

ALICO INC  
Form 10-Q  
August 11, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**R Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended June 30, 2014**

**or**

**£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-261**

**Alico, Inc.**

*(Exact name of registrant as specified in its charter)*

**Florida**

*(State or other jurisdiction of  
incorporation or organization)*

**59-0906081**

*(I.R.S. Employer  
Identification No.)*

**10070 Daniels Interstate Court, Fort Myers, FL 33913**

*(Address of principal executive offices)*

*(Zip Code)*

*Registrant's telephone number, including area code: **239-226-2000***

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. R Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). R Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 7,362,090 shares of common stock, par value \$1.00 per share, outstanding as of July 22, 2014.

Part I. FINANCIAL INFORMATION

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**Part I. Financial Information****Item 1. Financial Statements**

## ALICO, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except per share amounts)

|  | Three Months Ended June 30, |           | Nine Months Ended June 30, |           |
|--|-----------------------------|-----------|----------------------------|-----------|
|  | 2014                        | 2013      | 2014                       | 2013      |
| Operating revenues:                                      |                             |           |                            |           |
| Citrus Groves  | \$ 21,967                   | \$ 19,209 | \$ 47,023                  | \$ 43,664 |
| Agricultural Supply Chain Management                     | 4,083                       | 10,553    | 12,324                     | 27,712    |
| Improved Farmland  | 2,160                       | 4,760     | 19,442                     | 21,679    |
| Ranch and Conservation                                   | 515                         | 409       | 1,956                      | 1,265     |
| Other Operations   | (50 )                       | 298       | 394                        | 675       |
| Total operating revenue                                  | 28,675                      | 35,229    | 81,139                     | 94,995    |
| Operating expenses:                                      |                             |           |                            |           |
| Citrus Groves  | 13,617                      | 12,789    | 29,963                     | 31,488    |
| Agricultural Supply Chain Management                     | 3,916                       | 10,095    | 12,085                     | 26,886    |
| Improved Farmland  | 6,591                       | 3,028     | 20,986                     | 16,044    |
| Ranch and Conservation                                   | 164                         | 120       | 870                        | 380       |
| Other Operations   | 128                         | 132       | 280                        | 332       |
| Total operating expenses                                 | 24,416                      | 26,164    | 64,184                     | 75,130    |
| Gross profit   | 4,259                       | 9,065     | 16,955                     | 19,865    |
| Corporate general and administrative                     | 2,097                       | 2,253     | 8,410                      | 6,525     |
| Income from operations                                   | 2,162                       | 6,812     | 8,545                      | 13,340    |
| Other (expense) income:                                  |                             |           |                            |           |
| Interest and investment income, net                      | 88                          | 169       | 115                        | 530       |
| Interest expense   | (244 )                      | (290 )    | (766 )                     | (968 )    |
| Other loss, net  | (96 )                       | (46 )     | (173 )                     | (10 )     |
| Total other expense, net                                 | (252 )                      | (167 )    | (824 )                     | (448 )    |
| Income before income taxes                               | 1,910                       | 6,645     | 7,721                      | 12,892    |
| Income tax expense                                       | 791                         | 2,566     | 3,236                      | 5,002     |
| Net income attributable to common stockholders           | 1,119                       | 4,079     | 4,485                      | 7,890     |
| Comprehensive income, net of tax effect                  | -                           | -         | -                          | -         |
| Comprehensive income attributable to common stockholders | \$ 1,119                    | \$ 4,079  | \$ 4,485                   | \$ 7,890  |

Weighted-average number of shares outstanding:

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic                                    | 7,356   | 7,299   | 7,327   | 7,316   |
| Diluted                                  | 7,356   | 7,375   | 7,351   | 7,350   |
| Earnings per common share:               |         |         |         |         |
| Basic                                    | \$ 0.15 | \$ 0.56 | \$ 0.61 | \$ 1.08 |
| Diluted                                  | \$ 0.15 | \$ 0.55 | \$ 0.61 | \$ 1.07 |
| Cash dividends declared per common share | \$ 0.06 | \$ 0.08 | \$ 0.18 | \$ 0.16 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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ALICO, INC. AND  
SUBSIDIARIES  
CONDENSED  
CONSOLIDATED  
BALANCE SHEETS  
(dollars in thousands, except  
share and per share amounts)

| June 30,<br>2014<br>(unaudited)                      | September 30,<br>2013 |    |         |
|--|-----------------------|----|---------|
| <b>ASSETS</b>  |                       |    |         |
| Current assets:                                      |                       |    |         |
| Cash and cash equivalents                            | \$ 24,192             | \$ | 24,583  |
| Investments  | 262                   |    | 260     |
| Accounts receivable, net                             | 16,465                |    | 4,266   |
| Due from sugar processor                             | 11,012                | -  |         |
| Inventories  | 16,693                |    | 29,403  |
| Assets held for sale                                 | 3,538                 | -  |         |
| Other current assets                                 | 700                   |    | 1,283   |
| Total current assets                                 | 72,862                |    | 59,795  |
| Investment in Magnolia Fund                          | 2,043                 |    | 5,086   |
| Investments, deposits and other non-current assets   | 2,066                 |    | 1,991   |
| Cash surrender value of life insurance               | 905                   |    | 897     |
| Property, buildings and equipment, net               | 123,122               |    | 131,071 |
| Total assets   | \$ 200,998            | \$ | 198,840 |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>        |                       |    |         |
| Current liabilities:                                 |                       |    |         |
| Accounts payable                                     | \$ 1,385              | \$ | 1,729   |
| Long-term debt, current portion                      | 2,000                 |    | 2,000   |
| Accrued expenses                                     | 3,081                 |    | 2,354   |
| Income taxes payable                                 | 3,546                 |    | 1,171   |
| Dividend payable                                     | 441                   |    | 1,461   |
| Accrued ad valorem taxes                             | 1,207                 |    | 1,634   |
| Other current liabilities                            | 4,138                 |    | 1,142   |
| Total current liabilities                            | 15,798                |    | 11,491  |
| Long-term debt, net of current portion               | 32,500                |    | 34,000  |
| Deferred income taxes, net of current portion        | 6,520                 |    | 6,584   |
| Deferred retirement benefits, net of current portion | 4,071                 |    | 4,029   |
| Total liabilities                                    | 58,889                |    | 56,104  |
| Commitments and contingencies                        |                       |    |         |
| Stockholders' equity:                                |                       |    |         |
|  | -                     |    | -       |

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|   |            |            |
|---|------------|------------|
| Preferred stock, no par value. Authorized 1,000,000 shares; issued and outstanding, none  |            |            |
| Common stock, \$1 par value; 15,000,000 shares authorized; 7,377,106 shares issued and 7,355,890 and 7,303,568 shares outstanding at June 30, 2014 and September 30, 2013, respectively | 7,377      | 7,377      |
| Additional paid in capital  | 3,763      | 9,496      |
| Treasury stock at cost, 21,216 and 73,538 shares held at June 30, 2014 and September 30, 2013, respectively   | (875)      | (2,816)    |
| Retained earnings   | 131,844    | 128,679    |
| Total stockholders' equity  | 142,109    | 142,736    |
| Total liabilities and stockholders' equity  | \$ 200,998 | \$ 198,840 |

See accompanying notes to condensed consolidated financial statements (unaudited).

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

|   | Nine Months Ended |           | June 30, |           |
|---|-------------------|-----------|----------|-----------|
|   | 2014              |           | 2013     |           |
| Net cash provided by operating activities         | \$                | 15,412    | \$       | 14,753    |
| Cash flows from investing activities:             |                   |           |          |           |
| Purchases of property and equipment               |                   | (11,225 ) |          | (16,792 ) |
| Decrease in restricted cash                       | -                 |           |          | 2,500     |
| Decrease in real estate deposits                  | -                 |           |          | (2,500 )  |
| Proceeds from disposals of property and equipment |                   | 922       |          | 2,925     |
| Return on investment in Magnolia                  |                   | 3,185     | -        |           |
| Collections of mortgages and notes receivable     |                   | (2)       |          | 30        |
| Net cash used in investing activities             |                   | (7,120 )  |          | (13,837 ) |
| Cash flows from financing activities:             |                   |           |          |           |
| Principal payments on notes payable               |                   | (1,500 )  |          | (3,400 )  |
| Borrowings on revolving line of credit            | -                 |           |          | 5,661     |
| Repayments on revolving line of credit            | -                 |           |          | (5,661 )  |
| Treasury stock purchases                          |                   | (4,844 )  |          | (2,877 )  |
| Dividends paid                                    |                   | (2,339 )  |          | (1,164 )  |
| Net cash used in financing activities             |                   | (8,683 )  |          | (7,441 )  |
| Net decrease <b>in cash and cash equivalents</b>  |                   | (391)     |          | (6,525)   |
| Cash and cash equivalents at beginning of period  |                   | 24,583    |          | 13,328    |
| Cash and cash equivalents at end of period        | \$                | 24,192    | \$       | 6,803     |
| Supplemental cash flow information:               |                   |           |          |           |
| Cash paid for interest, net of amount capitalized | \$                | 766       | \$       | 818       |
| Cash paid for income taxes                        | \$                | 925       | \$       | 1,222     |

See accompanying notes to condensed consolidated financial statements (unaudited).



**ALICO, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Description of Business and Basis of Presentation**

*Description of Business*

Alico Inc. (“Alico”) and its wholly owned subsidiaries (collectively, the “Company”) is an agribusiness and land management company. The Company owns approximately 130,720 acres of land in six Florida counties (Alachua, Collier, Glades, Hendry, Lee and Polk). Our principal lines of business are citrus groves, improved farmland, cattle ranching and conservation and other operations.

*Basis of Presentation*

The accompanying (a) condensed consolidated balance sheet as of September 30, 2013, which has been derived from audited financial statements, and (b) unaudited condensed consolidated interim financial statements (the “Financial Statements”) of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Financial Statements include all adjustments, consisting of normal and recurring adjustments, which in the opinion of management were necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of the interim period are not necessarily indicative of the results for any other interim periods or the entire fiscal year.

The Financial Statements have been presented according to the rules and regulations of the Securities and Exchange Commission (“SEC”), instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information, footnotes and disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with those rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading. The Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2013.

*Principles of Consolidation*

The Financial Statements include the accounts of Alico, and its wholly owned subsidiaries, Alico Land Development, Inc. (“ALDI”), Alico-Agri, Ltd. (“Alico-Agri”), Alico Plant World, LLC, Alico Citrus Nursery, LLC and Alico Fruit Company, LLC (formerly known as Bowen Brothers Fruit, LLC) (“Alico Fruit”). All significant intercompany accounts and transactions have been eliminated in consolidation.

*Reclassifications*

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the fiscal year 2014 presentation. These reclassifications had no impact on working capital, net income, stockholders’ equity or cash flows as previously reported.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates based upon future events. The Company periodically evaluates the estimates. The estimates are based on current and expected economic conditions, historical experience and various other specific assumptions that the Company believes to be reasonable.

### *Seasonality*

The Company is primarily engaged in agriculture, which is of a seasonal nature and subject to the influence of natural phenomena and wide price fluctuations. Historically, the second and third quarters of our fiscal year generally produce the majority of our annual revenue, and our working capital requirements are typically greater in the first and fourth quarters of our fiscal year coinciding with our planting cycles. The results of the reported period herein are not necessarily indicative of the results for any other interim periods or the entire fiscal year.

### *Recent Accounting Pronouncements*

On April 10, 2014, the FASB issued ASU No. 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 changes the criteria for reporting discontinued operations and modifies related disclosure requirements. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. The Company is currently assessing the future impact of ASU No. 2014-08 on its financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently assessing the potential impact of ASU No. 2014-09 on its financial statements.

### **Note 2. Inventories**

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

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(in thousands) June 30, September 30,  
2014 2013

|                                     |    |        |    |        |
|-------------------------------------|----|--------|----|--------|
| Unharvested fruit crop on the trees | \$ | 12,701 | \$ | 16,329 |
| Unharvested sugarcane               | -  |        |    | 11,728 |
| Beef cattle                         |    | 3,633  |    | 1,200  |
| Other                               |    | 359    |    | 146    |
| Total Inventories                   | \$ | 16,693 | \$ | 29,403 |

See discussion on Note 4. "Sugarcane Lease" regarding unharvested sugarcane inventory.

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**Note 3. Property, Buildings and Equipment, Net**

Property, buildings and equipment consisted of the following at June 30, 2014 and September 30, 2013:

(in thousands) June 30, September 30,  
2014 2013

|   |    |           |    |           |
|---|----|-----------|----|-----------|
| Breeding herd                               | \$ | 11,667    | \$ | 12,234    |
| Buildings                                   |    | 13,559    |    | 11,587    |
| Citrus trees                                |    | 34,923    |    | 34,188    |
| Sugarcane                                   | -  |           |    | 16,199    |
| Equipment and other facilities              |    | 44,149    |    | 47,278    |
| Total depreciable properties                |    | 104,298   |    | 121,486   |
| Less accumulated depreciation and depletion |    | (62,698 ) |    | (71,857 ) |
| Net depreciable properties                  |    | 41,600    |    | 49,629    |
| Land and land improvements                  |    | 81,522    |    | 81,442    |
| Net property, buildings and equipment       | \$ | 123,122   | \$ | 131,071   |

*Assets held for sale*

In December 2013, the Company's Board of Directors approved listing certain parcels of real estate for sale in Polk and Hendry counties totaling approximately 3,200 acres. As a result, the Company reclassified the net book value of the properties to assets held for sale as of December 31, 2013. The estimated fair value of the properties exceeds their net book value, and no impairment was recognized as a result of the reclassification.

See Note 11. "Subsequent Events" for detail on the sale of Polk County property that was classified as held for sale.

**Note 4. Sugarcane Lease**

The Company entered into a triple net Agricultural Lease on May 19, 2014 (the "Lease") with its sole sugarcane customer, United States Sugar Corporation (the "Tenant") of approximately 30,600 gross acres of land in Hendry County, Florida used for sugarcane farming which includes 19,181 acres planted or plantable to sugar ("Net Cane Acres"). As a result of the Lease, the Company will no longer be directly engaged in sugarcane farming.

The term of the Lease is ten (10) years which may be extended by either party for three (3) additional one (1) year periods, except with respect to a specific portion of the leased premises (4,561 planted or plantable acres) which has a five (5) year term which may be extended by either party for an additional year but can be terminated by the Company at any time after one (1) year. The Lease includes various covenants, indemnities, defaults, termination rights and other provisions customary for lease transactions of this nature.

The annual base rent under the Lease is \$3,548,485 is payable to the Company on or before the first day of each lease year (May 1). The Tenant is obligated to pay additional rent per net cane acre annually if the year-end average net selling price per hundred weight is greater than or equal to \$28. This effectively increases the rent in the event sugar prices rise in the future. During the three and nine months ended June 30, 2014, the Company has recognized \$462,846 under this Lease agreement, respectively.

The Lease also provided for a one-time reimbursement to the Company, at book value, for certain of our costs to develop and plant sugarcane (Property, Buildings and Equipment), cultivate and care take sugarcane (Inventory) and for the purchase of certain rolling stock (Property, Buildings and Equipment) used in our sugarcane operation. The Company had a combined book value of approximately \$11,100,000 in planting and caretaking costs and approximately \$2,200,000 net book value for the rolling stock. After negotiation with USSC, we agreed to a one time reimbursement of approximately \$8,800,000 in plant cane and caretaking costs and a sales price of approximately \$2,200,000 for the rolling stock. Therefore, the Company recorded a one-time charge of approximately \$2,300,000 in the quarter ended June 30, 2014 as an operating expense in the Improved Farmland segment. In addition, the Company also received the annual base rent payment of \$3,548,485 for a total payment of approximately \$14,600,000 from USSC on July 1, 2014.

**Note 5. Income Taxes**

The Company's effective tax rates were 41.9% and 38.8% for the nine months ended June 30, 2014 and 2013, respectively.

The Company applies a "more likely than not" threshold to the recognition and non-recognition of tax positions. A change in judgment related to prior years' tax positions is recognized in the quarter of such change. The Company had no reserve for uncertain tax positions at June 30, 2014 and September 30, 2013. The Company recognizes interest and/or penalties related to income tax matters in income tax expense and in income taxes payable.

**Note 6. Long-Term Debt**

Outstanding debt under the Company's various loan agreements is presented in the table below:

| (in thousands)                | Revolving Line of Credit | Term Loan | Total Credit Facility |
|-------------------------------|--------------------------|-----------|-----------------------|
| June 30, 2014                 |                          |           |                       |
| Principal balance outstanding | \$ -                     | \$34,500  | \$34,500              |
| Remaining available credit    | \$60,000                 | \$-       | \$60,000              |

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|                         |              |              |
|-------------------------|--------------|--------------|
| Effective interest rate | 2.40 %       | 2.65 %       |
| Scheduled maturity date | October 2020 | October 2020 |
| Collateral              | Real Estate  | Real Estate  |

September 30, 2013

|                               |              |              |          |
|-------------------------------|--------------|--------------|----------|
| Principal balance outstanding | \$-          | \$36,000     | \$36,000 |
| Remaining available credit    | \$60,000     | \$-          | \$60,000 |
| Effective interest rate       | 2.43 %       | 2.68 %       |          |
| Scheduled maturity date       | October 2020 | October 2020 |          |
| Collateral                    | Real Estate  | Real Estate  |          |

The Company has a credit facility including a revolving line of credit (“RLOC”) and term loan with Rabo AgriFinance, Inc. (“Rabo”) totaling \$94,500,000 at June 30, 2014. The revolving line of credit and term loan are collateralized by 43,991 acres of farmland and 12,280 acres of additional real property containing approximately 8,600 acres of producing citrus groves.

The \$60,000,000 RLOC bears interest at a floating rate payable on the first day of each calendar quarter. The RLOC matures on October 1, 2020. At June 30, 2014, there was no outstanding balance on the RLOC. The Company pays an annual commitment fee on the RLOC equal to 0.15% of the difference between the annual average unpaid balance and the \$60,000,000 loan commitment. The commitment fee is payable on February 1 of each year. Commitment fees of approximately \$83,000 were paid in February 2014 and \$30,000 were accrued at June 30, 2014.



The interest rate on the RLOC is based on the one month LIBOR plus a spread. The spread is determined based upon our debt service coverage ratio for the preceding fiscal year and can vary from 225 to 275 basis points. The rate is currently at LIBOR plus 225 basis points. On October 1, 2015, Rabo may adjust the interest rate spread, and the spread adjustment on the RLOC is not limited. Rabo must provide a 30 day notice of the new spread. The Company has the right to prepay the outstanding balance without penalty.

The term loan requires quarterly payments of interest at a floating rate of one month LIBOR plus 250 basis points. On October 1, 2015, Rabo may adjust the interest rate to a maximum spread of LIBOR plus 5%. Rabo must provide a 30 day notice of the new spread. The Company has the right to prepay the outstanding balance without penalty. It also requires quarterly principal payments of \$500,000 through October 1, 2020 when the remaining principal balance and accrued interest will be due and payable.

See Note 11. "Subsequent Events" for detail on July 1, 2014 amendments to credit facility with Rabo.

At June 30, 2014 and September 30, 2013, Alico was in compliance with all of its covenants under the Rabo loan agreement.

On October 10, 2012, the outstanding mortgage note held by Farm Credit of Florida was paid in full. The payment included \$1,794,000 for the principal balance and \$66,000 for a prepayment penalty which was included in interest expense on our consolidated statements of comprehensive income (loss). The mortgage was collateralized by 7,680 acres of real estate used for farm leases, sugarcane and citrus production. The collateral was released upon satisfaction of the mortgage.

Maturities of the Company's debt were as follows at June 30, 2014:

(in thousands)

|                                  |    |        |
|----------------------------------|----|--------|
| Due within one year              | \$ | 2,000  |
| Due between one and two years    |    | 2,000  |
| Due between two and three years  |    | 2,000  |
| Due between three and four years |    | 2,000  |
| Due between four and five years  |    | 2,000  |
| Due beyond five years            |    | 24,500 |
| Total                            | \$ | 34,500 |

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

| (in thousands)       | Three Months Ended June 30, |        | Nine Months Ended June 30, |          |
|----------------------|-----------------------------|--------|----------------------------|----------|
|                      | 2014                        | 2013   | 2014                       | 2013     |
| Interest expense     | \$ 244                      | \$ 290 | \$ 766                     | \$ 968   |
| Interest capitalized | 40                          | 31     | 118                        | 60       |
| Total                | \$ 284                      | \$ 321 | \$ 884                     | \$ 1,028 |

**Note 7. Disclosures about reportable segments**

The Company manages its land based upon its primary usage and reviews its performance based upon three primary classifications – Citrus Groves, Improved Farmland and Ranch and Conservation. In addition, it operates an Agricultural Supply Chain Management business that is not tied directly to its land holdings and Other Operations that include leases for mining and oil extraction rights to third parties. The Company presents its financial results and the related discussions based upon these five segments (Citrus Groves, Improved Farmland, Ranch and Conservation, Agricultural Supply Chain Management and Other Operations). In the fourth quarter of fiscal year 2013, the Company changed its internal structure to align with the way it manages its business operations. As a result, the Company has realigned its financial reporting segments to match its internal operations. The Company has reclassified prior years to conform to the fiscal year 2014 presentation. None of these changes affect the Company's previously reported consolidated results. The primary change in previously reported segment results is to reclassify the former Land Leasing and Rentals segment's revenues and expenses to the related land classifications. A description of the Company's business segments is as follows:

Citrus Groves include activities related to planting, owning, cultivating and/or managing citrus groves in order to produce fruit for sale to fresh and processed citrus markets.

Agricultural Supply Chain Management and Support includes activities related to the purchase and resale of fruit and to value-added services which include contracting for the harvesting, marketing and hauling of citrus.

Improved Farmland includes activities related to planting, owning, cultivating, managing and/or leasing improved farmland. Improved farmland is acreage that has been converted, or is permitted to be converted, from native pasture and which has various improvements including irrigation, drainage and roads.

Ranch and Conservation includes activities related to cattle grazing, sod, native plant and animal sales, leasing, management and/or conservation of unimproved native pasture land.

Other Operations include activities related to rock mining royalties, oil exploration and other insignificant lines of business.

Intersegment sales and transfers are accounted for by the Company as if the sales or transfers were to third parties at current market prices. Goods and services produced by these segments are sold to wholesalers and processors in the United States which prepare the products for consumption. The Company evaluates the segments performance based on direct margins from operations before general and administrative costs, interest expense and income taxes, not including nonrecurring gains and losses.

The accounting policies of the segments are the same as those described in Note 1, Description of the Business and Basis of Presentation. Total revenues represent sales to unaffiliated customers, as reported in the Company's Condensed Consolidated Statements of Operations. All intercompany transactions have been eliminated.

Information by business segment is as follows:

| (in thousands)                       | <b>Three Months Ended June 30,</b> |                 | <b>Nine Months Ended June 30,</b> |                  |
|--------------------------------------|------------------------------------|-----------------|-----------------------------------|------------------|
|                                      | <b>2014</b>                        | <b>2013</b>     | <b>2014</b>                       | <b>2013</b>      |
| <b>Revenues:</b>                     |                                    |                 |                                   |                  |
| Citrus Groves                        | \$ 21,967                          | \$ 19,209       | \$ 47,023                         | \$ 43,664        |
| Agricultural Supply Chain Management | 4,083                              | 10,553          | 12,324                            | 27,712           |
| Improved Farmland                    | 2,160                              | 4,760           | 19,442                            | 21,679           |
| Ranch and Conservation               | 515                                | 409             | 1,956                             | 1,265            |
| Other Operations                     | (50 )                              | 298             | 394                               | 675              |
| Intersegment Revenues                | 4,173                              | 4,674           | 9,299                             | 10,919           |
| Eliminations                         | (4,173 )                           | (4,674 )        | (9,299 )                          | (10,919 )        |
| <b>Total revenue</b>                 | <b>28,675</b>                      | <b>35,229</b>   | <b>81,139</b>                     | <b>94,995</b>    |
| <b>Operating expenses:</b>           |                                    |                 |                                   |                  |
| Citrus Groves                        | 13,617                             | 12,789          | 29,963                            | 31,488           |
| Agricultural Supply Chain Management | 3,916                              | 10,095          | 12,085                            | 26,886           |
| Improved Farmland                    | 6,591                              | 3,028           | 20,986                            | 16,044           |
| Ranch and Conservation               | 164                                | 120             | 870                               | 380              |
| Other Operations                     | 128                                | 132             | 280                               | 332              |
| <b>Total operating expenses</b>      | <b>24,416</b>                      | <b>26,164</b>   | <b>64,184</b>                     | <b>75,130</b>    |
| <b>Gross profit:</b>                 |                                    |                 |                                   |                  |
| Citrus Groves                        | 8,350                              | 6,420           | 17,060                            | 12,176           |
| Agricultural Supply Chain Management | 167                                | 458             | 239                               | 826              |
| Improved Farmland                    | (4,431 )                           | 1,732           | (1,544 )                          | 5,635            |
| Ranch and Conservation               | 351                                | 289             | 1,086                             | 885              |
| Other Operations                     | (178 )                             | 166             | 114                               | 343              |
| <b>Total gross profit</b>            | <b>\$ 4,259</b>                    | <b>\$ 9,065</b> | <b>\$ 16,955</b>                  | <b>\$ 19,865</b> |
| <b>Capital expenditures:</b>         |                                    |                 |                                   |                  |
| Citrus Groves                        | \$ 2,324                           | \$ 1,971        | \$ 6,350                          | \$ 3,088         |
| Agricultural Supply Chain Management | -                                  | 2               | 71                                | 10               |
| Improved Farmland                    | 44                                 | 860             | 3,729                             | 8,506            |
| Ranch and Conservation               | 103                                | 162             | 879                               | 3,194            |
| Other Operations                     | (172 )                             | 16              | 28                                | 107              |
| Other capital expenditures           | 168                                | 808             | 168                               | 1,887            |
| <b>Total capital expenditures</b>    | <b>\$ 2,467</b>                    | <b>\$ 3,819</b> | <b>\$ 11,225</b>                  | <b>\$ 16,792</b> |

Depreciation, depletion and amortization:

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|  |    |        |    |       |    |       |    |       |
|--|----|--------|----|-------|----|-------|----|-------|
| Citrus Groves                                  | \$ | 533    | \$ | 535   | \$ | 1,587 | \$ | 1,578 |
| Agricultural Supply Chain Management           |    | 41     |    | 48    |    | 123   |    | 171   |
| Improved Farmland                              |    | 572    |    | 1,307 |    | 3,194 |    | 3,721 |
| Ranch and Conservation                         |    | 335    |    | 312   |    | 997   |    | 856   |
| Other Operations                               |    | 477    |    | 95    |    | 586   |    | 287   |
| Other depreciation, depletion and amortization |    | (252 ) |    | 195   |    | 148   |    | 517   |
| Total depreciation, depletion and amortization | \$ | 1,706  | \$ | 2,492 | \$ | 6,635 | \$ | 7,130 |

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| (in thousands)                       | June 30,<br>2014 | September 30, 2013 |
|--------------------------------------|------------------|--------------------|
| Assets:                              |                  |                    |
| Citrus Groves                        | \$ 62,916        | \$ 52,592          |
| Agricultural Supply Chain Management | 1,568            | 994                |
| Improved Farmland                    | 72,646           | 75,348             |
| Ranch and Conservation               | 17,537           | 14,696             |
| Other Operations                     | 16,162           | 15,094             |
| Other Corporate Assets               | 30,169           | 40,116             |
| <br>Total Assets                     | <br>\$ 200,998   | <br>\$ 198,840     |

**Note 8. Stockholders' Equity**

Effective November 1, 2008, the Company's Board of Directors authorized the repurchase of up to 350,000 shares of the Company's common stock through November 2013 for the purpose of funding awards under its 2008 Incentive Equity Plan. In September 2013, the Board of Directors authorized the repurchase of up to 105,000 shares of the Company's common stock beginning in November 2013 and continuing through April 2018. Stock repurchases have historically been made through open market transactions at times and in such amounts as the Company's broker determined subject to the provisions of SEC Rule 10b-18. As of June 30, 2014, no shares have been purchased under the September 2013 Board authorization and 105,000 shares continue to be available for purchase. The following table illustrates the Company's treasury stock transactions for the nine months ended June 30, 2014:

| (in thousands, except share amounts)             | Shares     | Cost       |
|--|------------|------------|
| Balance at September 30, 2013                    | 73,538     | \$ 2,816   |
| Purchased  | 118,792    | 4,713      |
| Issued to Directors and Named Executive Officers | (171,114)  | (6,654)    |
| <br>Balance at June 30, 2014                     | <br>21,216 | <br>\$ 875 |

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Comprehensive Income in general and administrative expenses was \$204,000 and \$909,000 for the three and nine months ended June 30, 2014, respectively, and \$468,000 and \$783,000 for the three and nine months ended June 30, 2013, respectively.

Stock-based compensation is recorded for Board of Directors fees paid in treasury stock and the Long Term Incentive Compensation Plan restricted common stock awards. The amount for the nine months ended June 30, 2014 includes \$195,000 related to the acceleration of the vesting of the Long Term Incentive common stock awards in accordance with the change in control discussed below.

#### *Dilution*

The dilutive effect on the weighted average shares outstanding of the company's various equity instruments is detailed below:



| (in thousands)                                | For the Three Months Ended |       | For the Nine Months Ended |       |       |
|---|----------------------------|-------|---------------------------|-------|-------|
|   | June 30,<br>2014           | 2013  | June 30,<br>2014          | 2013  |       |
| Weighted Average Shares Outstanding - Basic   |                            | 7,356 | 7,299                     | 7,327 | 7,316 |
| Unvested Restricted Stock Awards              | -                          |       | 76                        | 24    | 34    |
| Weighted Average Shares Outstanding - Diluted |                            | 7,356 | 7,375                     | 7,351 | 7,350 |

### *Long Term Incentive Plan*

On May 26, 2011, the Company's Board of Directors approved the Long-Term Incentive Program as part of the 2008 Equity Incentive Plan. The Company approved the contingent award of 152,403 shares of common stock to Named Executive Officers (the "NEOs") of the Company. On May 26, 2011, 58,610 shares were granted to the NEOs other than the Chief Executive Officer ("CEO") and on April 19, 2012, 93,793 shares were awarded to the CEO under restricted stock award agreements.

All of the shares of restricted stock awarded under the Long-Term Incentive Program vested automatically upon the acquisition by 734 Investors, LLC of a controlling interest in the Company. In December 2013, the Company determined that it would repurchase half of the 58,610 gross shares awarded to NEOs other than the CEO immediately upon their issuance for the purpose of retaining treasury shares for future issuance. As a result, the Company issued 68,944 shares of treasury stock in January 2014, net of withholdings for income taxes and repurchase of treasury shares. The Company recognized \$195,000 of stock-based compensation expense related to the acceleration of vesting of these grants during the quarter ended December 31, 2013.

### **Note 9. Contingencies**

The Company is involved from time to time in routine legal matters incidental to its business. When appropriate, the Company establishes estimated accruals for litigation matters which meet the requirements of ASC 450—Contingencies. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on its financial position or results of operations.

## **Note 10. Related Party Transactions**

### *Recent Change in Control Transaction*

On November 19, 2013, 734 Agriculture, LLC (“734 Agriculture”) and its affiliates, including 734 Investors, LLC (“734 Investors”), completed the previously announced purchase from Alico Holding, LLC, a company wholly owned by Atlantic Blue Group, Inc. (“Atlanticblue”), of 3,725,457 shares of our common stock (the “Share Purchase”).

The common stock acquired by 734 Agriculture and its affiliates, including 734 Investors, represents approximately 51% of the Company’s outstanding voting securities. On November 15, 2013, 734 Investors amended and restated its LLC operating agreement (the “LLC Agreement”) to admit new members and to designate 734 Agriculture as the managing member, with authority to administer the affairs of 734 Investors, including the voting and disposition of shares of common stock, subject to certain restrictions set forth therein. As a result, upon the consummation of the Share Purchase, 734 Agriculture and its affiliates, including 734 Investors, acquired the voting power to control the election of the Company’s Directors and any other matter requiring the affirmative vote or consent of the Company’s shareholders.

*Appointment of Directors; Resignation of Directors*

With the Closing of the Share Purchase, the previously announced election of the following individuals to the Board of Directors became effective: Mr. George R. Brokaw, Member of 734 Agriculture; Remy W. Trafelet, Manager of 734 Agriculture; W. Andrew Krusen, Jr., Chairman and CEO of Dominion Financial Group; Benjamin D. Fishman, Managing Principal of Arlon Group; Henry R. Slack, former Chairman of the Board of Terra Industries, Inc. and Senior Partner of Quarterwatch, LLC; Clayton G. Wilson, former CEO of 734 Citrus Holdings, LLC d/b/a Silver Nip Citrus (“Silver Nip”) and Chairman of the Board of Latt Maxcy Corporation; and R. Greg Eisner, Head of Strategy of Dubin & Company, LLC.

Ramon A. Rodriguez remained on, and continues to serve as a member, of the Board of Directors. In addition, Adam D. Compton, who previously resigned subject to and effective upon the Closing of the Share Purchase, was re-elected to the Board of Directors on November 22, 2013.

Upon the Closing of the Share Purchase, the following individuals ceased to be Directors of the Company pursuant to their previously disclosed resignations: JD Alexander, Dykes Everett, Thomas H. McAuley, Charles L. Palmer, John D. Rood, and Gordon Walker, PhD. Mr. Robert J. Viguet, Jr. resigned from the Board on November 21, 2013.

*Appointment of Mr. Wilson as the Company’s Chief Executive Officer*

Upon the Closing of the Share Purchase, Mr. Alexander ceased to be the Company’s CEO pursuant to his previously disclosed resignation. On November 22, 2013, the Board appointed Mr. Wilson to serve as the CEO, effective immediately.

*734 Investors and 734 Agriculture*

On November 19, 2013, 734 Agriculture and its affiliates, including 734 Investors, acquired all of the approximately 51% of Alico’s common stock then owned by Atlanticblue. 734 Investors now beneficially owns, directly or indirectly, approximately 51% of the outstanding shares of the Company’s common stock and possesses the voting power to control the election of the Company’s Directors and any other matter requiring the affirmative vote or consent of the Company’s shareholders. 734 Agriculture is the sole managing member of 734 Investors. By virtue of their ownership percentage, 734 Investors and 734 Agriculture are able to elect all of the Directors and, consequently, control

Alico. Messrs. Brokaw and Trafelet are the two controlling persons of 734 Agriculture.

*734 Citrus Holdings, LLC, d/b/a Silver Nip*

On November 22, 2013, the Company entered into an employee lease agreement with Mr. Wilson and Silver Nip (the “Silver Nip Agreement”). Silver Nip is owned and controlled by Messrs. Brokaw, Trafelet and Wilson.

The Silver Nip Agreement provides, subject to the terms and conditions set forth therein, for the Company to furnish Mr. Wilson’s services to Silver Nip to perform the functions and services that Mr. Wilson has previously performed for Silver Nip prior to his resignation as CEO of Silver Nip. The Silver Nip Agreement provides that Mr. Wilson will spend a majority of his working time performing functions and services for the Company and that in no event will Mr. Wilson be required to take any action that he or the Company determines could conflict with Mr. Wilson’s exercise of his fiduciary duties under applicable law owed to the Company or could interfere with the performance of his duties as an executive officer of the Company. In exchange for furnishing Mr. Wilson’s services, Silver Nip has agreed to pay to the Company the cash salary that would have been paid to Mr. Wilson pursuant to his previous employment arrangement with Silver Nip, had that arrangement continued to be in force.

The Silver Nip Agreement provides that if neither the Company nor Silver Nip has provided the other with written notice of an intention to terminate the Silver Nip Agreement at least three business days before the month’s end (or any subsequent renewal period), the Silver Nip Agreement will automatically renew for a one-month period. In addition, Silver Nip may terminate the Silver Nip Agreement at any time upon 10 business days’ prior written notice to the Company. As of June 30, 2014 the neither Company nor Silver Nip has provided written notice to terminate the Silver Nip Agreement.

The description of the Silver Nip Agreement is qualified in its entirety by reference to the complete terms and conditions of the agreement, which is listed as an exhibit to the Company's Current Report on Form 8-K filed on November 25, 2013. During the three and nine months ended June 30, 2014, the Company has received \$37,500 and \$90,000 under this agreement, respectively.

*Atlanticblue*

Prior to the Share Purchase transaction on November 19, 2013, Atlanticblue owned approximately 51% of Alico's common stock. By virtue of its ownership percentage, Atlanticblue was able to elect all of the Directors and, consequently, control Alico. JD Alexander resigned March 31, 2012 as the President and Chief Executive Officer of Atlanticblue and did not stand for re-election as a Director at the June 2012 Atlanticblue shareholders meeting. In February 2010, JD Alexander was appointed Alico's President and Chief Executive Officer, and he served on Alico's Board of Directors. Robert J. Viguet, Jr., a former Alico Director, did not stand for re-election as a Director of Atlanticblue at its June 2012 shareholders meeting. Dykes Everett was elected to the Alico Board of Directors at Alico's February 2013 shareholders meeting; he was nominated by Atlanticblue.

Alico Fruit Company ("Alico Fruit") marketed citrus fruit for TRI-County Grove, LLC at the customary terms and rates the Company extends to third parties. During the three and nine months ended June 30, 2013, Alico Fruit marketed 55,948 and 201,802 boxes of fruit, for approximately \$600,000 and \$1,907,000, respectively. Alico Fruit no longer provides marketing and/or purchases citrus fruit from TRI-County Grove, LLC, a wholly owned subsidiary of Atlanticblue.

*JD Alexander*

On November 6, 2013, JD Alexander tendered his resignation as Chief Executive Officer and as an employee of the Company, subject to and effective immediately after the Closing of the Share Purchase transaction on November 19, 2013. Mr. Alexander's resignation includes a waiver of any rights to any payments under his Change-in-Control Agreement with the Company. On November 6, 2013, the Company and Mr. Alexander also entered into a Consulting and Non-Competition Agreement under which (i) Mr. Alexander will provide consulting services to the Company during the two-year period after the Closing, (ii) Mr. Alexander agreed to be bound by certain non-competition covenants relating to the Company's citrus operations and non-solicitation and non-interference covenants for a period of two years after the Closing, and (iii) the Company will pay Mr. Alexander for such services and covenants \$2 million in twenty-four monthly installments. Mr. Alexander also agreed, in a separate side letter with the Company, not to sell or transfer the shares that were awarded pursuant to his Restricted Stock Award Agreement (other than to a family trust) for a period of two years after the Closing. Mr. Alexander also executed a general release in favor of the Company.

*Other*

Mr. Charles Palmer, who served as a member of the Board until his resignation became effective on November 19, 2013, leases approximately 2,300 acres from the Company for recreational purposes. He pays approximately \$33,000 annually at the customary terms and rates the Company extends to third parties.

## **Note 11. Subsequent Events**

### *Polk County property sale*

The sale of a 2,800 acre parcel of land in Polk County, Florida closed on July 1, 2014 for \$5,623,000. This parcel was surplus to our operations and was classified as held for sale at June 30, 2014. The Company received cash of \$5,267,000, which is being held by a qualified intermediary in accordance with an assignment agreement while potential like kind exchange transactions are considered which would qualify for tax-deferral treatment in accordance with Internal Revenue Code §1031.

### *Amendment to Credit Agreement*

The Company's Credit Agreement with Rabo was amended effective July 1, 2014.

The term loan interest rate spread over one month LIBOR was decreased from 250 basis points to 225 basis points. The RLOC interest rate spread over one month LIBOR is adjusted pursuant to a pricing grid based on our debt service coverage ratio for the immediately preceding fiscal year. The amended range of spreads is from 195 to 225 basis points compared to a range of 225 to 275 basis points prior to the amendment. The Company's rate is currently at LIBOR plus 195 basis points. The annual commitment fee paid on the annual average unused portion of the RLOC was increased from 15 to 20 basis points.

Rabo may, pursuant to the amendment, adjust the interest rate spreads on July 1, 2016 and every two years thereafter. The spread adjustment on the term loan is limited to 500 basis points over one month LIBOR. The spread adjustment on the RLOC is not limited. Rabo must provide a 30 day notice of any spread adjustments, and the Company has the right to prepay outstanding balances without penalty.

### *Purchase and Sale Agreement*

On August 7, 2014 we entered into a Purchase and Sale Agreement, (the “Purchase Agreement”) with Terra Land Company (the “Buyer”) to sell to the Buyer approximately 30,959 gross acres of land located in Hendry County, Florida used for sugarcane production (the “Land”) for a base purchase price of \$91,436,000. The base purchase price is subject to a valuation formula adjustment in the event that either the net farmable acres or net support acres of the Land are more or less than the calculated amounts by one percent (1%) or greater. The Land excludes growing crops and sugarcane stubble on the Land as well as oil and gas rights and a 200 acre railroad related tract which we are retaining.

The parties have made customary representations, warranties, covenants and agreements in the Purchase Agreement. The Purchase Agreement provides for an inspection period not to exceed 75 days with the closing date to be 15 days after expiration of the inspection period. The transaction is expected to close in November of 2014 and is subject to certain closing conditions but does not have any financing condition. However, there can be no assurance that the closing conditions will be satisfied.

The Purchase Agreement also provides for the parties to enter into a lease at closing pursuant to which the Buyer will lease a substantial portion of the Land back to us for a period of 10 years at an annual rent equal to approximately 5% of the purchase price. We have also provided the Buyer with an exclusivity period under the Purchase Agreement. Buyer acknowledges in the Purchase Agreement that we may engage in a Section 1031 tax-free exchange in connection with this transaction and agrees to cooperate. However, there can be no assurance that we will be able to successfully complete a like-kind exchange pursuant to Section 1031.



## **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. Additional context can also be found in our Form 10-K for the fiscal year ended September 30, 2013, as filed with the Securities and Exchange Commission ("SEC") on December 9, 2013.

### ***Cautionary Statement Regarding Forward-Looking Information***

*We provide forward-looking information in this Quarterly Report, particularly in this Management's Discussion and Analysis, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements in this Quarterly Report that are not historical facts are forward-looking statements. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on our current expectations, estimates and projections about our business based, in part, on assumptions made by our management. Factors which may cause future outcomes to differ materially from those foreseen in forward-looking statements include, but are not limited to: changes in laws, regulation and rules; weather conditions that affect production, transportation, storage, demand, import and export of fresh product and their by-products, increased pressure from disease, insects and other pests; disruption of water supplies or changes in water allocations; pricing and supply of raw materials and products; market responses to industry volume pressures; pricing and supply of energy; changes in interest rates; availability of financing for land development activities and other growth opportunities; onetime events; acquisitions and divestitures; seasonality; labor disruptions; inability to pay debt obligations; inability to engage in certain transactions due to restrictive covenants in debt instruments; government restrictions on land use; changes in agricultural land values; changes in dividends; and market and pricing risks due to concentrated ownership of stock. These assumptions are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those risks factors described in our Annual Report on Form 10-K for the year ended September 30, 2013 and our Quarterly Reports on Form 10-Q.*

### ***Overview***

We manage our land based upon its primary usage and review its performance based upon three primary classifications – Citrus Groves, Improved Farmland and Ranch and Conservation. In addition, we operate an Agricultural Supply Chain Management business that is not tied directly to our land holdings and Other Operations that include leases for mining and oil extraction rights to third parties. We present our financial results and the related discussions based upon these five segments (Citrus Groves, Improved Farmland, Ranch and Conservation, Agricultural Supply Chain Management and Other Operations). In the fourth quarter of fiscal year 2013, we changed our internal operations to align with the way we manage our business operations. As a result, we have realigned our financial reporting segments to match our internal operations. We have reclassified prior years to conform to the fiscal year 2014 presentation. None of these changes affect our previously reported consolidated results. The primary change in previously reported segment results is to reclassify the former Land Leasing and Rentals segment's revenues and expenses to the related land classifications.

In connection with our pursuit of growth opportunities consistent with our mission, we intend to regularly evaluate potential acquisitions and divestitures and other business opportunities, some of which are material in nature. If appropriate opportunities present themselves, we may engage in selected acquisitions, divestitures and other business growth initiatives or undertakings. To the extent we engage in such opportunities it could, among other things, change our revenue mix, require us to obtain additional debt or equity financing and have a material impact on our business and financial condition.

Segments

We own approximately 130,720 acres of land in six counties (Alachua, Collier, Glades, Hendry, Lee and Polk), and operate five segments related to our various land holdings.

Citrus Groves include activities related to planting, owning, cultivating and/or managing citrus groves in order to produce fruit for sale to fresh and processed citrus markets.

Agricultural Supply Chain Management and Support includes activities related to the purchase and resale of fruit, as well as, to value-added services which include contracting for the harvesting as well as marketing and hauling of citrus.

Improved Farmland includes activities related to planting, owning, cultivating, managing and/or leasing improved farmland. Improved farmland is acreage that has been converted, or is permitted to be converted, from native pasture and which may have various improvements including irrigation, drainage and roads.

Ranch and Conservation includes activities related to cattle grazing, sod, native plant and animal sales, leasing, management and/or conservation of unimproved native pasture land.

Other Operations include activities related to rock mining royalties, oil exploration and other insignificant lines of business.

***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements requires us 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. We base these estimates on historical experience, available current market information and on various other assumptions that management believes are reasonable under the circumstances. Additionally we evaluate the results of these estimates on an on-going basis. Management’s estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no significant changes during this reporting period to the policies and disclosures set forth in Part II, Item 7 in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

### ***Recent Events***

#### *Sugarcane lease*

We entered into a triple net Agricultural Lease on May 19, 2014 (the "Lease") with our sole sugarcane customer, United States Sugar Corporation (the "Tenant") of approximately 30,600 gross acres of land in Hendry County, Florida used for sugarcane farming which includes 19,181 acres planted or plantable to sugar ("Net Cane Acres"). As a result of the Lease, we will no longer be directly engaged in sugarcane farming.

The term of the Lease is ten (10) years which may be extended by either party for three (3) additional one (1) year periods, except with respect to a specific portion of the leased premises (4,561 planted or plantable acres) which has a five (5) year term which may be extended by either party for an additional year but can be terminated by us at any time after one (1) year. The Lease includes various covenants, indemnities, defaults, termination rights and other provisions customary for lease transactions of this nature.

The annual base rent under the Lease is \$3,548,485 and is payable to us on or before the first day of each lease year (May 1). The Tenant is obligated to pay additional rent per net cane acre annually if the year-end average net selling price per hundred weight is greater than or equal to \$28. This effectively increases the rent in the event sugar prices rise in the future.

The Lease also provided for a one-time reimbursement to the Company, at book value, for certain of our costs to develop and plant sugarcane (Property, Buildings and Equipment), cultivate and care take sugarcane (Inventory) and for the purchase of certain rolling stock (Property, Buildings and Equipment) used in our sugarcane operation. We had a combined book value of approximately \$11,100,000 in planting and caretaking costs and approximately \$2,200,000 net book value for the rolling stock. After negotiation with USSC, we agreed to a one time reimbursement of approximately \$8,800,000 in plant cane and caretaking costs and a sale price of approximately \$2,200,000 for the rolling stock. Therefore, the Company recorded a one-time charge of approximately \$2,300,000 in the quarter ended June 30, 2014 as an operating expense in the Improved Farmland segment. In addition, we also received the annual base rent payment of \$3,548,485 for a total payment of approximately \$14,600,000 from USSC on July 1, 2014.

We believe that the Sugarcane Lease will reduce both operational and production risks while eliminating capital expenditures related to planting costs and sugarcane farming equipment. The Lease will increase the Company's free cash flow while maintaining our operating income and reducing depreciation expense. The Lease also allows the Company to participate in future rising sugar prices, if any.

#### *Purchase and Sale Agreement*

On August 7, 2014 we entered into a Purchase and Sale Agreement, (the "Purchase Agreement") with Terra Land Company (the "Buyer") to sell to the Buyer approximately 30,959 gross acres of land located in Hendry County, Florida used for sugarcane production (the "Land") for a base purchase price of \$91,436,000. The base purchase price is subject to a valuation formula adjustment in the event that either the net farmable acres or net support acres of the Land are more or less than the calculated amounts by one percent (1%) or greater. The Land excludes growing crops and sugarcane stubble on the Land as well as oil and gas rights and a 200 acre railroad related tract which we are retaining.

The parties have made customary representations, warranties, covenants and agreements in the Purchase Agreement. The Purchase Agreement provides for an inspection period not to exceed 75 days with the closing date to be 15 days after expiration of the inspection period. The transaction is expected to close in November of 2014 and is subject to certain closing conditions but does not have any financing condition. However, there can be no assurance that the closing conditions will be satisfied.

The Purchase Agreement also provides for the parties to enter into a lease at closing pursuant to which the Buyer will lease a substantial portion of the Land back to us for a period of 10 years at an annual rent equal to approximately 5% of the purchase price. We have also provided the Buyer with an exclusivity period under the Purchase Agreement. Buyer acknowledges in the Purchase Agreement that we may engage in a Section 1031 tax-free exchange in

connection with this transaction and agrees to cooperate. However, there can be no assurance that we will be able to successfully complete a like-kind exchange pursuant to Section 1031.

*Recent Change in Control Transaction*

On November 19, 2013, 734 Agriculture, LLC (“734 Agriculture”) and its affiliates, including 734 Investors, LLC (“734 Investors”), completed the previously announced purchase from Alico Holding, LLC, a company wholly owned by Atlantic Blue Group, Inc. (“Atlanticblue”), of 3,725,457 shares of our common stock (the “Share Purchase”).

The common stock acquired by 734 Agriculture and its affiliates, including 734 Investors, represents approximately 51% of the Company’s outstanding voting securities. On November 15, 2013, 734 Investors amended and restated its LLC operating agreement (the “LLC Agreement”) to admit new members and to designate 734 Agriculture as the managing member, with authority to administer the affairs of 734 Investors, including the voting and disposition of shares of common stock, subject to certain restrictions set forth therein. As a result, upon the consummation of the Share Purchase, 734 Agriculture and its affiliates, including 734 Investors, acquired the voting power to control the election of the Company’s Directors and any other matter requiring the affirmative vote or consent of the Company’s shareholders.

*Appointment of Directors; Resignation of Directors*

With the Closing of the Share Purchase, the previously announced election of the following individuals to the Board of Directors became effective: Mr. George R. Brokaw, Member of 734 Agriculture; Remy W. Trafelet, Manager of 734 Agriculture; W. Andrew Krusen, Jr., Chairman and CEO of Dominion Financial Group; Benjamin D. Fishman, Managing Principal of Arlon Group; Henry R. Slack, former Chairman of the Board of Terra Industries, Inc. and Senior Partner of Quarterwatch, LLC; Clayton G. Wilson, former CEO of 734 Citrus Holdings, LLC d/b/a Silver Nip Citrus (“Silver Nip”) and Chairman of the Board of Latt Maxcy Corporation; and R. Greg Eisner, Head of Strategy of Dubin & Company, LLC.

Ramon A. Rodriguez remained on, and continues to serve as a member of, the Board of Directors. In addition, Adam D. Compton, who previously resigned subject to and effective upon the Closing of the Share Purchase, was re-elected to the Board of Directors on November 22, 2013.

Upon the Closing of the Share Purchase, the following individuals ceased to be Directors of the Company pursuant to their previously disclosed resignations: JD Alexander, Dykes Everett, Thomas H. McAuley, Charles L. Palmer, John D. Rood, and Gordon Walker, PhD. Mr. Robert J. Viguier, Jr. resigned from the Board on November 21, 2013.



*Appointment of Mr. Wilson as the Company's Chief Executive Officer*

Upon the Closing of the Share Purchase, Mr. Alexander ceased to be the Company's CEO pursuant to his previously disclosed resignation. On November 22, 2013, the Board appointed Mr. Wilson to serve as the CEO, effective immediately.

**Results of Operations**

The following table sets forth a comparison of results of operations for the three and nine months ended June 30, 2014 and 2013:

| (in thousands)                                 | Three Months Ended |          |           |          | Nine Months Ended |          |           |          |  |
|--|--------------------|----------|-----------|----------|-------------------|----------|-----------|----------|--|
|  | June 30, 2014      | 2013     | Change \$ | %        | June 30, 2014     | 2013     | Change \$ | %        |  |
| Operating revenues:                            |                    |          |           |          |                   |          |           |          |  |
| Citrus Groves                                  | \$21,967           | \$19,209 | \$2,758   | 14.4 %   | \$47,023          | \$43,664 | \$3,359   | 7.7 %    |  |
| Agricultural Supply Chain Management           | 4,083              | 10,553   | (6,470)   | (61.3 )% | 12,324            | 27,712   | (15,388)  | (55.5 )% |  |
| Improved Farmland                              | 2,160              | 4,760    | (2,600)   | (54.6 )% | 19,442            | 21,679   | (2,237 )  | (10.3 )% |  |
| Ranch and Conservation                         | 515                | 409      | 106       | 25.9 %   | 1,956             | 1,265    | 691       | 54.6 %   |  |
| Other Operations                               | (50 )              | 298      | (348 )    | (116.7)% | 394               | 675      | (281 )    | (41.6 )% |  |
| Total operating revenues                       | 28,675             | 35,229   | (6,554)   | (18.6 )% | 81,139            | 94,995   | (13,856)  | (14.6 )% |  |
| Gross Profit:                                  |                    |          |           |          |                   |          |           |          |  |
| Citrus Groves                                  | 8,350              | 6,420    | 1,930     | 30.1 %   | 17,060            | 12,176   | 4,884     | 40.1 %   |  |
| Agricultural Supply Chain Management           | 167                | 458      | (291 )    | (63.5 )% | 239               | 826      | (587 )    | (71.0 )% |  |
| Improved Farmland                              | (4,431 )           | 1,732    | (6,163)   | (355.8)% | (1,544 )          | 5,635    | (7,179 )  | (127.4)% |  |
| Ranch and Conservation                         | 351                | 289      | 62        | 21.4 %   | 1,086             | 885      | 201       | 22.7 %   |  |
| Other Operations                               | (178 )             | 166      | (344 )    | (207.1)% | 114               | 343      | (229 )    | (66.7 )% |  |
| Total gross profit                             | 4,259              | 9,065    | (4,806)   | (53.0 )% | 16,955            | 19,865   | (2,910 )  | (14.6 )% |  |
| Corporate, general and administrative expenses | 2,097              | 2,253    | (156 )    | (6.9 )%  | 8,410             | 6,525    | 1,885     | 28.9 %   |  |
| Income from operations                         | 2,162              | 6,812    | (4,650)   | (68.3 )% | 8,545             | 13,340   | (4,795 )  | (35.9 )% |  |
| Other expense, net                             | (252 )             | (167 )   | (85 )     | 50.8 %   | (824 )            | (448 )   | (376 )    | 83.9 %   |  |
| Income before income taxes                     | 1,910              | 6,645    | (4,735)   | (71.2 )% | 7,721             | 12,892   | (5,171 )  | (40.1 )% |  |
| Income tax expense                             | 791                | 2,566    | (1,775)   | (69.2 )% | 3,236             | 5,002    | (1,766 )  | (35.3 )% |  |



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|            |         |         |           |          |         |         |            |          |
|------------|---------|---------|-----------|----------|---------|---------|------------|----------|
| Net income | \$1,119 | \$4,079 | \$(6,510) | (159.6)% | \$4,485 | \$7,890 | \$(6,937 ) | (87.9 )% |
|------------|---------|---------|-----------|----------|---------|---------|------------|----------|

A discussion of our segment results of operations follows.

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Citrus Groves

The table below presents key operating measures for the three and nine months ended June 30, 2014 and 2013:

(in thousands, except per box and per pound solid data)

|                               | Three Months Ended |           | Change   |          | Nine Months Ended |           | Change    |         |
|-------------------------------|--------------------|-----------|----------|----------|-------------------|-----------|-----------|---------|
|                               | June 30,<br>2014   | 2013      | \$       | %        | June 30,<br>2014  | 2013      | \$        | %       |
| <b>Revenue From:</b>          |                    |           |          |          |                   |           |           |         |
| Early and Mid Season          | \$ -               | \$ -      | \$ -     | (100.0)% | \$ 19,281         | \$ 17,923 | \$ 1,358  | 7.6%    |
| Valencias                     | 21,626             | 18,953    | 2,673    | 14.1 %   | 25,064            | 23,216    | 1,848     | 8.0 %   |
| Fresh Fruit                   | 278                | 236       | 42       | 17.8 %   | 2,055             | 2,443     | (388)     | (15.9)% |
| Other                         | 63                 | 18        | 45       | 250.0 %  | 623               | 82        | 541       | NM      |
| Total                         | \$ 21,967          | \$ 19,209 | \$ 2,758 | 14.4 %   | \$ 47,023         | \$ 43,664 | \$ 3,359  | 7.7%    |
| <b>Boxes Harvested:</b>       |                    |           |          |          |                   |           |           |         |
| Early and Mid Season          | -                  | -         | -        | -        | 1,645             | 1,899     | (254)     | (13.4)% |
| Valencias                     | 1,369              | 1,549     | (180)    | (11.6)%  | 1,614             | 1,967     | (353)     | (17.9)% |
| Total Processed               | 1,369              | 1,549     | (180)    | (11.6)%  | 3,259             | 3,866     | (607)     | (15.7)% |
| Fresh Fruit                   | 32                 | 31        | 1        | 3.2 %    | 185               | 251       | (66)      | (26.3)% |
| Total                         | 1,401              | 1,580     | (179)    | (11.3)%  | 3,444             | 4,117     | (673)     | (16.3)% |
| <b>Pound Solids Produced:</b> |                    |           |          |          |                   |           |           |         |
| Early and Mid Season          | -                  | 6         | (6)      | (100.0)% | 10,222            | 11,613    | (1,391)   | (12.0)% |
| Valencias                     | 9,298              | 10,579    | (1,281)  | (12.1)%  | 10,826            | 13,134    | (2,308)   | (17.6)% |
| Total                         | 9,298              | 10,585    | (1,287)  | (12.2)%  | 21,048            | 24,747    | (3,699)   | (14.9)% |
| <b>Pound Solids per Box:</b>  |                    |           |          |          |                   |           |           |         |
| Early and Mid Season          | -                  | -         | -        | -        | 6.21              | 6.12      | 0.10      | 1.6 %   |
| Valencias                     | 6.79               | 6.83      | (0.04)   | (0.6)%   | 6.71              | 6.68      | 0.03      | 0.5 %   |
| <b>Price per Pound Solid:</b> |                    |           |          |          |                   |           |           |         |
| Early and Mid Season          | \$ -               | \$ -      | \$ -     | -        | \$ 1.89           | \$ 1.54   | \$ 0.35   | 22.4 %  |
| Valencias                     | \$ 2.33            | \$ 1.79   | \$ 0.54  | 29.8 %   | \$ 2.32           | \$ 1.87   | \$ 0.45   | 24.5 %  |
| <b>Price per Box:</b>         |                    |           |          |          |                   |           |           |         |
| Fresh Fruit                   | \$ 8.69            | \$ 7.61   | \$ 1.07  | 14.1 %   | \$ 11.09          | \$ 9.83   | \$ 1.26   | 12.8 %  |
| <b>Operating Expenses:</b>    |                    |           |          |          |                   |           |           |         |
| Cost of Sales                 | \$ 9,631           | \$ 8,160  | \$ 1,471 | 18.0 %   | \$ 20,335         | \$ 19,883 | \$ 452    | 2.3 %   |
| Harvesting and Hauling        | 3,986              | 4,629     | (643)    | (13.9)%  | 9,628             | 11,645    | (2,017)   | (17.3)% |
| Total                         | \$ 13,617          | \$ 12,789 | \$ 828   | 6.5 %    | \$ 29,963         | \$ 31,488 | \$(1,525) | (4.8)%  |

NM - Not Meaningful

We sell our Early and Mid-Season and Valencia oranges to processors that convert the majority of the citrus crop into orange juice. Processors buy our citrus on a pound solids basis, which is the measure of the soluble solids (sugars and acids) contained in one box of fruit. Fresh Fruit is generally sold to packing houses that purchase our citrus on a per box basis. Our Operating Expenses consist primarily of Cost of Sales and Harvesting and Hauling. Cost of Sales represents the cost of maintaining our citrus groves for the preceding calendar year and does not vary in relation to production. Harvesting and Hauling represents the cost of bringing citrus product to processors and varies based upon the number of boxes produced.

The declines for the three and nine months ended June 30, 2014 in boxes harvested, pounds solids produced and pounds solids per box are being driven by growing season fluctuations in production, primarily resulting from changes in weather and the effects of diseases and pests, including Citrus Greening. The industry and the Company both experienced higher than normal premature fruit drop in certain areas of our groves and smaller sized fruit that contributed to the 16% smaller box harvest than prior year. Although our total pounds solid produced for the nine months ended June 30, 2014, declined 14.9% versus the same period of the prior year, our total revenue increased 7.7% due to the significant increase in the price per pound solid for both the Early and Mid-Season and Valencia oranges.

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The statewide environmental and horticultural factors described above have negatively impacted our crops and certain key operating measures presented above. The USDA, in its July 11, 2014 Citrus Forecast, indicated that it expects the final Florida orange crop to decline by 29,200,000 boxes or approximately 22% versus the prior year, and therefore our per acre production continues to significantly outpace the average production in the state of Florida. The USDA estimate will not be updated again until the first estimate of the 2014/2015 season is released.

The increase in Citrus Groves gross profit for the three and nine months ended June 30, 2014 relates primarily to the increased prices and revenue discussed above offset by plus an increase of 2.5% in growing costs for the 2013/2014 harvesting season crop to \$20,335,000 from \$19,843,000. Per box harvest and hauling costs for the three and nine months ended June 30, 2014 remained in line with the three and nine months ended June 30, 2013.

*Agricultural Supply Chain Management*

The table below presents key operating measures for the three and nine months ended June 30, 2014 and 2013:

(in thousands, except per box and per pound solid data)

|                                      | Three Months Ended |          |              |         | Nine Months Ended |           |              |         |
|--------------------------------------|--------------------|----------|--------------|---------|-------------------|-----------|--------------|---------|
|                                      | June 30,<br>2014   | 2013     | Change<br>\$ | %       | June 30,<br>2014  | 2013      | Change<br>\$ | %       |
| <b>Purchase and Resale of Fruit:</b> |                    |          |              |         |                   |           |              |         |
| Revenue                              | \$ 3,398           | \$ 9,052 | \$ (5,654)   | (62.5)% | \$ 10,095         | \$ 22,830 | \$ (12,735)  | (55.8)% |
| Boxes Sold                           | 235                | 731      | (496)        | (67.9)% | 836               | 2,377     | (1,541)      | (64.8)% |
| Pound Solids Sold                    | 1,571              | 4,979    | (3,408)      | (68.4)% | 5,195             | 14,839    | (9,644)      | (65.0)% |
| Pound Solids per Box                 | 6.69               | 6.81     | (0.13)       | (1.9)%  | 6.21              | 6.24      | (0.03)       | (0.5)%  |
| Price per Pound Solids               | \$ 2.16            | \$ 1.82  | \$ 0.34      | 19.0%   | \$ 1.94           | \$ 1.54   | \$ 0.40      | 26.0%   |
| <b>Value Added Services:</b>         |                    |          |              |         |                   |           |              |         |
| Revenue                              | \$ 670             | \$ 1,368 | \$ (698)     | (51.0)% | \$ 1,891          | \$ 4,392  | \$ (2,501)   | (56.9)% |
| Value Added Boxes                    | 71                 | 1,164    | (1,093)      | (93.9)% | 652               | 3,128     | (2,476)      | (79.2)% |
| Other Revenue                        | \$ 15              | \$ 133   | (118)        | (89.0)% | \$ 338            | \$ 490    | (152)        | (31.0)% |

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The declines in Purchase and Resale of Fruit revenue, boxes sold and pound solids sold, as well as the declines in Value Added Services revenue and boxes, is all being primarily driven by overall declines in Florida production as well as a management decision to reduce the number of external boxes handled by Alico Fruit Company in fiscal year 2014.

The decline in Alico Fruit Company gross profit relates primarily to the changes in revenue outlined above.

*Improved Farmland*

The table below presents key operating measures for the three and nine months ended June 30, 2014 and 2013:

(in thousands, except per net standard ton and per acre data)

|                                    | Three Months Ended |          |              |         | Nine Months Ended |           |              |         |
|------------------------------------|--------------------|----------|--------------|---------|-------------------|-----------|--------------|---------|
|                                    | June 30,<br>2014   | 2013     | Change<br>\$ | %       | June 30,<br>2014  | 2013      | Change<br>\$ | %       |
| <b>Revenue From:</b>               |                    |          |              |         |                   |           |              |         |
| Sale of Sugarcane                  | \$ 1,410           | \$ 4,400 | \$(2,990)    | (68.0)% | \$ 17,428         | \$ 20,125 | \$(2,697)    | (13.4)% |
| Molasses Bonus                     | 56                 | 135      | (79 )        | (58.5)% | 817               | 812       | 5            | 0.6 %   |
| Land Leasing                       | 694                | 225      | 469          | 208.4%  | 1,197             | 742       | 455          | 61.3 %  |
| Total                              | \$ 2,160           | \$ 4,760 | \$(2,600)    | (54.6)% | \$ 19,442         | \$ 21,679 | \$(2,237)    | (10.3)% |
| Net Standard Tons Sold             | 46                 | 98       | (52 )        | (53.1)% | 590               | 546       | 44           | 8.1 %   |
| <b>Price Per Net Standard Ton:</b> |                    |          |              |         |                   |           |              |         |
| Sale of Sugarcane                  | \$ 30.65           | \$ 44.90 | \$(14.25)    | (31.7)% | \$ 29.55          | \$ 36.86  | \$(7.31 )    | (19.8)% |
| Molasses                           | \$ 1.22            | \$ 1.38  | \$(0.16 )    | (11.6)% | \$ 1.38           | \$ 1.49   | \$(0.10 )    | (6.9 )% |
| Net Standard Tons/Acre             | 21.57              | 38.00    | (16.43)      | (43.2)% | 35.20             | 41.13     | (5.93 )      | (14.4)% |
| <b>Operating Expenses:</b>         |                    |          |              |         |                   |           |              |         |
| Cost of Sales                      | \$ 2,973           | \$ 1,886 | \$ 1,087     | 57.6 %  | \$ 13,881         | \$ 11,580 | \$ 2,301     | 19.9 %  |
| Harvesting and Hauling             | 428                | 1,041    | (613 )       | (58.9)% | 3,759             | 4,181     | (422 )       | (10.1)% |
| Land Leasing Expenses              | 3,190              | 101      | 3,089        | NM      | 3,346             | 283       | 3,063        | NM      |
| Total                              | \$ 6,591           | \$ 3,028 | \$ 3,563     | 117.7%  | \$ 20,986         | \$ 16,044 | \$ 4,942     | 30.8 %  |

NM - Not Meaningful

Acres used to produce sugarcane increased to 16,728 in fiscal year 2014 from 13,272 in fiscal year 2013. The increase in net standard tons sold is related to the increased acreage in production for the nine months ended June 30, 2014 versus the same period of the prior year. The increase in production for the nine months ended June 30, 2014 versus the same period of the prior year is more than offset by the 20% decrease in price per net standard ton that has resulted from changes in market conditions in fiscal year 2014 versus fiscal year 2013. Our Operating Expenses consist primarily of Cost of Sales and Harvesting and Hauling. Cost of Sales represents the cost of maintaining our sugarcane land for the preceding calendar year and does not vary in relation to production. Harvesting and Hauling represents the cost of bringing sugarcane product to our processor and varies based upon the number of net standard tons produced.

The decrease in gross profit for the three and nine months ended June 30, 2014 versus the same period of the prior year is related primarily to the 20% decrease in price per standard ton discussed above, partially offset by a 4.9% decrease in growing costs per acre and a 16.8% decrease in harvest and hauling costs per net standard ton versus the nine months ended June 30, 2013 which relates primarily to the elimination of long-haul charges related to the transportation of sugarcane via truck.

Additionally, the gross profit of the Improved Farmland segment was negatively impacted by a one-time charge of approximately \$2,300,000 million in the quarter ended June 30, 2014 recorded as an operating expense related to the reimbursement to the Company, at book value, for certain of our costs to develop and plant sugarcane, cultivate and care take sugarcane and purchase certain rolling stock used in our sugarcane operation. The one-time reimbursement relates to the triple net agricultural lease entered into with our sole sugarcane customer, United States Sugar Corporation.

See complete disclosure of the sugarcane lease in Item 2. "Recent Events".

*Ranch and Conservation*

The table below presents key operating measures for the three and nine months ended June 30, 2014 and 2013:

(in thousands, except per pound data)

|                            | Three Months Ended |               |              |               | Nine Months Ended |                |              |               |
|----------------------------|--------------------|---------------|--------------|---------------|-------------------|----------------|--------------|---------------|
|                            | June 30,<br>2014   | 2013          | Change<br>\$ | %             | June 30,<br>2014  | 2013           | Change<br>\$ | %             |
| <b>Revenue From:</b>       |                    |               |              |               |                   |                |              |               |
| Sale of Calves             | \$ 47              | \$ 97         | \$(50 )      | (51.5 )%      | \$308             | \$265          | \$43         | 16.2 %        |
| Sale of Culls              | -                  | -             | -            | -             | 692               | 3              | 689          | NM            |
| Land Leasing               | 468                | 312           | 156          | -             | 956               | 997            | (41 )        | (4.1 )%       |
| <b>Total</b>               | <b>\$ 515</b>      | <b>\$ 409</b> | <b>\$106</b> | <b>25.9 %</b> | <b>\$1,956</b>    | <b>\$1,265</b> | <b>\$691</b> | <b>54.6 %</b> |
| <b>Pounds Sold:</b>        |                    |               |              |               |                   |                |              |               |
| Calves                     | 30                 | 80            | (50 )        | (62.5 )%      | 188               | 207            | (19 )        | (9.2 )%       |
| Culls                      | -                  | 1,019         | (1,019)      | (100.0)%      | 794               | 1,030          | (236)        | (22.9)%       |
| <b>Price Per Pound:</b>    |                    |               |              |               |                   |                |              |               |
| Calves                     | \$ 1.57            | \$ 1.21       | \$0.35       | 29.2 %        | \$1.64            | \$1.28         | \$0.36       | 28.0 %        |
| Culls                      | \$ -               | \$ -          | \$-          | -             | \$0.87            | \$0.68         | \$0.19       | 28.2 %        |
| <b>Operating Expenses:</b> |                    |               |              |               |                   |                |              |               |
| Cost of Calves Sold        | \$ 64              | \$ 67         | \$(3 )       | (4.5 )%       | \$284             | \$180          | \$104        | 57.8 %        |
| Cost of Culls Sold         | 100                | -             | 100          | -             | 455               | 4              | 451          | NM            |
| Land Leasing Expenses      | -                  | -             | -            | -             | 128               | 85             | 43           | 50.6 %        |
| Other                      | -                  | 53            | (53 )        | (100.0)%      | 3                 | 111            | (108)        | (97.3 )%      |
| <b>Total</b>               | <b>\$ 164</b>      | <b>\$ 120</b> | <b>\$44</b>  | <b>36.7 %</b> | <b>\$870</b>      | <b>\$380</b>   | <b>\$490</b> | <b>128.9%</b> |

NM - Not  
Meaningful

The increases in revenue and gross profit for the three and nine months ended June 30, 2014 versus the same periods of the prior year primarily relate to timing of the sale of cull cows and bulls from our breeding herd. We sold significantly more cull cows and bulls during the first nine months of fiscal year 2014 than we sold during the first



nine months of fiscal year 2013. We expect to sell our entire calf inventory during the fourth quarter of fiscal year 2014. We have entered into a contract to sell the majority of our calves for an average price of \$2.04 per pound in the months of July and August 2014.

#### *Other Operations*

The results of the Other Operations segment for the nine months ended June 30, 2014 are approximately \$0.2 million less than the same period of the prior year due to reduced rock mine royalties.

#### *General and Administrative*

The increase in general and administrative expenses for the nine months ended June 30, 2014 versus the same period of the prior year relates primarily to costs incurred related to the change in control described above in "Recent Events," which totaled 2,300,000. The charges included \$195,000 for the acceleration of the vesting of the Long-Term Incentive Plan awards, \$849,000 for the cost of Director and Officer insurance for the departing Directors and Officers and \$583,000 related to a consulting and non-competition agreement with the former CEO.

*Other Income (Expense), net*

Other income (expense), net for the nine months ended June 30, 2014 are approximately \$0.4 million less than the same period of the prior year due to a reduction in net investment income from the Magnolia Fund Investment.

*Income Tax Expense*

Income tax expense was approximately \$791,000 and \$2,566,000 for the three months ended June 30, 2014 and 2013, respectively. The Company's effective tax rates were 41.4% and 38.6% for the three months ended June 30, 2014 and 2013, respectively. Income tax expense was approximately \$3,236,000 and \$5,002,000 for the nine months ended June 30, 2014 and 2013, respectively. The Company's effective tax rates for the nine months ended June 30, 2014 and 2013 were 41.9% and 38.8%, respectively. The change in rates relates primarily to the non-deductible nature of projected political contributions for fiscal year 2014 and limitations on certain deductions related to the vesting of the long-term incentive grants.

*Seasonality*

Historically, the second and third quarters of our fiscal year produce the majority of our annual revenue, and our working capital requirements are typically greater in the first and fourth quarters of our fiscal year coinciding with our planting cycles. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**Liquidity and Capital Resources**

A comparative balance sheet summary is presented in the following table:

| (in thousands)            | September        |             | Change     |
|---------------------------|------------------|-------------|------------|
|                           | June 30,<br>2014 | 30,<br>2013 |            |
| Cash and cash equivalents | \$24,192         | \$24,583    | \$(391 )   |
| Investments               | \$262            | \$260       | \$2        |
| Total current assets      | \$72,862         | \$59,795    | \$13,067   |
| Total current liabilities | \$15,798         | \$11,491    | \$4,307    |
| Working capital           | \$57,064         | \$48,304    | \$8,760    |
| Total assets              | \$200,998        | \$198,840   | \$2,158    |
| Notes payable             | \$32,500         | \$34,000    | \$(1,500 ) |
| Current ratio             | 4.61 to 1        | 5.20 to 1   |            |

We believe that our current cash position, revolving credit facility and the cash we expect to generate from operating activities will provide us with sufficient liquidity to satisfy our working capital requirements and capital expenditures for the foreseeable future. We have a \$60,000,000 revolving line of credit (“RLOC”) which was available for our general use at June 30, 2014. See Item 1. Financial Statement, Note 6. Long-Term Debt in the Notes to the Condensed Consolidated Financial Statements (Unaudited). If the Company pursues significant growth opportunities in the future, it could have a material adverse impact on our cash balances, and we may need to finance such activities by drawing down monies under our RLOC and if necessary, obtaining additional debt or equity financing. We reduced our third and fourth quarter dividends to \$0.06 per share in order to retain additional cash increasing our flexibility to reinvest in our business and pursue growth opportunities consistent with our mission.

The decrease in cash and cash equivalents was primarily due to the following factors:

Capital expenditures of \$11,225,000,  
 Treasury stock purchases of \$4,844,000,  
 Dividends paid of \$2,339,000, and  
 Principal payments on debt of \$1,500,000

These decreases in cash and equivalents were offset by the return on investment in Magnolia of \$3,185,000, and cash provided by operations of \$15,412,000.

*Net Cash Provided by Operating Activities*

The following table details the items contributing to Net Cash Provided by Operating Activities for the nine months ended June 30, 2014 and 2013:

| (in thousands)                                    | Nine Months Ended June 30, |           |           |
|---|----------------------------|-----------|-----------|
|   | 2014                       | 2013      | Change    |
| Net Income  | \$ 4,485                   | \$ 7,890  | \$(3,405) |
| Depreciation and Amortization                     | 6,635                      | 7,130     | (495 )    |
| Net Loss (Gain) on Sale of Property and Equipment | 973                        | (201)     | 1,174     |
| Other Non-Cash Income Expenses                    | 766                        | 730       | 36        |
| Change in Working Capital                         | 2,553                      | (796)     | 3,349     |
| Cash provided by operations                       | \$ 15,412                  | \$ 14,753 | \$659     |

The factors contributing to the decrease in net income for the nine months ended June 30, 2014, versus the same period of the prior year are discussed in “Results of Operations.” Depreciation and Amortization decreased versus the nine months ended June 30, 2013 and Loss on Sale of Property and Equipment increased due to the reimbursement of inventory and plant cane costs by USSC and sale of rolling stock to USSC in May 2014.

Due to the seasonal nature of our business, working capital requirements are typically greater in the first and fourth quarters of our fiscal year coinciding with our planting and harvest cycles. Cash flows from operating activities

typically improve in our second and third fiscal quarters as we harvest our crops.

*Net Cash Used In Investing Activities*

The following table details the items contributing to Net Cash Used in Investing Activities for the nine months ended June 30, 2014 and 2013:

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| (in thousands)                              | Nine Months Ended June 30, |                    |           | Change       |
|---|----------------------------|--------------------|-----------|--------------|
|   | 2014                       | 2013               |           |              |
| <b>Purchases of property and equipment:</b> |                            |                    |           |              |
| Sugarcane planting                          | \$ (2,792)                 | \$ (3,064)         | \$        | 272          |
| Improvements to farmland                    | (937)                      | (5,442)            |           | 4,505        |
| Citrus nursery                              | (4,783)                    | (1,501)            |           | (3,282)      |
| Citrus tree development                     | (733)                      | (745)              |           | 12           |
| Breeding herd purchases                     | (752)                      | (3,194)            |           | 2,442        |
| Rolling stock, equipment and other          | (1,228)                    | (2,846)            |           | 1,618        |
| <b>Total</b>                                | <b>(11,225)</b>            | <b>(16,792)</b>    |           | <b>5,567</b> |
| <b>Disposal of property and equipment</b>   |                            |                    |           |              |
| Disposal of property and equipment          | 922                        | 2,925              |           | (2,003)      |
| Return on investment in Magnolia            | 3,185                      | -                  |           | 3,185        |
| Other                                       | (2)                        | 30                 |           | (32)         |
| <b>Cash used in investing activities</b>    | <b>\$ (7,120)</b>          | <b>\$ (13,837)</b> | <b>\$</b> | <b>6,717</b> |

The decrease in purchases of property and equipment relate primarily to a decrease in the number of cows and bulls purchased to augment our breeding herd, a decrease in purchases of rolling stock, equipment and other assets as well as improvement to farmland related to the completion of the sugarcane expansion in fiscal year 2013, partially offset by capital expenditures related to the building of our citrus tree nursery in fiscal year 2014.

The increase in the return on investment in Magnolia versus the first nine months of fiscal year 2013 relates primarily to the reinstatement of cash distributions by Magnolia after its conversion of a large portion of its tax certificate portfolio to tax deeds.

*Net Cash Used In Financing Activities*

The following table details the items contributing to Net Cash Used in Financing Activities for the nine months ended June 30, 2014 and 2013:

| (in thousands) | Nine Months Ended June 30, |      |  | Change |
|----------------|----------------------------|------|--|--------|
|                | 2014                       | 2013 |  |        |

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|                                     |    |         |    |         |    |         |
|-------------------------------------|----|---------|----|---------|----|---------|
| Principal payments on notes payable | \$ | (1,500) | \$ | (3,400) | \$ | 1,900   |
| Treasury stock purchases            |    | (4,844) |    | (2,877) |    | (1,967) |
| Dividends paid                      |    | (2,339) |    | (1,164) |    | (1,175) |
| Cash used in financing activities   | \$ | (8,683) | \$ | (7,441) | \$ | (1,242) |

The decrease in principal payments on notes payable for the nine months ended June 30, 2014 relates to the payoff of the Farm Credit Mortgage in the first nine months of fiscal year 2013 (see “Note 5. Long-Term Debt” in the Notes to Condensed Consolidated Financial Statements).

We increased our repurchases of stock for fiscal year 2014 subject to the provisions of SEC rule 10b-18 in order to fund grants under the 2008 incentive equity plans (see “Note 8. Stockholder’s Equity” in the Notes to Condensed Consolidated Financial Statements).

*Purchase Commitments*

Alico, through its wholly owned subsidiary Alico Fruit, enters into contracts for the purchase of citrus fruit during the normal course of its business. The remaining obligations under these purchase agreements totaled approximately \$16,714,000 at June 30, 2014 for delivery in fiscal years 2014 through 2016. All of these obligations are covered by sales agreements. Alico's management currently believes that all committed purchase volume will be sold at cost or higher.

*Contractual Obligations and Off Balance Sheet Arrangements*

There have been no material changes during this reporting period to the disclosures set forth in Part II, Item 7 in our Form 10-K for the fiscal year ended September 30, 2013.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes during this reporting period in the disclosures set forth in Part II, Item 7A in our Form 10-K for the fiscal year ended September 30, 2013.

**ITEM 4. Controls and Procedures**

*(a) Evaluation of disclosure controls and procedures*

As of the end of the period covered by this report, an evaluation, as required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 as amended ("Exchange Act"), was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures are effective to ensure that all information required to be disclosed in the reports that we file or submit under the



Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*(b) Changes in internal control over financial reporting*

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act that occurred during our last fiscal quarter that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings.

See Part I, Item I, Financial Statements, Note 4. Income Taxes and Note 9. Contingencies in the Notes to Condensed Consolidated Financial Statements (Unaudited).

### ITEM 1A. Risk Factors.

There have been no material changes in the risk factors set forth in Part 1, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no sales of unregistered equity securities during the period.

The Board of Directors has authorized the repurchase of up to 105,000 shares of our common stock from shareholders. Through June 30, 2014, the Company had purchased zero shares and had available to purchase an additional 105,000 in accordance with its Board of Directors repurchase authorization.

| Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(1) | Maximum Number of Shares that May Be Purchased Under the Program |
|----------------------------------|------------------------------|---|--|
|----------------------------------|------------------------------|---|--|

|                       |        |    |       |        |
|-----------------------|--------|----|-------|--------|
| Month of October 2013 | 35,333 | \$ | 38.83 | 35,333 |
|-----------------------|--------|----|-------|--------|

We had various arrangements with UBS Investment Bank (“UBS”) between September 27, 2012 and November 1, 2013 to purchase securities under an authorization in accordance with the timing, price and volume restrictions (1) contained in sections (b)(2)-(4) of Rule 10b-18. During the period from September 27 through November 1, 2013, UBS agreed to purchase securities according to the various authorizations. The limit prices ranged from less than or equal to \$31.00 per share to less than or equal to \$40.00 per share at various times.

**ITEM 3. Defaults Upon Senior Securities.**

None.

**ITEM 4. Mine Safety Disclosure.**

None.

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**ITEM 5. Other Information.**

*Entry Into a Material Definitive Agreement*

On August 7, 2014 we entered into a Purchase and Sale Agreement, (the “Purchase Agreement”) with Terra Land Company (the “Buyer”) to sell to the Buyer approximately 30,959 gross acres of land located in Hendry County, Florida used for sugarcane production (the “Land”) for a base purchase price of \$91,436,000. The base purchase price is subject to a valuation formula adjustment in the event that either the net farmable acres or net support acres of the Land are more or less than the calculated amounts by one percent (1%) or greater. The Land excludes growing crops and sugarcane stubble on the Land as well as oil and gas rights and a 200 acre railroad related tract which we are retaining.

The parties have made customary representations, warranties, covenants and agreements in the Purchase Agreement. The Purchase Agreement provides for an inspection period not to exceed 75 days with the closing date to be 15 days after expiration of the inspection period. The transaction is expected to close in November of 2014 and is subject to certain closing conditions but does not have any financing condition. However, there can be no assurance that the closing conditions will be satisfied.

The Purchase Agreement also provides for the parties to enter into a lease at closing pursuant to which the Buyer will lease a substantial portion of the Land back to us for a period of 10 years at an annual rent equal to approximately 5% of the purchase price. We have also provided the Buyer with an exclusivity period under the Purchase Agreement. Buyer acknowledges in the Purchase Agreement that we may engage in a Section 1031 tax-free exchange in connection with this transaction and agrees to cooperate. However, there can be no assurance that we will be able to successfully complete a like-kind exchange pursuant to Section 1031.

The foregoing description of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, a copy of which will be filed in the Company’s next periodic report covering the period the Purchase Agreement was entered into.

**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |                    |
|--------------------|--|--------------------|
| 10.1               | Agricultural Lease Agreement dated May 19, 2014 between Alico, Inc. and United States Sugar Corporation. | Filed herewith     |
| 31.1               | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.      | Filed herewith     |
| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.      | Filed herewith     |
| 32.1               | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.                             | Furnished herewith |
| 32.2               | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.                             | Furnished herewith |
| 101.INS            | **XBRL Instance Document   | Filed herewith     |
| 101.SCH            | **XBRL Taxonomy Extension Schema Document  | Filed herewith     |
| 101.CAL            | **XBRL Taxonomy Calculation Linkbase Document  | Filed herewith     |
| 101.DEF            | **XBRL Taxonomy Definition Linkbase Document   | Filed herewith     |
| 101.LAB            | **XBRL Taxonomy Label Linkbase Document  | Filed herewith     |
| 101.PRE            | **XBRL Taxonomy Extension Presentation Linkbase Document   | Filed herewith     |

In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALICO, INC.  
(Registrant)

Date: August 11, 2014 By: /s/ Clayton G. Wilson  
Clayton G. Wilson  
Chief Executive Officer

Date: August 11, 2014 By: /s/ W. Mark Humphrey  
W. Mark Humphrey  
Chief Financial Officer and Senior Vice President

**Index to Exhibits**

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