Recognition. Income from the sale of citrus is recognized at the time the crop is harvested. Based on fruit buyers' and processors' advances to growers, stated cash and futures markets 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 the prior years' crops totaling \$357 thousand, \$728 thousand, and \$198 thousand during fiscal year 2005, 2004, and 2003, 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 changes to the sugar pool have caused the Company to adjust revenue from the prior years' crops by (\$198 thousand), \$325 thousand, and \$356 thousand during the fiscal year's 2005, 2004, and 2003, respectively.

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

Real Estate. Real estate sales are recorded under the accrual method of accounting. Residential retail land sales made through Saddlebag are not recognized until the buyer's initial investment or cumulative payments of principal and interest equal or exceed 10 percent of the contract sales price.

Gains from 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 according to the installment sales method.

At August 31, 2005, the Company had deferred revenue of \$46.2 million related to commercial real estate, which was sold subject to a mortgage note receivable. Profits from commercial real estate sales are discounted to reflect the market rate of interest where the stated rate is less than the market rate. The recorded valuation discounts are realized as the balances due are collected. In the event of early liquidation, interest is recognized on the simple interest method. At August 31, 2005, the Company had a valuation discount of \$2.6 million recorded in mortgages and notes receivable in the accompanying consolidated balance sheet.

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 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. Unrealized losses determined to be other than temporary are recognized in the period the determination is made.

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.

Mortgages and notes receivable. Mortgages and notes receivable arise primarily from real estate sales. Mortgages and notes receivable are carried at their estimated net realizable value. In circumstances where the stated interest rate is below the prevailing market rate, the note is discounted to yield the market rate of interest. The discount offsets the carrying amount of the mortgages and notes receivable.

Under the installment method of accounting, gains from commercial or bulk land sales are not recognized until payments received for property equal or exceed 20% of the contract sales price. Such gains are recorded as deferred revenue and offset the carrying amount of the mortgages and notes receivable.

Accounts receivable. Accounts receivable are generated from the sale of citrus, sugarcane, sod, cattle, plants and other transactions. The Company provides an allowance for doubtful trade receivables equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions, and a review of the current status of each customer's trade accounts receivable.

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 depreciated over 25 years.

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

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

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

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement requires 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 Hendry County, Florida and owned by Alico, Inc., 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 a current asset if sales contracts for the property 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 stock ownership as a term of use of its services.

In September 2004, the Company purchased the assets of LaBelle Plant World, Inc. a wholesale grower and shipper of commercial fruit and vegetable transplants. Prior to the closing, the Company paid refundable costs of \$319 thousand in connection with the purchase. These costs were included in the August 31, 2004 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 equivalents 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, the estimated tax contingency and the recognition of citrus and sugarcane revenues are some 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. Where stated interest rates are below market, the Company has discounted mortgage notes receivable to reflect their estimated fair market value. The carrying amounts reported for the Company's long-term debt approximates 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, from time to time, 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, 2005 and 2004, the Company had no open positions in cattle futures. The Company also purchases, from time to time, corn futures in order to lock in the cost of raising feeder cattle over the feeding term. The Company had no open positions in corn futures at August 31, 2005, but 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 Stock-based Compensation" (SFAS 123) as 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		
	2005	2004	2003
Net income as reported	\$ 6,090	\$ 17,813	\$ 12,659
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
Deduct: Total stock-based employee compensation expense determined under the intrinsic value based method for all awards, net of related tax effects	–	(1,063)	(529)
Pro forma net income	\$ 6,090	17,850	\$ 12,653
Earnings per share			
Basic - as reported	\$0.83	\$2.47	\$1.78
Basic - pro forma	\$0.83	\$2.47	\$1.78
Diluted - as reported	\$0.83	\$2.44	\$1.74
Diluted - pro forma	\$0.83	\$2.45	\$1.74

Reportable Segments. The Company has three reportable segments: citrus, sugarcane and sod, and ranch. The citrus segment produces fruit for both the fresh fruit and processed juice markets. The sugarcane and sod segment produces sugarcane for processing and sod for wholesalers. 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 2004 and 2003 have been reclassified to conform to the 2005 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		
	2005	2004	2003	2005	2004	2003
Citrus fruit marketer	\$ 5,811	\$ 5,437	\$ 6,470	\$ 19,810	\$ 18,385	\$ 17,656
Sugarcane processor	\$ 2,466	\$ 2,887	\$ 2,404	\$ 9,321	\$ 11,648	\$ 12,938

Sales made through the citrus fruit marketer represented approximately 76%, 75% and 73% of the Company's citrus revenues during fiscal years 2005, 2004 and 2003, respectively, and approximately 36%, 35% and 37% of total operating revenues during fiscal years 2005, 2004 and 2003, respectively.

Sales made through the sugarcane processor represented 100% of the Company's sugarcane revenues during fiscal years 2005, 2004 and 2003 and 17%, 22% and 27% of total operating revenues during fiscal years 2005, 2004 and 2003, respectively.

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. In accordance with the provisions of EITF Issue No. 03-1 which became effective for reporting periods beginning after June 15, 2004, the Company identified those investments at August 31, 2005 which were deemed to be other than temporarily impaired and included the losses in the statement of operations for 2005.

The cost and estimated fair values of marketable securities available for sale at August 31, 2005 and 2004 were as follows:

	2005				2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities								
Preferred stocks	\$ 1,363	\$ 81	\$ (17)	\$ 1,427	\$ 1,513	\$ 82	\$ (3)	\$ 1,592
Common stocks	6,483	1,066	(218)	7,331	6,307	494	(535)	6,266
Mutual funds*	17,029	2,846	(86)	19,789	22,418	2,579	(434)	24,563
Total equity securities	24,875	3,993	(321)	28,547	30,238	3,155	(972)	32,421
Debt securities								
Municipal bonds	20,548	74	–	20,622	3,225	74	(10)	3,289
Mutual funds	4,344	155	(76)	4,423	3,628	81	(78)	3,631
Fixed maturity funds	2,799	–	(41)	2,758	2,581	–	(29)	2,552
Corporate bonds	14,897	12	(435)	14,474	13,726	30	(79)	13,677
Total debt securities	42,588	241	(552)	42,277	23,160	185	(196)	23,149
Marketable securities available for sale	\$67,463	\$ 4,234	\$ (873)	\$70,824	\$53,398	\$ 3,340	\$ (1,168)	\$55,570

*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 securities (net of mutual funds of \$4,423) as of August 31, 2005, by contractual maturity date, consisted of the following:

	Aggregate Fair Values
Due in one year or less	\$ 6,843
Due between one and five years	8,812
Due between five and ten years	4,490
Due thereafter	17,709
Total	\$37,854

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

	Years ended August 31		
	2005	2004	2003
Realized gains	\$ 2,606	\$ 815	\$ 834
Realized losses	(523)	(92)	(143)
Net	\$ 2,083	\$ 723	\$ 691

In evaluating whether a security was other than temporarily impaired, the Company considered the severity and length of time impaired for each security in a loss position. Other qualitative data was also considered including recent developments specific to the organization issuing the security. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at August 31, 2005:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Preferred stocks	\$ 99	\$ 2	\$ 84	\$ 15	\$ 183	\$ 17
Common stocks	1,478	159	821	59	2,299	218
Equity mutual funds	451	35	2,107	51	2,558	86
Debt mutual funds	247	18	3,617	58	3,864	76
Fixed maturity funds	204	14	1,223	27	1,427	41
Corporate bonds	10,302	348	3,563	87	13,865	435
Total	<u>\$ 12,781</u>	<u>\$ 576</u>	<u>\$ 11,415</u>	<u>\$ 297</u>	<u>\$ 24,196</u>	<u>\$ 873</u>

Equity securities and funds. The unrealized losses on preferred and common stocks and equity based mutual funds were primarily due to normal changes in the economy. At August 31, 2005, the Company held loss positions in 43 different stocks and 17 separate equity mutual funds. The Company evaluated the prospects of each issuer in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not believe any of the remaining unrealized losses represent other than temporary impairment based on evaluations of available evidence as of August 31, 2005.

During the year ended August 31, 2005, equity investments with a combined cost basis of \$1.7 million were determined to be other than temporarily impaired. An adjustment of \$399 thousand was made to reduce the cost basis of the securities and was recognized as a reduction in interest and investment income.

Debt instruments and funds. The unrealized losses on municipal bonds, debt mutual funds, fixed maturity funds and corporate bonds were primarily due to changes in interest rates. At August 31, 2005 the Company held loss positions in 12 government backed bonds, 11 debt based mutual funds, 13 fixed security funds, consisting mostly of certificates of deposit, and 31 corporate bond positions. Because the decline in market values of these securities is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not believe any of the unrealized losses represent other than temporary impairment based on evaluations of available evidence as of August 31, 2005.

Note 3. Mortgage and Notes Receivable

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

	Years ended August 31	
	<u>2005</u>	<u>2004</u>
Mortgage notes receivable on retail land sales	\$ 580	\$ 265
Mortgage notes receivable on bulk land sales	56,976	10,290
Other notes receivable	<u>10</u>	<u>90</u>
Total mortgage and notes receivable	57,566	10,645
Less: Deferred revenue	(46,207)	–
Discount on note to impute market interest	(2,594)	–
Current portion	<u>(2,370)</u>	<u>(9,983)</u>
Non-current portion	<u>\$ 6,395</u>	<u>\$ 662</u>

Maturities of the notes receivable are as follows:

Due within 1 year	\$ 14,585
Due between 1 and 2 years	14,215
Due between 2 and 3 years	14,216
Due between 3 and 4 years	14,217
Due between 4 and 5 years	66
Due beyond five years	<u>267</u>
Total mortgages and notes receivable	\$ 57,566
Less: Deferred revenue	(46,207)
Discount on note to impute market interest	<u>(2,594)</u>
Net mortgages and notes receivable	<u>\$ 8,765</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 was paid in full in December 2004. At the time of the sale, 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.

In July 2005, Alico-Agri sold property in Lee County, Florida for \$62.9 million. At the time of sale, the Company received a down payment of \$6.2 million in cash and a 2.5% interest bearing mortgage note of \$56.7 million in exchange for the land sold. Under the terms of the note, equal annual principal payments of \$14.2 million are receivable over the next four years, together with related interest. Interest under the note does not begin to accrue until a development order is received for the property sold. The note was discounted by \$2.6 million to reflect the prevailing market rate of interest. The Company has deferred \$46.2 million of gain related to the sale, until aggregate receipts under the contract total at least 20% of the sales price. The Company closed the sale into an escrow account in anticipation of exercising its options under the Internal Revenue Code section 1031 like-kind exchange rules.

The Company's debt agreements contain covenants that require that the Company maintain certain financial ratios and minimum net worth levels. The covenants also restrict the Company's activities regarding investments, liens, borrowing and leasing. At August 31, 2005, Alico was in compliance with all financial and other covenants.

Note 4. Inventories

A summary of the Company's inventories at August 31, 2005 and 2004 is shown below:

	<u>2005</u>	<u>2004</u>
Unharvested fruit crop on trees	\$ 8,176	\$ 7,712
Unharvested sugarcane	5,691	5,124
Beef cattle	5,024	7,172
Plants and Vegetables	1,180	-
Sod	<u>831</u>	<u>764</u>
Total inventories	<u>\$ 20,902</u>	<u>\$ 20,772</u>

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

In fiscal year 2005, citrus canker was discovered in three of the Company's citrus grove locations. Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. In order to eradicate the disease, infected and exposed trees within 1900 feet of the canker find, must be removed and destroyed in accordance with Florida law. Additionally under the Florida Canker Eradication Program, citrus may not be replanted on the affected property until it has been determined that the property has been canker free for two years. The Company has written its crop inventory down by \$786 thousand as a result of these discoveries. This amount, and the remaining basis of the citrus trees net of expected insurance recoveries, was charged to fiscal year 2005 operations as a casualty loss (see note 14).

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 recognize a casualty loss and write its crop inventory down \$408 thousand.

Note 5. Property, Buildings and Equipment

A summary of the Company's property, building and equipment at August 31, 2005 and 2004 is shown below:

	<u>2005</u>	<u>2004</u>	<u>Estimated Useful Lives</u>
Breeding herd	\$ 13,688	\$ 13,242	5-7 years
Buildings	7,037	3,930	5-40 years
Citrus trees	30,058	33,572	22-40 years
Sugarcane	8,344	8,371	4-15 years
Equipment and other facilities	<u>30,934</u>	<u>29,410</u>	3-40 years
Total depreciable properties	90,061	88,525	
Less accumulated depreciation	<u>45,043</u>	<u>42,070</u>	
Net depreciable properties	45,018	46,455	
Land and land improvements	<u>60,936</u>	<u>59,231</u>	
Net property, building and equipment	<u>\$105,954</u>	<u>\$105,686</u>	

In fiscal year 2005, citrus canker was discovered in three of the Company's citrus grove locations. Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. In order to eradicate the disease, infected and exposed trees within 1900 feet of the canker find, must be removed and destroyed in accordance with Florida law. Additionally under the Florida Canker Eradication Program, citrus may not be replanted on affected property until it has been determined that the property has been canker free for two years. The Company has written off the remaining basis of the trees, totaling \$4.4 million as a result of these discoveries. The remaining basis and inventoried costs, net of expected insurance recoveries was charged to fiscal year 2005 operations as a casualty loss (see note 14).

Note 6. Indebtedness

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

August 31, 2005

	<u>Principal Balance</u>	<u>Additional Credit Available</u>	<u>Interest Rate*</u>	<u>Collateral</u>
a) Revolving credit line	\$21,330	\$4,670	Libor +1%	Unsecured
b) Revolving credit line	15,000	-	Libor +.8%	Unsecured
c) Demand note	-	3,000	Libor +1%	Unsecured
d) Credit line	4,000	-	5.80%	Unsecured
e) Mortgage note payable	10,872	-	6.68%	Real estate
f) Other	146	-	7.00%	Real estate
Total	<u>\$51,348</u>	<u>\$7,670</u>		

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
f) Other	198	-	7.00%	Real estate
Total	<u>\$51,585</u>	<u>\$10,752</u>		

The revolving credit lines described above were refinanced, consolidated, and increased in October 2005 with a revised due date of August 2010. For further information concerning the new revolving credit line, please see Note 16.

- 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 2007. 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.

The Company's debt agreements contain covenants that require that the Company maintain certain financial ratios and minimum net worth levels. The covenants also restrict the Company's activities regarding investments, liens, borrowing and leasing. At August 31, 2005, Alico was in compliance with all financial and other covenants.

Maturities of the Company's debt is as follows:

	August 31	
	<u>2005</u>	<u>2004</u>
Due within 1 year	\$ 3,309	\$ 3,319
Due between 1 and 2 years	39,642	36,560
Due between 2 and 3 years	1,315	3,315
Due between 3 and 4 years	1,318	1,318
Due between 4 and 5 years	1,267	1,267
Due beyond five years	<u>4,497</u>	<u>5,806</u>
Total	<u>\$51,348</u>	<u>\$51,585</u>

LIBOR was 3.69% and 1.79% at August 31, 2005 and 2004, respectively. The Company's variable interest rates, based on LIBOR at August 31, 2005, 2004 and 2003 were approximately 4.69%, 2.79% and 2.59%, respectively.

Interest costs expensed and capitalized during the three years ended August 31, 2005, 2004 and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest expense	\$ 2,295	\$ 1,825	\$ 2,081
Interest capitalized	<u>235</u>	<u>275</u>	<u>\$ 267</u>
Total interest cost	<u>\$ 2,530</u>	<u>\$ 2,100</u>	<u>\$ 2,348</u>

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 Grove, LLC a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock. Total coverage under the policy is \$2.7 million. This represents the only underwriting exposure at August 31, 2005. During fiscal year 2005, citrus canker, a highly contagious bacterial disease that causes premature leaf and fruit drop, was discovered in citrus groves operated by Tri-County. As a result of the citrus canker find, Tri-County submitted a claim for losses and the Company has recorded a liability for \$1.4 million at August 31, 2005.

In fiscal year 2005, citrus canker was discovered in three of the Company's citrus grove locations. The Company has accrued \$2.2 million as insurance proceeds receivable as a result of these canker finds.

Premiums for indemnities 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 contracted to purchase 291 acres in Polk county Florida for \$9.2 million. The land purchase, which closed in October 2005, will be treated as like-kind exchange property for tax purposes pursuant to section 1031 of the Internal Revenue Code.

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 coverage for the increasing number and potential severity of agricultural events. Such events include citrus canker, crop diseases, livestock related maladies and weather. Alico's goal included not only pre-funding its potential exposures related to the aforementioned events, but also to attempt to attract new underwriting capital if it is successful in profitably underwriting its own potential risks as well as similar risks of its historic business partners.

Alico capitalized Agri by contributing real estate located in Lee County Florida. The real estate was transferred at its historical cost basis. Agri received a determination letter from the Internal Revenue Service (IRS) stating that Agri was

exempt from taxation provided that net premium levels, consisting only of premiums with third parties, were below an annual stated level (\$350 thousand). Third party premiums have remained below the stated annual level. As the Lee county real estate was sold, substantial gains were generated in Agri, creating permanent book/tax differences.

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, 2005 and August 31, 2004 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.

In October 2003 the IRS began an examination of the Company tax returns for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. Any assessments resulting from the examinations will be currently due and payable. No assessments have been proposed to date. A revenue agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputes the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent has proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. Currently, discussions are ongoing between the agents and Agri as to the technical requirements and the appropriate scope for the proposed TAM filing. The IRS has not proposed any adjustments to date for Alico. The Company cannot predict what position the IRS will ultimately take with respect to this matter. The Revenue Agent's report regarding Alico could be issued within the current 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 authorized grants of shares or options to purchase up to 650,000 shares of authorized but unissued common stock. Stock options granted have a strike price and vesting schedules that are at the discretion of the Board of Directors and are determined on the effective date of the grant. The strike price cannot be less than 55% of the market price.

The Company applies APB Opinion 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, 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	149,401	15.34	<u>8</u>
Granted	119,462	18.18	
Exercised	<u>193,237</u>	<u>16.33</u>	
Balance outstanding, August 31, 2004	75,626	\$17.29	<u>9</u>
Granted	-	-	
Exercised	<u>59,255</u>	<u>17.08</u>	
Balance outstanding, August 31, 2005	<u>16,371</u>	<u>\$18.05</u>	<u>8</u>

On August 31, 2005 and 2004, there were 292,844 shares available for grant. All stock options outstanding were exercisable at August 31, 2005.

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 \$0 in 2005 (no options were granted during fiscal year 2005), \$1.7 million in 2004 and \$.8 million in 2003 on the date of the grant using the Black Scholes option-pricing model with the following weighted average assumptions:

	2005	2004	2003
Volatility	–	8.28%	8.39%
Dividend paid	–	1.87%	2.23%
Risk-free interest rate	–	2.26%	4.75%
Expected life in years	–	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 were \$432, \$434 and \$350 for the years ended August 31, 2005, 2004 and 2003, respectively.

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

	August 31	
	2005	2004
Beginning benefit obligation	\$ 4,464	\$ 4,515
Service cost	201	135
Interest cost	264	150
Benefits paid	(304)	(338)
Actuarial losses	–	–
Other	(249)	2
Ending benefit obligation	\$ 4,376	\$ 4,464

In connection with the nonqualified defined benefit plan, the Company has purchased life insurance policies to fund its future obligations under the plan. The cash surrender values of the policies were \$5,676 and \$4,900 at August 31, 2005 and 2004, respectively. The Company has determined that although it is the intent to fund the plan through these life insurance policies, because they are available to the general creditors of the Company, they do not qualify as plan assets.

Components of net pension cost

	Years ended August 31		
	2005	2004	2003
Service cost, net of participant contributions	\$ 201	\$ 20	\$ 511
Interest cost	264	275	234
Prior service cost amortization	—	2	2
Net pension cost for defined benefit plan	\$ 465	\$ 297	\$ 747

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

Note 11. Income Taxes

The provision for income taxes for the years ended August 31, 2005, 2004 and 2003 is summarized as follows:

	2005	2004	2003
Current:			
Federal income tax	\$ 1,121	\$ 8,733	\$ 5,872
State income tax	120	933	628
	<u>1,241</u>	<u>9,666</u>	<u>6,500</u>
Deferred:			
Federal income tax	1,725	290	(68)
State income tax	182	31	(7)
	<u>1,907</u>	<u>321</u>	<u>(75)</u>
Total provision for income taxes	\$ 3,148	\$ 9,987	\$ 6,425

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 for the years ended August 31, 2005, 2004 and 2003:

	2005	2004	2003
Income taxes at statutory rate	\$ 3,141	\$ 9,452	\$ 6,489
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	198	636	410
Nontaxable interest and dividends	(89)	(93)	(97)
Internal Revenue Service examinations	15	11	14
Income from Agri-Insurance Company, Ltd.	—	—	(752)
Stock options exercised	(648)	(675)	30
Other reconciling items, net	531	656	331
Total provision for income taxes	\$ 3,148	\$ 9,987	\$ 6,425

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:

	<u>2005</u>	<u>2004</u>
Deferred Tax Assets:		
Contribution carry forward	\$ 1,469	\$ 1,514
Deferred retirement benefits	1,032	1,144
Prepaid sales commissions	412	352
Land inventories	488	488
Stock options appreciation	195	492
IRS adjustments	786	820
Other	<u>618</u>	<u>586</u>
Total gross deferred tax assets	<u>5,000</u>	<u>5,396</u>
Deferred Tax Liabilities:		
Revenue recognized from citrus and sugarcane	491	432
Property and equipment (principally due to depreciation and soil and water deductions)	12,874	13,140
Inventories	1,353	1,315
Deferred real estate gains	3,540	1,625
Unrealized security gains	1,208	643
Other	<u>1,238</u>	<u>62</u>
Total gross deferred tax liabilities	<u>20,704</u>	<u>17,217</u>
Net deferred income tax liabilities	<u>\$15,704</u>	<u>\$11,821</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 is limited to its operational liquidity, by the Registrar of Companies in Bermuda. 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 ended December 31, 2003, 2002, 2001 and 2000.

In October 2003 the IRS began an examination of the Company tax returns for the fiscal years ended August 31, 2004, 2003, 2002, 2001 and 2000, and Agri tax returns for calendar years 2003, 2002, 2001 and 2000. Any assessments resulting from the examinations will be currently due and payable. No assessments have been proposed to date. A revenue

agent issued a report in May 2004, challenging Agri's tax exempt status for the years examined; however, the report did not quantify the adjustment or assessment proposed. Agri responded with a written report that disputes the facts, interpretation of law, and conclusions cited in the Agent's report. Upon receipt of Agri's response in July 2004, the Agent has proposed requesting a Technical Advice Memorandum (TAM) from the national office to assist in settling the differences. Currently, discussions are ongoing between the agents and Agri as to the technical requirements and the appropriate scope for the proposed TAM filing. The IRS has not proposed any adjustments to date for Alico. The Company cannot predict what position the IRS will ultimately take with respect to this matter. The Revenue Agent's report regarding Alico could be issued within the current fiscal year.

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

Note 12. Related Party Transactions

Citrus. Citrus revenues of \$19.8 million, \$18.4 million and \$17.7 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, 2005, 2004 and 2003, respectively. Griffin and its subsidiaries are controlled by Ben Hill Griffin, III, the brother-in-law of John R. Alexander, the Company's Chief Executive Officer, and was the owner of approximately 49.85 percent of the Company's common stock until February 26, 2004. Accounts receivable, resulting from citrus sales, include amounts due from Griffin totaling \$5.8 million at August 31, 2005 and \$5.4 million at August 31, 2004. These amounts represent estimated revenues to be received periodically under pooling agreements as sale of pooled products is completed.

Harvesting, marketing, and processing costs, related to the citrus sales noted above, totaled \$6.6 million, \$7.2 million, and \$6.6 million for the years ended August 31, 2005, 2004 and 2003, respectively. In addition, Griffin provided the harvesting services for citrus sold to unrelated processors. The aggregate cost of these services was \$2.5 million; \$2.1 million and \$2.1 million for the years ended August 31, 2005, 2004 and 2003, respectively. The accompanying consolidated balance sheets include accounts payable to Griffin for citrus production, harvesting and processing costs in the amount of \$211 thousand and \$498 thousand at August 31, 2005 and 2004, respectively.

Other Transactions. In fiscal year 2004, Agri began providing coverage for Tri-County Grove, LLC, a subsidiary of Atlantic Blue Trust, Inc., the holder of approximately 47.4% of the Company's common stock. The coverage term was from August 2004 to July 2005. Total coverage under the policy was \$2.7 million and the premium charged was \$45 thousand. The policy was not renewed in August, 2005.

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 \$4.2 million; \$5.3 million and \$6.4 million during the years ended August 31, 2005, 2004 and 2003, respectively.

Griffin purchased catastrophic business interruption coverage from Agri during fiscal 2003. The total coverage under the policy was \$3.5 million. The premium charged under this policy was \$138 thousand.

Note 13. 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 for the years ended August 31, 2005, 2004 and 2003 is summarized as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Agriculture:			
Citrus	\$ 26,231	\$ 24,549	\$ 24,107
Sugarcane and sod	9,725	12,398	13,373
Ranch	<u>11,107</u>	<u>9,678</u>	<u>7,175</u>
Total revenues from external customers for reportable segments	46,973	46,625	44,655
Other revenues from external customers	<u>8,552</u>	<u>5,432</u>	<u>3,630</u>
Total operating revenue	<u>\$ 55,525</u>	<u>\$ 52,057</u>	<u>\$ 48,285</u>
Costs of sales			
Citrus	\$ 19,984	\$ 20,407	\$ 20,106
Sugarcane and sod	9,304	9,673	10,188
Ranch	<u>8,908</u>	<u>8,178</u>	<u>6,790</u>
Total costs of sales for reportable segments	38,196	38,258	37,084
Other costs of sales	<u>4,344</u>	<u>661</u>	<u>179</u>
Total consolidated costs of sales	<u>\$ 42,540</u>	<u>\$ 38,919</u>	<u>\$ 37,263</u>
Gross profit			
Agriculture:			
Citrus	\$ 6,247	\$ 4,142	\$ 4,001
Sugarcane and sod	421	2,725	3,185
Ranch	<u>2,109</u>	<u>1,500</u>	<u>385</u>
Total profit for reportable segments	8,777	8,367	7,571
Other gross profit	<u>4,208</u>	<u>4,771</u>	<u>3,451</u>
Consolidated gross profit	<u>12,985</u>	<u>13,138</u>	<u>11,022</u>
Unallocated amounts:			
Profit on sale of bulk real estate	5,465	20,311	14,994
Other corporate expense	<u>(9,212)</u>	<u>(5,649)</u>	<u>(6,932)</u>
Income before income taxes	<u>\$ 9,238</u>	<u>\$ 27,800</u>	<u>\$ 19,084</u>

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital expenditures			
Agriculture:			
Citrus	\$ 2,086	\$ 2,872	\$ 3,216
Sugarcane and sod	1,891	1,804	1,451
Ranch	<u>2,711</u>	<u>2,218</u>	<u>2,245</u>
Total agriculture capital expenditures for reportable segments	6,688	6,894	6,912
Other capital expenditures	6,751	985	1,113
Cattle transferred from inventory held for sale into breeding stock	<u>(562)</u>	<u>(599)</u>	<u>(700)</u>
Total consolidated capital expenditures	<u>\$ 12,877</u>	<u>\$ 7,280</u>	<u>\$ 7,325</u>
Depreciation, depletion and amortization			
Agriculture:			
Citrus	\$ 2,454	\$ 2,361	\$ 2,354
Sugarcane and sod	2,072	2,220	2,414
Ranch	<u>1,484</u>	<u>1,429</u>	<u>1,474</u>
Total depreciation, depletion and amortization for reportable segments	6,010	6,010	6,242
Other depreciation, depletion, and amortization	<u>947</u>	<u>499</u>	<u>481</u>
Total consolidated depreciation, depletion and amortization	<u>\$ 6,957</u>	<u>\$ 6,509</u>	<u>\$ 6,723</u>
Assets			
Agriculture:			
Citrus	\$ 49,670	\$ 54,120	
Sugarcane and sod	51,606	51,640	
Ranch	<u>20,383</u>	<u>22,012</u>	
Total assets for reportable segments	121,659	127,772	
Other assets	<u>126,035</u>	<u>110,470</u>	
Total consolidated assets	<u>\$ 247,694</u>	<u>\$ 238,242</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.

Note 14. Casualty loss

In fiscal year 2005, citrus canker was discovered in three of the Company's citrus grove locations. Citrus canker is a highly contagious bacterial disease of citrus that causes premature leaf and fruit drop. Citrus canker causes no threat to humans, animals or plant life other than citrus. In order to eradicate the disease, infected and exposed trees within 1900 feet of the canker find, must be removed and destroyed in accordance with Florida law. Additionally under the Florida Canker Eradication Program, citrus may not be replanted on affected property until it has been determined that the property has been

canker free for two years. The Company has written off the remaining basis of the trees, totaling \$4.4 million as a result of these discoveries. The tree basis and inventoried costs, net of expected insurance recoveries was charged to fiscal year 2005 operations as a casualty loss. Additionally, the Company was reimbursed for damages sustained during a series of three hurricanes in fiscal year 2004. The losses related to these reimbursements were recognized in fiscal year 2004. Details regarding the calculation of the casualty loss are presented below:

	<u>2005</u>	<u>2004</u>
Inventoried costs	\$ 786	\$ 408
Basis of citrus trees	4,426	–
Insurance reimbursements received	(1,062)	–
Insurance reimbursements receivable	<u>(2,262)</u>	<u>–</u>
Total casualty loss	<u>\$ 1,888</u>	<u>\$ 408</u>

Note 15. Future Application of Accounting Standards

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (FAS) 154: “Accounting Changes and Error Corrections”. This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. In the opinion of management, the adoption of this statement will not have a significant impact on the Company’s consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standard No. 123 “Share-Based Payment” (SFAS 123R). SFAS 123R requires Companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. This statement is effective for the first reporting period beginning after June 15, 2005. In the opinion of Management, the adoption of this statement will not have a significant impact on the Company’s consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Account Standards (SFAS) No. 153 “Exchanges of Nonmonetary Assets (as amended) an amendment of APB Opinion No. 29”. The statements amends the guidance in APB Opinion No. 29 “Accounting for Nonmonetary Transactions. The guidance in APB Opinion No. 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. In the opinion of Management, the adoption of this statement will not have a material impact on the Company’s consolidated financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standard No. 151 "Inventory Costs—an amendment of ARB No. 43". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for the first reporting period beginning after June 15, 2005. In the opinion of Management, the adoption of this statement will not have any impact on the Company's consolidated financial statements.

Note 16. Subsequent events

Hurricane Wilma, a category three hurricane swept through southwest Florida in October, 2005, caused extensive damage to the Company's crops and infrastructure in Collier and Hendry Counties. Preliminary estimates indicate a loss of approximately 28% of the Company's total citrus crop, 50% of the Company's sugarcane crop, and 100% of the Company's vegetable crops. Approximately 83% of the Company's greenhouses sustained varying levels of damage along with numerous other buildings and structures used to support the Company's various agribusiness operations in Collier and Hendry Counties. Due to the large amount of rainfall in the area, much of the Company's property remained under water well after the storm, which may affect the Company's cattle herd. Insurance proceeds are expected to cover a portion of the losses.

In October 2005, Alico, Inc. entered into a Credit Facility with a commercial lender. The Credit Facility provides the Company with a \$175 million revolving line of credit until August 1, 2010 to be used for general corporate purposes including: (i) the normal operating needs of the Company and its operating divisions, (ii) to refinance existing lines of credit and (iii) to finance the Ginn Receivable (as defined in the Loan Agreement). The terms also allow an annual extension at the lender's option.

Under the Credit Facility, revolving borrowings require quarterly interest payments beginning January 1, 2006 at LIBOR plus a variable rate between 0.8% and 1.5% depending on the Company's debt ratio. Alico is required to reduce the line of credit annually by approximately \$14 million in August 2006, \$31 million in August 2007 and \$31 million in August 2008, leaving a remaining balance of \$100 million from August 1, 2008 to the note's maturity at August 1, 2010.

The line of credit is secured by a first mortgage on approximately 7,680 acres of agricultural property in Hendry County, Florida and any subsequent real estate acquisitions by the Company obtained with advances under the Credit Facility.

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

The Credit Facility also contains numerous restrictive covenants including those requiring the Company to maintain minimum levels of net worth, retain certain Debt, Current and Fixed Charge Coverage Ratios, and set limitations on the extension of loans or additional borrowings by the Company or any subsidiary.

In October 2005, the Company exchanged a portion of the escrowed funds resulting from the Lee County property sale for a \$9.2 million parcel of property in Polk County, Florida. The Company has also identified and entered into agreements to acquire several other parcels as candidates for exchange. Should these agreements close, the escrowed funds will be used exclusively for like-kind exchanges. The agreements are subject to various contingencies and there is no assurance that they will close. To qualify for like-kind exchange treatment, the identified acquisitions must occur by January 2006.

At a Board of Directors meeting held Friday September 30, 2005, the Board declared a quarterly dividend of \$0.25 per share payable to stockholders of record as of December 31, 2005, with payment expected on or about January 15, 2006.

Note 17. Selected Quarterly Financial Data

(Unaudited)

Summarized quarterly financial data for the years ended August 31, 2005 and 2004, is as follows:

	Quarters Ended							
	November 30		February 28		May 31		August 31	
	2004	2003	2005	2004	2005	2004	2005	2004
Revenue								
Citrus	\$ 879	\$ 1,354	\$ 9,586	\$ 8,539	\$10,246	\$ 9,686	\$ 5,520	\$ 4,970
Sugarcane and sod	2,453	2,591	5,286	5,615	1,902	3,459	84	733
Ranch	2,135	3,344	2,184	1,080	4,660	4,650	2,038	604
Property sales	187	14	110	32,175	489	1,002	15,440	290
Interest	1,264	450	1,305	804	169	748	1,705	517
Other revenue	1,952	1,215	2,276	1,470	2,565	1,290	949	1,179
Total revenue	8,870	8,968	20,747	49,683	20,031	20,835	25,736	8,293
Costs and expenses								
Citrus	483	1,846	8,734	8,033	6,622	8,081	4,145	2,447
Sugarcane and sod	2,079	2,107	5,258	4,436	1,763	2,932	204	198
Ranch	1,902	2,620	1,709	991	3,558	4,045	1,739	522
Interest	508	488	560	491	694	406	533	440
Other	2,391	1,833	4,600	15,321	3,170	1,392	15,494	1,350
Total costs and expenses	7,363	8,894	20,861	29,272	15,807	16,856	22,115	4,957
Income (loss) before income taxes	1,507	74	(114)	20,411	4,224	3,979	3,621	3,336
Provision for income taxes	542	25	(103)	7,667	1,609	1,639	1,100	656
Net income (loss)	\$ 965	\$ 49	(11)	\$12,744	\$ 2,615	\$ 2,340	\$ 2,521	\$ 2,680
Basic earnings (loss) per share	\$.13	\$.01	\$ (.00)	\$ 1.77	\$.36	\$.32	\$.34	\$.37
Weighted-average shares outstanding	7,312	7,140	7,316	7,180	7,327	7,263	7,369	7,288