

ALICO INC
Form 10-K
December 05, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2012

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)

10070 Daniels Interstate Court Suite 100 Fort Myers, FL
(Address of principal executive offices)

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

59-0906081

**(I.R.S.
Employer**

**Identification
No.)**

33913
(Zip Code)

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

Title of class:

Name of each exchange on which registered:

COMMON CAPITAL STOCK, \$1.00 Par value,

NASDAQ

Non-cumulative

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 or Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

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 definition of "accelerated filer" "large 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

The aggregate market value of the voting and nonvoting common equity held by non-affiliates based on the closing price, as quoted on the NASDAQ as of March 31, 2012 (the last business day of Alico's most recently completed second fiscal quarter) was \$54,180,702. There were 7,358,324 shares of stock outstanding at November 29, 2012.

Documents Incorporated by Reference:

Portions of the Proxy Statement of Registrant to be dated on or before January 17, 2013, are incorporated by reference in Part III of this report.

ALICO, INC.

FORM 10-K

For the fiscal year ended September 30, 2012

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Cautionary Statement

This annual report on Form 10-K contains statements which, to the extent that they do not recite historical fact, constitute forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words “may,” “will,” “could,” “should,” “would,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan” or other words or expressions of similar meaning. We have based these forward-looking statements on our current expectations about future events. The forward-looking statements include statements that reflect management’s beliefs, plans, objectives, goals, expectations, anticipations and intentions with respect to our financial condition, results of operations, future performance and business, including statements relating to our business strategy and our current and future development plans.

In addition, this annual report on Form 10-K contains industry data related to our business and the markets in which we operate. This data includes projections that are based on a number of assumptions. If these assumptions turn out to be incorrect, actual results could differ from the projections. We urge you to carefully review this annual report on Form 10-K, particularly the section “Risk Factors,” for a complete discussion of the risks of an investment in our common stock.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this annual report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this annual report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

As used throughout this Annual Report on Form 10-K, the terms “Alico,” the “Company,” “we,” “our,” or “us” include Alico, Inc. and its consolidated subsidiaries unless the context indicates otherwise.

Part 1**Item 1. Business.**

Alico, Inc. (“Alico”) is a American agribusiness and land management company built for today and backed by a legacy of achievement and innovation in citrus, sugar, cattle and resource conservation.

We own approximately 130,400 acres of land in five Florida counties (Collier, Glades, Hendry, Lee and Polk). In addition to principal lines of business in citrus groves, improved farmland including sugar cane, cattle ranching and conservation, and related support operations, we also receive royalties from rock mining and oil production.

Our mission is to create value for our customers, clients and shareholders by managing existing lands to their optimal current income and total returns, opportunistically acquiring new agricultural assets and producing high quality agricultural products while exercising responsible environmental stewardship.

The Land We Manage

We regularly review our land holdings to determine the best use of each parcel based upon our management expertise. Our total return profile is a combination of operating income potential and long-term appreciation. Land holdings not meeting this return profile are considered surplus to our agricultural operations and will be sold or exchanged for land considered to be more compatible with our business objectives and total return profile.

We operate and manage Citrus Groves, Improved Farmland, Ranch and Conservation and Other Land. Our holdings and the operating activities in which we engage are categorized in the following table:

Land Classification	Gross Acreage	Operating Activities	Operating Segments
Citrus Groves	17,400	Citrus Cultivation	Citrus Operations
Improved Farmland	44,100	Farming	Sugarcane
		Land Leasing	Land Leasing and Rental
Ranch and Conservation	67,400	Cattle Grazing	Cattle Operations
		Sod and Native Plant Sales	Other Operations
		Land Leasing	Land Leasing and Rental
		Conservation	Other Operations
Other Land	1,500	Mining	Other Operations

Total Acreage 130,400

Citrus Groves

We own and manage Citrus Groves in Collier, Hendry and Polk Counties and engage in the cultivation of citrus trees to produce citrus for delivery to the fresh and processed citrus markets. Of our land holdings, Citrus Groves total approximately 17,400 gross acres or 13.3%. Our Citrus acreage is detailed in the following table:

	Net Plantable					
County	Producing	Developing	Fallow	Total Plantable	Support	Gross
Hendry	3,400	100	100	3,600	1,600	5,200
Polk	3,100	100	100	3,300	2,000	5,300
Collier	4,100	—	—	4,100	2,800	6,900
Total	10,600	200	200	11,000	6,400	17,400

Of the approximately 17,400 gross acres of citrus groves we own and manage, approximately 6,400 acres are classified as support acreage. Support acreage includes acres used for roads, barns, water detention, water retention and drainage ditches integral to the cultivation of citrus trees but which are not capable of directly producing fruit. The remaining approximately 11,000 acres are classified as net plantable acres. Net plantable acres are those that are capable of directly producing fruit. These include acres that are currently producing, acres that are developing (acres that are planted in trees too young to produce fruit) and acres that are fallow.

Our Citrus Groves segment cultivates citrus trees on approximately 17,400 gross acres of land to produce citrus for delivery to the fresh and processed citrus markets. Our sales to the processed market constitute approximately 95% of our citrus sales annually.

We produce Early and Mid-Season oranges varieties, primarily Hamlin oranges, as well as a Valencia variety for the processed market. We deliver our fruit to the processors in boxes which contain 90 pounds of oranges. Because the processors convert the majority of the citrus crop into orange juice, they generally do not buy their citrus on a per box basis but rather on a pound solids basis, which is the measure of the soluble solids (sugars and acids) contained in one box of fruit. We have produced 29,070,000, 24,177,000 and 21,635,000 pound solids for each of the years ended September 30, 2012, 2011 and 2010, on boxes delivered to processing plants of 4,357,000, 3,773,000 and 3,355,000, respectively. The average pound solids per box was 6.68, 6.34 and 6.40 for each of the years ended September 30, 2012, 2011 and 2010, respectively.

We generally use multi-year contracts with citrus processors that include pricing structures based on a minimum (“floor”) price with a price increase (“rise”) based on market conditions. Therefore, if pricing in the market is favorable relative to our floored price, we benefit from the incremental difference between the floor and the final market price.

All citrus to be produced for the processed citrus market in fiscal year 2012-2013 is under minimum price contracts with a floor price of approximately \$1.60 per pound solids. We believe that other markets are available for our citrus products; however, new arrangements may be less favorable than our current contracts.

Our sales to the fresh market constitute approximately 5% of our citrus sales annually. We produce numerous varieties for the fresh fruit market including grapefruit and other fresh varieties. Generally, our fresh fruit is sold to packing houses by the box and the packing houses are responsible for the harvest and haul of these boxes. We have produced 278,000, 289,000 and 272,000 fresh fruit boxes for each of the years ended September 30, 2012, 2011 and 2010, respectively. The majority of our citrus produced for the fresh citrus market in fiscal year 2012-2013 is under contract with a floor price with a potential for rise.

Revenue from Citrus Groves operations was approximately 44%, 48% and 46% of our total operating revenues for the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

Improved Farmland

We own and manage Improved Farmland in Hendry County and engage in farming the land and leasing some of the acreage to others to farm. Of our land holdings, Improved Farmland totals approximately 44,100 gross acres or 33.8% of our total acreage. Our Improved Farmland acreage is detailed in the following table:

Improved Farm Land	Gross Acres
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Sugarcane	30,600
Leasable	M,800
Permitted but undeveloped	7,700
Total Improved Farm Lands	44,100

Our Improved Farmland includes approximately 30,600 gross acres currently used for Sugarcane farming, approximately 5,800 gross acres of irrigated farmland currently used for farm leasing and other purposes and approximately 7,700 gross acres of permitted but undeveloped acres (acres that are permitted for farming but that have not yet been cleared, leveled and irrigated for commercial farming).

The approximately 30,600 gross acres currently used for Sugarcane farming are detailed in the table below:

County	Net Plantable				Total Plantable	Support	Gross
	Developing	Plant Cane	First Stubble	Second Stubble			
Hendry	5,200	4,900	4,500	4,000	18,600	12,000	30,600

Of the approximately 30,600 gross acres of sugarcane farmland we own and manage, approximately 12,000 acres are classified as support acreage. Support acreage includes acres used for roads, barns, water detention and drainage ditches integral to the cultivation of sugarcane but which are not capable of directly producing crops. The remaining approximately 18,600 acres are classified as net plantable acres. Net plantable acres are those that are capable of directly producing crops.

Our sugarcane crops are planted in the sandy soils of Hendry County, Florida and are generally replanted every four years. On average, three annual crops are harvested from one field before production and sugar concentration declines to an unacceptable level and the sugarcane crop is plowed under. The first crop that emerges from the planted cane is called plant cane and the subsequent crops are termed first stubble and second stubble. The sugarcane fields are generally fallow in the fourth year and are leased to other farmers to plant seasonal crops such as sweet corn, peanuts and watermelons. Approximately 1,200 acres of second stubble were

harvested and plowed under in fiscal year 2012 and we recorded revenues of \$289,000 related to leasing these fallow acres which are currently classified as developing.

Of the approximately 18,600 acres of net plantable sugarcane land, approximately 4,900 acres are classified as plant cane, approximately 4,500 acres are classified as first stubble, and approximately 4,000 acres are classified as second stubble. The remaining 5,200 acres are classified as developing. Developing acres are sugarcane acres that are being planted and cultivated in fiscal year 2013 and which will produce plant cane in fiscal year 2014. The 4,000 acres that are classified as second stubble for fiscal year 2013 will be harvested in the first quarter of fiscal year 2013, and portions of the acres may be cultivated for an additional year to create a third stubble crop in fiscal year 2014, while the remainder will be plowed under and become leaseable fallow land.

We have sold 100% of our sugarcane to United States Sugar Corporation (“USSC”), a local Florida sugar processor, since the inception of our sugarcane program in 1988. The location of our sugarcane fields relative to the USSC processing plant is favorable and allows for efficient and cost effective delivery of our sugarcane. Alternative plant locations are less favorable, and, as a result, the loss of USSC as a customer could have a material adverse effect on our sugarcane operations; however, we do have a purchase agreement with USSC through March 31, 2013 that includes a minimum pricing clause. On March 31, 2013, the purchase agreement will automatically extend for one additional year, unless either party gives written notice of termination by the preceding January 1. If written notice of termination is provided by either party, the term of the agreement shall expire on the third anniversary of the next March 31.

During fiscal years ended September 30, 2012, 2011 and 2010, revenue from sugarcane operations was 11%, 8% and 5% of our total operating revenue, respectively.

Of our approximately 44,100 gross acres of Improved Farmland, approximately 5,800 gross acres are classified as irrigated farmland that is currently used for leasing and other purposes and 7,700 gross acres are classified as permitted but undeveloped. The detail of our irrigated farmland and permitted but undeveloped farmland is presented in the following table:

Improved Farmland	Gross Acres	Net Leaseable	Estimated Net Leaseable
Leasable	5,800	2,300	N/A
Permitted but Undeveloped	7,700	N/A	4,000 to 5,000

Of our approximately 5,800 gross acres of irrigated farmland, approximately 2,300 acres are leaseable. For fiscal year 2012, we recorded revenues of \$585,000 related to leasing these acres for farming purposes. Of our 7,700 gross acres of permitted but undeveloped land, we estimate that with proper clearing and development we could yield between four and five thousand net leaseable acres.

Ranch and Conservation

We own and manage Ranch and Conservation land in Collier, Hendry and Polk Counties and engage in Cattle Production, Sod and Native Plant Sales, Land Leasing for recreational and grazing purposes and conservation activities. Of our land holdings, Ranch and Conservation totals approximately 67,400 gross acres or 51.7% of our total acreage. Our Ranch and Conservation acreage is detailed in the following table:

<u>Ranch Lands</u>	Total	Hendry	Polk	Collier
Ranch and Conservation	67,400	60,500	2,900	4,000

Our approximately 67,400 gross acres of Ranch and Conservation is used in grazing our cattle herd, to harvest and sell sod and native plants, for conservation purposes and to lease to others for recreational and other uses. We occasionally lease the same acreage for more than one purpose. The portion of our Ranch and Conservation acreage that is leased for each purpose is detailed in the table below:

Lease	Hendry	Polk	Collier
Grazing	1,900	2,300	4,000
Recreational	57,500	1,300	3,500

Our Cattle operation is engaged in the production of beef cattle. It is located in Hendry County, Florida. The breeding herd consists of 7,328 cows and bulls. Approximately 53% of the herd is from one to five years old, while the remaining 47% is at least six years old. We primarily sell our calves to feed yards and yearling grazing operations in the United States. We also sell cattle through local livestock auction markets and to contract cattle buyers in the United States. These buyers provide ready markets for our cattle. We believe that the loss of any one or a few of these buyers would not have a material effect on our Cattle

operations. Revenue from cattle sales was approximately 5% of total operating revenue for each of the years ended September 30, 2012, 2011 and 2010.

In the fourth quarter of fiscal year 2012 we reached an agreement with the United States Department of Agriculture ("USDA"), through its administering agency, The Natural Resources Conservation Service, to grant a conservation easement on approximately 11,600 acres of our Ranch and Conservation land located in Hendry County, Florida for approximately \$20,700,000. We expect to close the agreement in fiscal year 2013.

Our Other Lines of Business

In addition to owning and managing approximately 130,400 gross acres of land in Central and Southwest Florida, Alico also engages in complimentary lines of business not related to its land holdings. Our Agricultural Supply Chain Management and Support lines of business include activities related to value-added services which include agricultural contracting for harvesting hauling and marketing and the purchase and resale of fruit while our Other Operations line of business includes activities related to rock and sand mining, oil exploration, office facility leasing and other insignificant lines of business. A summary of the Agricultural Supply Chain Management and Support line of business follows:

Alico Fruit Company is a wholly owned subsidiary purchased in February 2006 to provide additional citrus marketing expertise and the ability to manage the delivery of our own citrus crop. Its operations include supply chain management (contracting for harvest, hauling and marketing) for Alico's citrus crop and for other growers. The operation also includes the purchase and resale of citrus fruit. During the fiscal years ended September 30, 2012, 2011, and 2010, Alico Fruit Company's revenue was 38%, 37% and 36% of our total operating revenue, respectively.

Our Board of Directors has authorized management to proceed with a plan to acquire and permit land to construct the initial phase of a citrus tree nursery in North Central Florida. As a result, we hired a Director of Plant Breeding & Research effective October 18, 2012, who will be responsible for managing the greenhouse, plant breeding and research operations.

Line of Business Financial Results

We create value for our customers, clients and investors by managing our land holdings to their highest and best returns and by producing the highest quality agricultural products, implementing innovative land management and responsible environmental stewardship in the communities where we operate. The vast majority of our land was acquired decades ago and the fair value of our land holdings may not align with the value attributed to the land on our Balance Sheets are presented at the historical cost of the land.

The following table presents the operating revenues and gross profit of the lines of business:

(dollars in thousands)	Fiscal Year Ended September 30
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	2012	2011	2010
Operating revenues:			
Citrus Groves	55,423	47,088	36,469
Improved Farmland	15,316	8,642	4,992
Ranch and Conservation	7,348	6,015	5,332
Agricultural Supply Chain Management	48,334	36,115	28,896
Other Operations	766	732	4,103
Total operating revenues	127,187	98,592	79,792
Gross profit:			
Citrus Groves	24,428	19,324	10,739
Improved Farmland	3,742	1,299	859
Ranch and Conservation	3,851	2,375	1,010
Agricultural Supply Chain Management	641	1,006	727
Other Operations	(430)	(571)	(3,412)
Total gross profit	32,232	23,433	9,923

2012 Highlights

Internal Revenue Service settlement finalized and paid in full — The Internal Revenue Service (“IRS”) examined our tax returns for the 2005 through 2007 tax years. The IRS originally claimed additional taxes and penalties due of

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\$31,091,000 consisting of \$14,498,000 in taxes and \$16,594,000 in penalties. We contested the issues raised by the IRS during the examinations and pursued resolution through the IRS Appeals process. On May 16, 2012, we finalized an agreement to settle all outstanding issues. All Federal penalties were waived. Federal taxes and interest due as a result of the settlement totaled \$613,000 and \$225,000, respectively, and have been paid in full. State tax and interest of approximately \$323,000 were paid on October 9, 2012. We had additional pending state interest and penalties totaling \$149,000 outstanding as a result of the final settlement amount which were accrued at September 30, 2012.

Settlement of the Shareholder Derivative Lawsuit — On April 1, 2012, a settlement agreement (the “Agreement”) was reached between Baxter Troutman and JD Alexander and John R. Alexander. On May 4, 2012, the Circuit Court of the 10th Judicial Circuit in Polk County, Florida (the “Court”) approved the Agreement and therefore the shareholder derivative action compliant has been settled. The Special Litigation Committee of our Board of Directors has filed a motion seeking recovery of attorney fees and costs incurred in our defense. The Court has retained jurisdiction and will hear the motion.

Citrus Groves — We produced 4,635,000 boxes of citrus for the year ended September 30, 2012, as compared with 4,062,000 boxes produced for fiscal year 2011, an increase of 14% in boxes produced year-over-year. Citrus gross profit was \$24,428,000 for the year ended September 30, 2012, as compared with \$19,324,000 for fiscal year 2011, an increase of \$5,104,000 or 26.5% in year-over-year gross profit.

Sugarcane — We produced 338,552 net standard tons of sugarcane for the year ended September 30, 2012, compared with 205,421 net standard tons for fiscal 2011, an increase of 64.8% in year-over-year production. Sugarcane gross profit was \$3,315,000 for the year ended September 30, 2012, as compared with \$968,000 for fiscal 2011, an increase of \$2,353,000 or 244.6% in year-over year gross profit.

Sale of Properties – During June 2012, we closed on sales contracts for two parcels of land in Polk County, Florida to Ben Hill Griffin III and Ben Hill Griffin, Inc. The proceeds from the sale of the Polk County parcels totaled approximately \$10,122,000. We received cash of approximately \$9,768,000 which resulted in a net pre-tax gain of approximately \$9,113,000. On July 25, 2012, Alico-Agri, our wholly-owned subsidiary, reached an agreement with Private Equity Group, LLC to sell various parcels of land in Lee County, Florida totaling approximately 5,200 acres. The sales price of the properties is \$10,000,000 and the closings were on July 25, 2012 and October 3, 2012. We recorded an impairment charge on the properties of \$1,918,000 as the selling price was less than the carrying value. The sale will provide us with approximately \$48,500,000 in a loss carryforward for tax purposes.

Supplemental Information

Information regarding the revenues, earnings and total assets of each of our operating segments can be found in Item 8. Financial Statements and Supplementary Data, Note 15. Segment Information in Notes to our Consolidated Financial Statements included in this Annual Report. Substantially all of our revenues are generated from domestic customers. All of our assets are located in the United States.

Strategy

Our core business strategy is to maximize the intrinsic and tangible value of our land through skilled agricultural asset management and by the appreciation of our assets and equity by acquisition, positioning, and improvement of our land.

Our objectives are to produce the highest quality agricultural products, create innovative land uses, opportunistically acquire and convert undervalued assets, sell-under productive land not meeting our total return profile, generate recurring and sustainable profit with the appropriate balance of risk and reward, and exceed the expectations of shareholders, customers, clients and partners.

Our strategy is based on best management practices of our agricultural operations, environmental and conservation stewardship of our land and natural resources. We manage our land in a sustainable manner and evaluate the effect of changing land uses while considering new opportunities. Our commitment to environmental stewardship is fundamental to Alico's core beliefs.

Competition

Alico is engaged in a variety of agricultural and nonagricultural activities, all of which are in highly competitive markets. Citrus is grown domestically in several states including Florida, California, Arizona and Texas, as well as foreign countries, most notably Brazil. Competition is impacted by several factors including production, market prices, weather, disease, export /import restrictions and currency exchange rates. Sugarcane products compete with sugar beets in the United States as well as imported sugar and sugar products from Brazil and Mexico. Beef cattle are produced throughout the United States and domestic beef sales also compete with imported beef. Forest and rock products are produced in many parts of the United States.

The sale and leasing of land is very competitive in the counties where we own land. The degree of competition has increased due to the current economic climate, which has caused an oversupply of comparable real estate available for sale or lease due to the decline in demand as a result of the continuing underperforming economy.

Environmental Regulations

Our operations are subject to various federal, state and local laws regulating the discharge of materials into the environment. Management believes we are in compliance with all such rules including permitting and reporting requirements. Compliance has not had a material effect upon our financial position, results of operations or cash flows.

Management monitors environmental legislation and requirements and makes every effort to remain in compliance with such regulations. In addition, we require lessees of our property to comply with environmental regulations as a condition of leasing.

Employees

As of September 30, 2012, we had 157 full-time employees. Our employees work in the following divisions:

Alico Fruit Company	33
Citrus Groves	73
Sugarcane	16
Cattle	3
Real Estate	1
Leasing	1
Heavy Equipment	13
General and Administrative	17
Total	157

Seasonal Nature of Business

Revenues from Alico's agri-business operations are seasonal in nature. The following table illustrates the seasonality of our agri-business revenues:

Fiscal Year		Q1	Q2	Q3	Q4						
Ending		Ending 12/31	Ending 3/31	Ending 6/30	Ending 9/30						
Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep

Harvest Early/Mid Varieties of Oranges

Harvest Valencia Oranges

Harvest Sugarcane

Deliver Beef Cattle