UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For six months ended February 28, 1998.

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<br>(State or other jurisdiction of incorporation of organization) | 59-0906081<br>(I.R.S. Employer Identification No.) |
| P. O. Box 338, La Belle, FL<br>(Address of principal executive offices) | 33975<br>(Zip Code) |

Registrant's telephone number, including area code 941/675-2966

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.

Yes X No

There were 7,027,827 shares of common stock, par value $1.00 per share, outstanding at April 13, 1998.

<TABLE>
<CAPTION>

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ALICO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(See Accountants' Review Report)

| | (Unaudited) Three Months Ended | | (Unaudited) Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 1998 | Feb. 28, 1997 | Feb. 28, 1998 | Feb. 28, 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Revenue: | | | | |
| Citrus | $ 8,372,605 | $ 9,825,628 | $12,187,463 | $11,919,099 |
| Sugarcane | 2,796,753 | 3,517,719 | 4,496,443 | 4,595,426 |
| Ranch | 1,143,736 | 1,661,053 | 4,243,414 | 2,499,460 |
| Rock products and sand | 263,586 | 265,317 | 575,668 | 611,262 |
| Oil lease and land rentals | 104,113 | 146,898 | 264,009 | 287,236 |
| Forest products | 37,622 | 45,066 | 82,113 | 71,994 |
| Profit on sales of real estate | 5,712 | 11,383,964 | 633,372 | 11,407,683 |
| Interest and investment income | 324,505 | 351,232 | 620,037 | 594,828 |
| Other | 28,076 | 37,228 | 42,675 | 58,868 |
| Total revenue | 13,076,708 | 27,234,105 | 23,145,194 | 32,045,856 |
| Cost and expenses: | | | | |
| Citrus production, harvesting and marketing | 6,557,629 | 8,596,388 | 10,000,637 | 10,385,419 |
| Sugarcane production and harvesting | 2,240,340 | 3,263,134 | 3,715,636 | 4,091,272 |
| Ranch | 1,014,643 | 1,343,907 | 3,833,030 | 1,909,478 |
| Real estate expenses | 110,794 | 116,373 | 214,419 | 229,745 |
| Interest | 208,335 | 60,332 | 378,330 | 309,275 |
| Other, general and administrative | 670,050 | 626,462 | 1,258,098 | 1,328,997 |
| Total costs and expenses | 10,801,791 | 14,006,596 | 19,400,150 | 18,254,186 |
| Income before income taxes | 2,274,917 | 13,227,509 | 3,745,044 | 13,791,670 |
| Provision for income taxes | 824,679 | 4,970,392 | 1,347,468 | 5,152,521 |

| | | | | |
|---|---|---|---|---|
| Net income | 1,450,238 | 8,257,117 | 2,397,576 | 8,639,149 |
| Retained earnings beginning of period | 76,942,301 | 69,420,999 | 80,211,659 | 70,093,141 |
| Dividends paid | - | - | (4,216,696) | (1,054,174) |
| Retained earnings end of period | $78,392,539 | $77,678,116 | $78,392,539 | $77,678,116 |
| Weighted average number of shares outstanding | 7,027,827 | 7,027,827 | 7,027,827 | 7,027,827 |
| Per share amounts: | | | | |
| Net income | $ .21 | $ 1.17 | $ .34 | $ 1.23 |
| Dividends | $ - | $ - | $ .60 | $ .15 |

<FN>
See accompanying notes to condensed consolidated financial statements.
</TABLE>

<TABLE>
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ALICO, INC. AND SUBSIDIARY — FORM 10-Q
CONDENSED CONSOLIDATED BALANCE SHEETS
(See Accountants' Review Report)

| ASSETS <S> | (Unaudited) February 28, 1998 <C> | (Audited) August 31, 1997 <C> |
|---|---|---|
| Current assets: | | |
| Cash and cash investments | $ 895,279 | $ 1,459,765 |
| Marketable Securities | 12,902,859 | 11,412,915 |
| Accounts and mortgage notes receivable | 9,197,389 | 8,358,049 |
| Inventories | 13,981,919 | 16,387,128 |
| Other current assets | 173,466 | 269,463 |
| Total current assets | 37,150,912 | 37,887,320 |
| Mortgage notes receivable, non-current | 530,065 | 588,860 |
| Land held for development and sale | 8,561,175 | 8,345,116 |
| Investments | 942,580 | 955,779 |
| Property, buildings and equipment | 98,571,971 | 96,709,440 |
| Less: Accumulated depreciation | (28,024,184) | (26,763,790) |
| Total assets | $117,732,519 | $117,722,725 |

CONDENSED CONSOLIDATED BALANCE SHEETS
(See Accountants' Review Report)
(Continued)

| <S> LIABILITIES | (Unaudited) February 28, 1998 <C> | (Audited) August 31, 1997 <C> |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 1,438,632 | $ 1,158,012 |
| Due to profit sharing plan | - | 230,545 |
| Accrued ad valorem taxes | 438,674 | 1,253,053 |
| Accrued expenses | 329,487 | 541,847 |
| Income taxes payable | 915,733 | 934,895 |
| Deferred income taxes | 197,229 | 869,763 |

| | | |
|---|---|---|
| Total current liabilities | 3,319,755 | 4,988,115 |
| Notes payable to banks | 15,256,000 | 12,856,000 |
| Deferred income taxes | 12,430,783 | 11,712,806 |
| Deferred retirement benefits | 34,291 | 13,259 |
| Total liabilities | 31,040,829 | 29,570,180 |
| STOCKHOLDERS' EQUITY | | |
| Common stock | $ 7,027,827 | $ 7,027,827 |
| Unrealized gains on marketable securities | 1,271,324 | 913,059 |
| Retained earnings | 78,392,539 | 80,211,659 |
| Total stockholders' equity | 86,691,690 | 88,152,545 |
| Total liabilities and stockholders' equity | $117,732,519 | 117,722,725 |

<FN>
See Accompanying notes to condensed consolidated financial statements.
</TABLE>

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ALICO, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(See Accountants' Review Report)

| <S> | (Unaudited) Feb. 28, 1998 <C> | Feb. 28, 1997 <C> |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 2,397,576 | $ 8,639,149 |
| Adjustments to reconcile net income to cash provided from (used for) operating activities: | | |
| Depreciation | 2,272,562 | 2,122,293 |
| Net decrease in current assets and liabilities | 211,026 | 5,072,271 |
| Deferred income taxes | (170,710) | (466,550) |
| Gain on sale of real estate | (616,268) | (11,407,683) |
| Other | (603,317) | 289,868 |
| Net cash provided from (used for) operating activities | 3,490,869 | 4,249,348 |
| Cash flows from (used for) investing activities: | | |
| Purchases of property and equipment | (2,411,878) | (3,575,782) |
| Proceeds from sales of real estate | 650,000 | 10,952,060 |
| Proceeds from sales of other property and equipment | 250,852 | 379,415 |
| Purchases of marketable securities | (2,537,697) | (2,548,667) |
| Proceeds from sales of marketable securites | 1,788,792 | 2,469,760 |
| Net cash provided by (used for) investing activities | (2,259,931) | 7,676,786 |
| Cash flows from (used for) financing activities: | | |
| Notes receivable collections | 21,272 | 96,523 |
| Repayment of bank loan | (11,225,000) | (18,513,000) |
| Proceeds from bank loan | 13,625,000 | 7,314,000 |
| Dividends paid | (4,216,696) | (1,054,174) |
| Net cash provided from (used for) financing activities | (1,795,424) | (12,156,651) |
| Net increase (decrease) in cash and cash investments | $ (564,486) | $ (230,517) |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest, net of amount capitalized | $ 362,251 | $ 372,364 |

| | | |
|---|---|---|
| Cash paid for income taxes | $ 1,612,600 | $ 597,500 |

<FN>
See accompanying notes to condensed consolidated financial statements.
</TABLE>

ALICO, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(See Accountants' Review Report)

1. Basis of financial statement presentation:

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Saddlebag Lake Resorts, Inc., after elimination of all significant intercompany balances and transactions.

The accompanying unaudited condensed consolidated financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the Company's annual report for the year ended August 31, 1997. In the opinion of Management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of its consolidated financial position at February 28, 1998 and August 31, 1997 and the consolidated results of operations and cash flows for the six months ended February 28, 1998 and 1997.

The basic business of the Company is agriculture which is of a seasonal nature and subject to the influence of natural phenomena and wide price fluctuations. Fluctuation in the market prices for citrus fruit has caused the Company to recognize additional revenue from the prior year's crop totaling $2,536,337 in 1998 and $1,007,211 in 1997. The results of operations for the stated periods are not necessarily indicative of results to be expected for the full year.

2. Accounts and mortgage notes receivable:

Mortgage notes receivable are recorded under the accrual method of accounting. Under this method, a sale is not recognized until payment is received, including interest, aggregating 10% of the contract sales price for residential properties and 20% for commercial properties.

3. Inventories:

A summary of the Company's inventories (in thousands) is shown below:

| | February 28, 1998 | August 31, 1997 |
|---|---|---|
| Unharvested fruit crop on trees | $ 6,153 | $ 6,909 |
| Unharvested sugarcane | 1,054 | 2,322 |
| Beef cattle | 6,517 | 6,993 |
| Sod | 258 | 163 |
| Total inventories | $13,982 | $16,387 |

<TABLE>
<CAPTION>

4. Income taxes:

The provision for income taxes for the quarters and six months ended February 28, 1998 and 1997 is summarized as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 1998 | Feb. 28, 1997 | Feb. 28, 1998 | Feb. 28, 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Current: | | | | |
| Federal income tax | $678,251 | $4,611,748 | $1,220,936 | $4,798,649 |
| State income tax | 72,413 | 786,695 | 166,936 | 820,422 |
| | 750,664 | 5,398,443 | 1,387,872 | 5,619,071 |
| Deferred: | | | | |
| Federal income tax | 66,876 | (386,761) | (36,506) | (421,546) |
| State income tax | 7,139 | (41,290) | (3,898) | (45,004) |
| | 74,015 | (428,051) | (40,404) | (466,550) |
| Total provision for income taxes | $824,679 | $4,970,392 | $1,347,468 | $5,152,521 |

Following is a reconciliation of the expected income tax expense computed at the U. S. Federal statutory rate of 34% and the actual income tax provision for the quarters and six months ended February 28, 1998 and 1997:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | Feb. 28, 1998 | Feb. 28, 1997 | Feb. 28, 1998 | Feb. 28, 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Expected income tax | $773,472 | $4,497,353 | $1,273,315 | $4,689,168 |
| Increase (decrease) resulting from: | | | | |
| State income taxes, net of federal benefit | 82,579 | 480,159 | 135,945 | 500,638 |
| Nontaxable interest and dividends | (25,459) | (29,490) | (50,973) | (52,429) |
| Other reconciling items, net | (5,913) | 22,370 | (10,819) | 15,144 |
| Total provision for income taxes | $824,679 | $4,970,392 | $1,347,468 | $5,152,521 |

The Company is currently under examination by the Internal Revenue Service for the years ended August 31, 1991, 1992, 1993 and 1994. Previously the Company had been under audit for the year ended August 31, 1990. A final settlement was reached in August of 1997. Payments totaling approximately $1.4 million resulted in a refund due of approximately $80 thousand. The items settled related to the timing of recognition of certain items previously expensed. The aforementioned payments increased interest expense by $124,784 and $263,000 during the fiscal years ended August 31, 1995 and 1996, respectively.

The adjustments proposed to date for the years ended August 31, 1991 and 1992 would potentially result in $3.3 million of additional income tax payments. When the examinations are resolved, any income taxes due will become currently payable. However, the majority of the proposed adjustments relate to the timing of certain income and expense items already provided for in the Company's deferred tax liability accounts. Management anticipates a settlement regarding these years to occur within the next twelve months. No adjustments have yet been proposed for the years ended August 31, 1993 and 1994.

5. Indebtedness:

The Company has financing agreements with commercial banks that permit the Company to borrow up to $30 million. The financing agreements allow the Company to borrow up to $27,000,000 which is due in 1999 and up to $3,000,000 which is due on demand. The total amount of long-term debt under this agreement at February 28, 1998 and August 31, 1997 was $15,256,000 and $12,856,000, respectively.

Interest cost expensed and capitalized during the six months ended February 28, 1998 and February 28, 1997 was as follows:

| | 1998 | 1997 |
|---|---|---|
| Interest expensed | $378,330 | $309,275 |
| Interest capitalized | 172,516 | 291,932 |
| Total interest cost | $550,846 | $601,207 |

6. Accountants' review report:

The accompanying unaudited condensed consolidated financial statements have been reviewed by the Company's independent auditors in accordance with standards for such limited reviews established by the American Institute of Certified Public Accountants. The report of such auditors with respect to their limited review is attached hereto as Exhibit A.

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

LIQUIDITY AND CAPITAL RESOURCES:

Working capital increased to $33,831,157 at February 28, 1998, up from $32,899,205 at August 31, 1997. As of February 28, 1998, the Company had cash and cash investments of $895,279 compared to $1,459,765 at August 31, 1997. Marketable securities increased from $11,412,915 to $12,902,859 during the same period. The ratio of current assets to current liabilities increased to 11.19 to 1 at February 28, 1998 from 7.60 to 1 at August 31, 1997. Total assets increased by $9,794 to $117,732,519 at February 28, 1998 from $117,722,725 at August 31, 1997.

The working capital increase of $931,952 is primarily resulting from an increase in cash provided by operations. With this cash, the Company paid several large current liabilities accrued at August 31, 1997, including ad valorem taxes of $1,083,000, and amounts due to the profit sharing plan of $230,000.

In connection with a financing agreement with commercial banks (See Note 5 under Notes to Condensed Consolidated Financial Statements), the Company has an unused availability of funds of approximately $14.7 million at February 28, 1998.

RESULTS OF OPERATIONS:

Net income for the three months ending February 28, 1998 decreased by $6,806,879 when compared to the second quarter of fiscal 1997, and $6,241,573 when compared to the six-month period then ended. Income before income taxes decreased $10,952,592 and $10,046,626 for the three and six months ended February 28, 1998, respectively, when compared to the same periods a year ago. This was due to the sale of approximately 21,700 acres of land in Hendry County, Florida, to the State of Florida for $11.5 million in fiscal year 1997. The pretax gain from the sale totaled $11,334,156.

Earnings from agriculture activities increased from the prior year ($2,500,482 vs. $1,800,971 for the second quarter, and $3,378,017 vs. $2,627,816 during the first half of fiscal 1998 and 1997, respectively).

Citrus earnings increased both for the quarter ($1,814,976 during fiscal 1998 vs. $1,229,240 during fiscal 1997) and for the six months ($2,186,826 during fiscal 1998 vs. $1,533,680 during fiscal 1997) ended February 28, 1998 when compared to the prior year. Better than anticipated market prices for the prior year's crop (see Note 1 under Notes to Condensed Consolidated Financial Statements) is the reason for the improved profitability of this division.

Sugarcane earnings were higher for both the quarter ($556,413 during fiscal 1998 vs. $254,585 during fiscal 1997) and for the six months ended February 28, 1998 ($780,807 in 1998 vs. $504,154 in 1997) when compared to the prior year. Improved yields per acre resulted in an increase in gross tons harvested from the prior year.



Ranch earnings were slightly lower for both the quarter and six months ended February 28, 1998 when compared to the prior year ($129,093 vs. $317,146 for the three months ended February 28, 1998 and February 28, 1997, respectively), and ($410,384 vs. $589,982 for the six months ending February 28, 1998 and February 28, 1997, respectively). Fewer fully depreciated animals were sold in the current year, causing the decrease.

The Company is continuing its marketing and permit activities for its land which surrounds the Florida Gulf Coast University.

During November of 1996, the Company announced an agreement with Miromar Development, Inc. of Montreal, Canada to sell 550 acres of land surrounding the University site in Lee County for $9.35 million. The contract calls for 25 percent of the purchase price to be paid at closing, with the balance payable over the next four years. If the sale closes, it will generate a pretax gain of approximately $8.7 million.

Additionally, the Company announced an option agreement with REJ Group, Inc. The option agreement permits the acquisition of a minimum 150 acres and a maximum of 400 acres within the 2,300 acre university village. The potential pretax gain to Alico, if the option is exercised, would vary from $8.5 million to $24.5 million, depending on the time at which the option is exercised, and the total number of acres selected.

## PART II. OTHER INFORMATION

ITEM 6. Exhibits and reports on Form 8-K.

(a) Exhibits:

A. Accountant's Report.

B. Computation of Weighted Average Shares Outstanding at February 28, 1998.

C. Exhibit 27 - Financial Data Schedule.

(b) Reports on Form 8-K.

None.

## 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)

| | |
|---|---|
| April 13, 1998<br>Date | W. Bernard Lester<br>President<br>Chief Operating Officer<br>(Signature) |
| April 13, 1998<br>Date | L. Craig Simmons<br>Vice President<br>Chief Financial Officer<br>(Signature) |
| April 13, 1998<br>Date | Patrick W. Murphy<br>Controller<br>(Signature) |

EXHIBIT A

## Independent Accountants' Review Report

The Stockholders and
Board of Directors
Alico, Inc:

We have reviewed the condensed consolidated balance sheet of Alico, Inc. and subsidiary as of February 28, 1998, and the related condensed consolidated statements of operations and retained earnings for the three and six month periods ended February 28, 1998 and 1997, and the related condensed consolidated statements of cash flows for the six month periods ended February 28, 1998 and 1997. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Alico, Inc. and subsidiary as of August 31, 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated October 10, 1997 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of August 31, 1997, is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG PEAT MARWICK LLP
(Signature)

Orlando, Florida
March 26, 1998

FORM 10-Q

ALICO, INC.

Computation of Weighted Average Shares Outstanding as of February 28, 1998:

| | |
|---|---|
| Number of shares outstanding at August 31, 1997 | 7,027,827 |
| Number of shares outstanding at February 28, 1998 | 7,027,827 |
| Weighted Average 09/01/97 - 02/28/98 | 7,027,827 |

EXHIBIT B

</TABLE>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET OF ALICO, INC. AND SUBSIDIARY AS OF FEBRUARY 28, 1998 AND THE RELATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS AND CASH FLOWS FOR THE SIX MONTHS THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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