ALICO INC
Form 10-K
December 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2016
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	59-0906081
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10070 Daniels Interstate Court, Suite 100, Fort Myers, FL	33913
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
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 þ
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 filings requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 þ 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 þ
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 þ
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 Global Market as of March 31, 2016 (the last business day of Alico's most recently completed second fiscal quarter) was $86,944,912. Solely for the purposes of this calculation, the registrant has elected to treat all executives, officers and greater than 10% stockholders as affiliates of the registrant. There were 8,324,747 shares of common stock outstanding at December 1, 2016.

Documents Incorporated by Reference:

Portions of the Proxy Statement of Registrant for the 2017 Annual Meeting of Shareholders (to be filed with the Commission under Regulation 14A within 120 days after the end of the Registrant's fiscal year), are incorporated by reference in Part III of this report.

ALICO, INC.
FORM 10-K
For the fiscal year ended September 30, 2016

Cautionary Statement

This Annual Report on Form 10-K contains certain “forward-looking statements,” as such term is defined in Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). They are based on management’s current expectations and assumptions regarding our business and performance, the economy and other future conditions and forecasts of future events, circumstances and results. These forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as “may,” “will,” “could,” “should,” “would,” “believes,” “expects,” “anticipates”, “estimates”, “projects,” “intends, “plans” and terms of similar substance in connection with discussions of future operating or financial performance. Such forward-looking statements include, but are not limited to, statements regarding future actions, business plans and prospects, prospective products, trends, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, the outcome of contingencies, such as legal proceedings, plans relating to dividends, government regulations, the adequacy of our liquidity to meet our needs for the foreseeable future and our expectations regarding market conditions.

As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Our actual results may vary materially from those expressed or implied in our forward-looking statements. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission ("SEC"). We provide in Item 1A, “Risk Factors,” a cautionary discussion of certain risks and uncertainties related to our businesses. These are factors that we believe, individually or in the aggregate, could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 21E of the Exchange Act. In addition, the operation and results of our business are subject to risks and uncertainties identified elsewhere in this Annual Report on Form 10-K as well as general risks and uncertainties such as those relating to general economic conditions. You should understand that it is not possible to predict or identify all such risks. Consequently, you should not consider such discussion to be a complete discussion of all potential risks or uncertainties.

PART I
Item 1. Business

Alico, Inc. (“Alico”), was incorporated under the laws of the state of Florida in 1960. Collectively with its subsidiaries (the "Company", "we", "us" or "our"), our business and operations are described below. For detailed financial information with respect to our business and our operations, see Management’s Discussion and Analysis of Financial Condition and Results of Operations which is included in Item 7 in this Annual Report on Form 10-K, and the accompanying Consolidated and Combined Financial Statements and the related Notes therein, which are included in Item 8. In addition, general information concerning our Company can be found on our website, the internet address of which is http://www.alicoinc.com. All of our filings with the SEC including, but not limited to, the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments thereto, are available free of charge on our website as soon as reasonably practicable after such material is electronically filed or furnished with the SEC. In addition, you may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. To obtain information on the operation of the Public Reference room, you may call the SEC at 1-800-SEC-0330. Our recent press releases and information regarding corporate governance, including the charters of our audit, compensation, executive and nominating governance committees, as well as our code of business conduct and ethics are also available to be viewed or downloaded electronically at http://www.alicoinc.com. The information on our website is not part of this report or any other report we file with or furnish to the SEC.

Overview

Alico is an agribusiness and natural resources management company, with a legacy of achievement and innovation in citrus, cattle and resource conservation. The Company owns approximately 122,000 acres of land in twelve Florida counties (Alachua, Charlotte, Collier, DeSoto, Glades, Hardee, Hendry, Highlands, Lee, Martin, Osceola and Polk) including approximately 90,000 acres of mineral rights. Our principal lines of business are citrus groves, cattle ranching and conservation.

During the fiscal year ended September 30, 2015, the Company acquired three Florida citrus properties for total consideration of approximately $363,000,000. These acquisitions make Alico one of the largest citrus producers in the United States of America.

Our mission is to create value for our customers and stockholders 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.

We manage our land based upon its primary usage and review its performance based upon two primary classifications - Orange Co. and Conservation and Environmental Resources. In addition, Other Operations include lease income from an aggregates mine and leases of oil extraction rights to third parties among other insignificant lines of business. We present our financial results and the related discussion based upon our three business segments (Orange Co., Conservation and Environmental Resources, and Other Operations).

Recent Developments

Water Storage Contract Approval

In December 2012, the South Florida Water Management District (“SFWMD” or "District") issued a solicitation request for projects to be considered for the Northern Everglades Payment for Environmental Services Program. The Company submitted its response proposing a dispersed water management project on a portion of its ranch land, and on December 11, 2014 the SFWMD approved a contract with the Company, and on September 29, 2015, the SFWMD amended the contract to extend it for an additional year.

The contract term is eleven years, and allows up to one year for implementation (design, permitting, construction and construction completion certification) and ten years of operation whereby the Company will provide water retention services. Payment for these services includes an amount not to exceed $4,000,000 of reimbursement for implementation. In addition, it provides for an annual fixed payment of up to $12,000,000 for operations and maintenance costs as long as the project is in compliance with the contract.

Annual payments under the contract are subject to the SFWMD receiving funds for the project from the Florida Legislature and SFWMD Governing Board budget appropriation. Funding for the first year of the dispersed water management project was included in the budget approved in the 2016 legislative session.

Project permitting is in process and the Company intends to commence construction upon receipt of permits. Annual fixed payments will not commence until completion of construction.

Change in Fiscal Year of Subsidiary

As Alico, Inc. and 734 Citrus Holdings, LLC ("Silver Nip Citrus") were under common control at the time of the Merger (see Note 1. "Description of Business and Basis of Presentation" of Item 8. Financial Statements and Supplementary Data) it is required under accounting principles generally accepted in the United States of America ("U.S. GAAP") to account for this common control acquisition in a manner similar to the pooling of interest method of accounting. Under this method of accounting, the Company's Consolidated and Combined Balance Sheets as of September 30, 2016 and September 30, 2015 reflect Silver Nip Citrus' historical carryover basis in the assets and liabilities, instead of reflecting the fair market value of the assets and liabilities. Alico has also retrospectively recast its financial statements to combine the operating results of the Company and Silver Nip Citrus from the date common control began, November 19, 2013.

Silver Nip Citrus' fiscal year end was June 30. Their financial condition and results of operations as of and for the fiscal years ended June 30, 2015 and 2014 were included in the financial condition and results of operations of the Company as of and for the fiscal years ended September 30, 2015 and 2014, respectively. Effective October 1, 2015, the fiscal year end for Silver Nip Citrus was changed to September 30 to reflect that of the Company. Accordingly, the Company's financial condition as of September 30, 2016 and 2015 now includes the financial condition of Silver Nip Citrus as of September 30, 2016 and 2015, respectively. The Company's results of operations for the fiscal years ended September 30, 2016 and 2015 now includes the Silver Nip Citrus results of operations for fiscal years ended September 30, 2016 and 2015, respectively. The Company's results of operations for the fiscal year ended September 30, 2014 include the operating results of Silver Nip Citrus from the date common control began, November 19, 2013 through September 30, 2014. The impact of this change was not material to the Consolidated and Combined Financial Statements, with an approximate $492,000 decrease in total assets and an approximate net loss of $596,000 for the transition period related to this change included in Stockholders' Equity at September 30, 2015.

Operating Segments

Operating segments are defined in Financial Accounting Standards Board ("FASB") - Accounting Standards Codification ("ASC") ASC Topic 280, "Segment Reporting" as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to assess performance and allocate resources. For the fiscal year ended September 30, 2015, the Company's CODM assessed performance and allocated resources based on five operating segments: Citrus Groves, Improved Farmland, Ranch and Conservation, Agricultural Supply Chain Management and Other Operations.

Effective October 1, 2015, which was the first day of Alico's fiscal year 2016, the Company operates three business segments related to its various land holdings, as follows:

- Orange Co. includes activities related to planting, owning, cultivating and/or managing citrus groves in order to produce fruit for sale to fresh and processed citrus markets, including activities related to the purchase and resale of fruit and value-added services, which include contracting for the harvesting, marketing and hauling of citrus.

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

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Other Operations consists of activities related to rock mining royalties, oil exploration and other insignificant lines of business. Also included are activities related to owning 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.

The former Citrus Groves and Agricultural Supply Chain Management segments have been combined in Orange Co. and, as a result of the disposition of its sugarcane land in fiscal year 2015, the Company is no longer involved in sugarcane and the Improved Farmland segment is no longer material to its business and has been combined in Other Operations.

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 our total return criteria are considered surplus to our operations and will be sold or exchanged for land considered to be more compatible with our business objectives and total return profile.

Our land holdings and the operating activities in which we engage are categorized in the following table:

	Gross Acreage	Operating Activities
Orange Co.		
Citrus Groves	47,127	Citrus Cultivation
Citrus Nursery	385	Citrus Tree Development
	47,512	
Conservation and Environmental Resources	70,962	Cattle Production; Sod and Native Plant Sales; Leasing; Conservation
Other Operations		
Farmland	1,825	Leasing
Other Land	1,485	Mining lease; Office
Total	121,784	

Orange Co.

We own and manage citrus land in Alachua, DeSoto, Polk, Collier, Hendry, Charlotte, Highlands, Osceola, Martin, and Hardee Counties and engage in the cultivation of citrus trees to produce citrus for delivery to the fresh and processed citrus markets. Orange Co. citrus groves totals approximately 48,000 gross acres or 39.1% of our land holdings.

Our citrus acreage is detailed in the following table:

	Net Plantable					
	Producing	Developing	Fallow	Total Plantable	Support & Other	Gross
Alachua County	—	—	—	—	385	385
DeSoto County	15,013	1,090	482	16,585	4,623	21,208
Polk County	4,558	95	—	4,653	2,152	6,805
Collier County	4,468	—	—	4,468	2,823	7,291
Hendry County	3,517	97	175	3,789	1,696	5,485
Charlotte County	1,730	—	138	1,868	635	2,503
Highlands County	1,093	—	—	1,093	131	1,224
Osceola County	937	—	—	937	426	1,363
Martin County	551	—	—	551	123	674
Hardee County	403	—	—	403	171	574
Total	32,270	1,282	795	34,347	13,165	47,512

Of the approximately 48,000 gross acres of citrus land we own and manage, approximately 13,200 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. In addition, we own a citrus tree nursery and utilize the trees produced in our own operations. None of our citrus acreage is classified as available for sale. The approximately 34,300 remaining 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 commercially produce fruit) and acres that are fallow.

Our Orange Co. business segment cultivates citrus trees to produce citrus for delivery to the processed and fresh citrus markets. Our sales to the processed market are approximately 86.9% of Orange Co. revenues annually. We produce Early and Mid-Season 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 approximately 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 citrus fruit. We produced approximately 51,400,000, 62,200,000 and 26,600,000 pound solids for each of the fiscal years ended September 30, 2016, 2015 and 2014, respectively, on boxes delivered to processing plants of approximately 8,829,000, 10,014,000 and 4,146,000, respectively.

The average pound solids per box was 5.82, 6.21 and 6.41 for each of the fiscal years ended September 30, 2016, 2015 and 2014, 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 floor price, we benefit from the incremental difference between the floor and the final market price.

The majority of our citrus produced for the processed citrus market in fiscal year 2016-2017 will be under minimum price contracts with a floor prices ranging from $2.05 to $2.15 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 3.8% of our Orange Co. revenues annually. We produce numerous varieties for the fresh fruit market including grapefruit, navel 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 produced approximately 402,000, 466,000 and 213,000 fresh fruit boxes for each of the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The majority of our citrus to be produced for the fresh citrus market in fiscal year 2016-2017 is under fixed price contracts.

Revenues from our Orange Co. operations were approximately 95.2%, 95.5% and 71.9% of our total operating revenues for each of the fiscal years ended September 30, 2016, 2015 and 2014, respectively.

Conservation and Environmental Resources

We own and manage Conservation and Environmental Resources land in Collier and Hendry 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, Conservation and Environmental Resources totals approximately 71,000 gross acres or 58.3% of our total acreage.

Our Conservation and Environmental Resources acreage is detailed in the following table as of September 30, 2016:

	Acreage
Hendry County	66,940
Collier County	4,022
Total	70,962

We frequently lease the same acreage for more than one purpose. The portion of our Conservation and Environmental Resources acreage that is leased for each purpose is detailed in the table below:

	Grazing	Recreational
Hendry County	1,282	51,686

Collier County	4,000	3,493
Glades County	145	—

Our cattle operation is engaged in the production of beef cattle and is located in Hendry and Collier Counties. The breeding herd consists of approximately 8,700 cows and bulls and we plan to increase the size of our herd in the near future to the extent practicable. 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.

Revenues from our Conservation and Environmental Resources operations were approximately 4.0%, 3.6% and 7.9% of total operating revenues for each of the fiscal years ended September 30, 2016, 2015 and 2014, respectively.

Our Strategy

Our core business strategy is to maximize stockholder value through continuously improving the return on our invested capital, either by holding and managing our existing land through skilled agricultural production, leasing, or other opportunistic means of monetization, disposing of under productive land or business units and/or acquiring new land or operations with appreciation potential.

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 stockholders, 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 the Company’s core beliefs.

Competition

The orange and specialty citrus markets are intensely competitive, but no single producer has any significant market power over any market segments, as is consistent with the production of most agricultural commodities. 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 quality, production, demand, brand recognition, market prices, weather, disease, export/import restrictions and foreign currency exchange rates. Beef cattle are produced throughout the United States and domestic beef sales also compete with imported beef.

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. Historically, compliance with environmental regulations has not had a material impact on 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, 2016, we had 333 full-time employees. Our employees work in the following divisions:

Orange Co.	298
Conservation and Environmental Resources	6
Corporate, General, Administrative and Other	29
Total employees	333

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Seasonal Nature of Business

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

	Fiscal Year											
	Q1			Q2			Q3			Q4		
	Ending 12/31			Ending 3/31			Ending 6/30			Ending 9/30		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Harvest Fresh and Early/Mid Varieties of Oranges												
Harvest Valencia Oranges												
Deliver Beef Cattle												

Capital resources and raw materials

Management believes that the Company will be able to meet its working capital requirements for at least the next 12 months, and over the long term, through internally generated funds, cash flows from operations, our existing lines of credit and access to capital markets. The Company has commitments that provide for lines of revolving credit that are available for our general and corporate use. Raw materials needed to cultivate the various crops grown by the Company consist primarily of fertilizers, herbicides and fuel and are readily available from local suppliers.

Available Information

We provide electronic copies of our SEC filings free of charge upon request. Any information posted on or linked from our website is not incorporated by reference in this Annual Report on Form 10-K. The SEC also maintains a website at http://www.sec.gov, which contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The following is a description of the known factors that we believe may materially affect our business, financial condition, results of operations or cash flows. They should be considered carefully, in addition to the information set forth elsewhere in this Annual Report on Form 10-K, including Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data, including the related Notes to the Consolidated and Combined Financial Statements in making any investment decisions with respect to our securities. Additional risks or uncertainties that are not currently known to us that we currently deem to be immaterial or that could apply to any company could also materially adversely affect our business, financial condition, results of operations or cash flows.

Risks related to our Business

Our citrus groves are subject to damage and loss from disease including but not limited to citrus greening and citrus canker which could negatively impact our business, financial condition, results of operations and cash flows.

Our citrus groves are subject to damage and loss from diseases such as citrus greening and citrus canker. Each of these diseases is widespread in Florida and exists in our citrus groves and in the areas where our citrus groves are located. The success of our citrus business is directly related to the viability and health of our citrus groves.

Citrus greening is one of the most serious citrus plant diseases in the world. Once a tree is infected, its productivity generally decreases. While the disease poses no threat to humans or animals, it has devastated citrus crops throughout the United States and abroad. Named for its green, misshapen fruit, citrus greening disease has now killed millions of citrus plants in the southeastern United States and has spread across the entire country. Infected trees produce fruits that are green, misshapen and bitter, unsuitable for sale as fresh fruit or for juice. Infected trees can die within a few years. At the present time, there is no known cure for citrus greening once trees are infected. Primarily as a result of citrus greening, orange production in the State of Florida has continued to drop and according to the U.S. Department of Agriculture Florida had its smallest orange harvest in 52 years in the 2015-2016 harvest season. The upcoming 2016-2017 Florida harvest season is expected to decline even further. The USDA's forecast of approximately 72,000,000 boxes of oranges for the 2016-2017 season is down more than 13 percent from the approximately 81,600,000 boxes harvested last season and represents a decline of more than 52 percent since the time citrus greening was discovered at approximately 150,000,000 boxes during the 2004-05 season.

Citrus canker is a disease affecting citrus species and is caused by a bacterium and is spread by contact with infected trees or by windblown transmission. There is no known cure for citrus canker at the present time although some management practices including the use of copper-based bactericides can mitigate its spread and lessen its effect on infected trees; however, there is no assurance that available technologies to control such disease will be effective.

Both of these diseases pose a significant threat to the Florida citrus industry and to our citrus groves. While we use best management practices to attempt to control diseases and their spread, there can be no assurance that our mitigation efforts will be successful. These diseases can significantly increase our costs which could materially adversely affect our business, financial condition, results of operations and cash flows. Our citrus groves produce a significant majority of our annual operating revenues and a significant reduction in available citrus from our citrus groves could decrease our operating revenues and materially adversely affect our business, financial condition, results of operations and cash flows.

Our agricultural products are subject to supply and demand pricing which is not predictable.

Agricultural operations traditionally provide almost all of our operating revenues with citrus being the largest portion and are subject to supply and demand pricing. While according to Nielsen data consumer demand for orange juice has decreased significantly to its lowest level in almost a decade, we have been able to offset the impact of such decline with higher prices based on a lower supply of available oranges. However, there can be no assurance that we will be able to continue to do so if demand continues to decline. Although our processed citrus is subject to minimum pricing we are unable to predict with certainty the final price we will receive for our products. In some instances the harvest and growth cycle will dictate when such products must be marketed which may or may not be advantageous in obtaining the best price. Excessive supplies tend to cause severe price competition and lower prices for the commodity affected. Limited supply of certain agricultural commodities due to world and domestic market conditions can cause commodity prices to rise in certain situations. We attempt to mitigate these risks by using contracts with citrus processors that include pricing structures based on a minimum (“floor”) price and with a price increase (“rise”) if market prices exceed the floor price. As a result, our profitability may be subject to significant variability.

Our citrus groves are geographically concentrated in Florida and the effects of adverse weather conditions including hurricanes and tropical storms could adversely affect our results of operations and financial position.

Our citrus operations are concentrated in central and south Florida with our groves located in parcels in Alachua, DeSoto, Polk, Collier, Hendry, Charlotte, Highlands, Osceola, Martin and Hardee Counties. Because our groves are located in close proximity to each other, the impact of adverse weather conditions may be material to our results of operations. Florida is particularly susceptible to the occurrence of hurricanes and tropical storms. Depending on where any particular hurricane or tropical storm makes landfall, our properties could experience significant, if not catastrophic damage. Hurricanes and tropical storms have the potential to destroy crops, affect cattle breeding and impact citrus production through the loss of fruit and destruction of trees and/or plants either as a result of high winds or through the spread of windblown disease. Such damage could materially affect our citrus and cattle operations and could result in a loss of operating revenues from those products for a multi-year period. We seek to minimize hurricane risk by the purchase of insurance contracts, but the majority of our crops remain uninsured. In addition to hurricanes and tropical storms, the occurrence of other natural disasters and climate conditions in Florida, such as tornadoes, floods, freezes, unusually heavy or prolonged rain, droughts and heat waves, could have a material adverse effect on our operations and our ability to realize income from our crops or cattle.

A significant and increasing portion of our revenues are derived from our citrus business and any adverse event affecting such business could disproportionately harm our business.

Our revenues from our citrus business were approximately 95.2%, 95.5% and 71.9% of our operating revenues in fiscal years 2016, 2015 and 2014, respectively. As a result of our recently announced acquisitions of three Florida citrus properties and the disposition of our sugarcane lands, the percentage of our operating revenues derived from our citrus business has increased significantly. These acquisitions resulted in our citrus division being one of the largest citrus producers in the United States and since we will not be as diversified as we have been previously, we will be more vulnerable to adverse events or market conditions affecting our citrus business which could have a significant impact on our overall business results.

We maintain a significant amount of indebtedness which could adversely affect our financial condition, results of operations or cash flows and may limit our operational and financing flexibility and negatively impact our business.

As of September 30, 2016 we had approximately $197,000,000 in principal amount of indebtedness outstanding under our secured credit facilities and an additional $80,000,000 is available under our revolving lines of credit. Our loan agreements, and other debt instruments we may enter into in the future, may have negative consequences to us and could limit our business because we will use a substantial portion of our cash flows from operations to pay debt service costs which will reduce the funds available to us for corporate and general expenses and it may make us more vulnerable to economic downturns and adverse developments in our business. Our loan agreements require us to comply with various restrictive covenants and some contain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan agreements and would result in a cross-default under other loan agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under loan agreements could be declared immediately due and payable. Our loan agreements also contain various covenants that limit our ability to engage in specified types of transactions. We expect that we will depend primarily upon our citrus operations to provide funds to pay our corporate and general expenses and to pay any amounts that may become due under any credit facilities and any other indebtedness we may incur and there are factors beyond our control that could negatively affect our citrus business revenue stream. Our ability to make these payments depends on our future performance, which will be affected by various financial, business, macroeconomic and other factors, many of which we cannot control.

If we are unable to successfully develop and execute our strategic growth initiatives, or if they do not adequately address the challenges or opportunities we face, our business, financial condition and prospects may be adversely affected.

Our success is dependent in part on our ability to identify, develop and execute appropriate strategic growth initiatives that will enable us to achieve sustainable growth in the long term. The implementation of our strategic initiatives is subject to both the risks affecting our business generally and the inherent risks associated with implementing new strategies. These strategic initiatives may not be successful in generating revenues or improving operating profit and, if they are, it may take longer than anticipated. As a result and depending on evolving conditions and opportunities, we may need to adjust our strategic initiatives and such changes could be substantial, including modifying or terminating one or more of such initiatives. Termination of such initiatives may require us to write down or write off the value of our investments in them. Transition and changes in our strategic initiatives may also create uncertainty in our employees, customers and partners that could adversely affect our business and revenues. In addition, we may incur higher than expected or unanticipated costs in implementing our strategic initiatives, attempting to attract revenue opportunities or changing our strategies. There is no assurance that the implementation of any strategic growth initiative will be successful, and we may not realize anticipated benefits at levels we project or at all, which would adversely affect our business, financial condition and prospects.

Our agricultural operations are subject to water use regulations restricting our access to water.

Our operations are dependent upon the availability of adequate surface and underground water. The availability of water is regulated by the state of Florida through water management districts which have jurisdiction over various geographic regions in which our lands are located. Currently, we have permits in place for the next 15 to 20 years for the use of underground and surface water which are adequate for our agricultural needs.

Surface water in Hendry County, where much of our agricultural land is located, comes from Lake Okeechobee via the Caloosahatchee River and a system of canals used to irrigate such land. The Army Corps of Engineers controls the level of Lake Okeechobee and ultimately determines the availability of surface water even though the use of water has been permitted by the state of Florida through the water management district. The Army Corps of Engineers decided in 2010 to lower the permissible level of Lake Okeechobee in response to concerns about the ability of the levee surrounding the lake to restrain rising waters which could result from hurricanes. Changes in availability of surface water use may result during times of drought, because of lower lake levels and could materially adversely affect our agricultural operations, financial condition, results of operations and cash flows.

Our recent acquisitions of three Florida citrus properties and the acquisition of additional agricultural assets and other businesses could pose risks.

We seek to opportunistically acquire new agricultural assets from time to time that we believe would complement our business. In fiscal year 2015, we acquired three Florida citrus properties, including Orange-Co and Silver Nip Citrus, which resulted in our citrus division being one of the largest citrus producers in the United States. While we expect that our acquisitions will successfully complement our business, we may fail to realize all of the anticipated benefits of these acquisitions, which could reduce our anticipated results. We cannot assure you that we will be able to successfully identify suitable acquisition opportunities, negotiate appropriate acquisition terms, or obtain any financing that may be needed to consummate such acquisitions or complete proposed acquisitions. Acquisitions by us could result in accounting changes, potentially dilutive issuances of equity securities, increased debt and contingent liabilities, reduce the amount of cash available for dividends, debt service payments, integration issues and diversion of management's attention, any of which could adversely affect our business, results of operations, financial condition, and cash flows. We may be unable to successfully realize the financial, operational, and other benefits we anticipate from our acquisitions and our failure to do so could adversely affect our business, results of operation and financial condition.

Dispositions of our assets may adversely affect our future results of operations.

We also routinely evaluate the benefits of disposing of certain of our assets which could include the exit from lines of business. For example, in November of 2014 we sold significant sugarcane assets and we are no longer involved in the sugarcane business. While such dispositions increase the amount of cash available to us, it could also result in a potential loss of significant operating revenues and income streams that we might not be able to replace, makes our business less diversified and could ultimately have a negative impact on our results of operations and cash flows.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

From time to time we dispose of properties in transactions that are intended to qualify as Section 1031 Exchanges. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable and we could also be required to pay interest and penalties. As a result, we may be required to borrow funds in order to pay additional property taxes, and the payment of such taxes could cause us to have less cash available. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

We may undertake one or more significant corporate transactions that may not achieve their intended results, may adversely affect our financial condition and our results of operations or result in unforeseeable risks to our business.

We continuously evaluate the acquisition or disposition of operating businesses and assets and may in the future undertake one or more significant transactions. Any such acquisitive transaction could be material to our business and could take any number of forms, including mergers, joint ventures and the purchase of equity interests. The consideration for such acquisitive transactions may include, among other things, cash, common stock or equity interests in us or our subsidiaries, or a contribution of property or equipment to obtain equity interests, and in conjunction with a transaction we might incur additional indebtedness. We also routinely evaluate the benefits of disposing of certain assets. Such dispositions could take the form of asset sales, mergers or sales of equity interests.

These transactions may present significant risks such as insufficient assets to offset liabilities assumed, potential loss of significant operating revenues and income streams, increased or unexpected expenses, inadequate return of capital, regulatory or compliance issues, the triggering of certain financial covenants in our debt instruments (including accelerated repayment) and unidentified issues not discovered in due diligence. In addition, such transactions could distract management from current operations. As a result of the risks inherent in such transactions, we cannot guarantee that any such transaction will ultimately result in the realization of its anticipated benefits or that it will not have a material adverse impact on our business, financial condition, results of operations or cash flows. If we were to complete such an acquisition, disposition, investment or other strategic transaction, we may require additional debt or equity financing that could result in a significant increase in our amount of debt and our debt service obligations or the number of outstanding shares of our common stock, thereby diluting holders of our common stock outstanding prior to such acquisition.

We are subject to the risk of product contamination and product liability claims.

The sale of agricultural products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, we cannot be sure that our agricultural products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. We maintain product liability insurance, however, we cannot be sure that we will not incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage.

Changes in immigration laws could impact our ability to harvest our crops.

We engage third parties to provide personnel for our harvesting operations. The availability and number of such workers is subject to decrease if there are changes in the U.S. immigration laws. The scarcity of available personnel to harvest our agricultural products could cause harvesting costs to increase or could lead to the loss of product that is not timely harvested which could have a material adverse effect to our citrus grove business, financial condition, results of operations and cash flows.

Changes in demand for our agricultural products can affect demand and pricing of such products.

The general public's demand for particular food crops we grow and sell could reduce prices for some of our products. To the extent that consumer preferences evolve away from products we produce and we are unable to modify our products or develop products that satisfy new customer preferences, there could be a decrease in prices for our products. Even if market prices are unfavorable, produce items which are ready to be or have been harvested must be brought to market. Additionally, we have significant investments in our citrus groves and cannot easily shift to alternative crops for this land. A decrease in the selling price received for our products due to the factors described above could have a material adverse effect on our business.

Our citrus business is seasonal.

Our citrus groves produce the majority of our annual operating revenues and the citrus business is seasonal because it is tied to the growing and picking seasons. Historically, the second and third quarters of our fiscal year generally produce the majority of our annual revenues, 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 or in future quarters. If our operating revenues in the second and third quarters are lower than expected, it would have a disproportionately large adverse impact on our annual operating results.

We face significant competition in our agricultural operations.

We face significant competition in our agricultural operations both from domestic and foreign producers and do not have any branded products. Foreign growers generally have an equal or lower cost of production, less environmental regulation and in some instances, greater resources and market flexibility than us. Because foreign growers have greater flexibility as to when they enter the U.S. market, we cannot always predict the impact these competitors will have on our business and results of operations. The competition we face from foreign suppliers of orange juice is mitigated by a governmentally imposed tariff on orange imports. A change in the government’s reduction in the orange juice tariff could adversely impact our results of operations.

Climate change, or legal, regulatory, or market measures to address climate change, may negatively affect our business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on the productivity of our citrus groves, it could have an adverse impact on our business and results of operations. The increasing concern over climate change also may result in more regional, federal, and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted, we may experience significant increases in our costs of operations. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and operations.

We benefit from reduced real estate taxes due to the agricultural classification of a majority of our land. Changes in the classification or valuation methods employed by county property appraisers could cause significant changes in our real estate tax liabilities.

In the fiscal years ended September 30, 2016, 2015 and 2014 we paid approximately $3,196,000, $4,054,000 and $2,291,000, respectively, in real estate taxes, respectively. These taxes were based upon the agricultural use ("Green Belt") values determined by the county property appraisers in which counties we own land, of approximately $89,922,000, $123,617,000 and $74,105,000 for each of the fiscal years ended September 30, 2016, 2015 and 2014, respectively, which differs significantly from the fair values determined by the county property appraisers of approximately $533,617,000, $652,891,000 and $518,112,000, respectively.

Changes in state law or county policy regarding the granting of agricultural classification or calculation of Green Belt values or average millage rates could significantly impact our results of operations, cash flows and financial position.

We manage our properties in an attempt to capture their highest and best use and customarily do not sell property until it no longer meets our total return profile.

The goal for our land management program is to manage and selectively improve our lands for their most profitable use. We continually evaluate our properties focusing on location, soil capabilities, subsurface composition, topography, transportation and availability of markets for our crops, the climatic characteristics of each of the tracts, long-term capital appreciation and operating income potential. While we are primarily engaged in agricultural activities, when land does not meet our total return profile, we may determine that the property is surplus to our activities and place the property for sale or exchange.

Liability for the use of pesticides, herbicides and other potentially hazardous substances could increase our costs.

Our agricultural business involves the use of herbicides, fertilizers and pesticides, some of which may be considered hazardous or toxic substances. We may be deemed liable and have to pay for the costs or damages associated with the improper application, accidental release or the use or misuse of such substances. Our insurance may not be adequate to cover such costs or damages, or may not continue to be available at a price or under terms that are satisfactory to us. In such cases, if we are required to pay significant costs or damages, it could materially adversely affect our business, results of operations, financial condition and cash flows.

Compliance with applicable environmental laws may substantially increase our costs of doing business which could reduce our profits.

We are subject to various laws and regulations relating to the operation of our properties, which are administered by numerous federal, state and local governmental agencies. We face a potential for environmental liability by virtue of our ownership of real property. If hazardous substances (including herbicides and pesticides used by us or by any persons leasing our lands) are discovered emanating from any of our lands and the release of such substances presents a threat of harm to the public health or the environment, we may be held strictly liable for the cost of remediation of these hazardous substances. In addition, environmental laws that apply to a given site can vary greatly according to the site's location, its present and former uses, and other factors such as the presence of wetlands or endangered species on the site. Management monitors environmental legislation and requirements and makes every effort to remain in compliance with such regulations. Furthermore, we require lessees of our properties to comply with environmental regulations as a condition of leasing. We also purchase insurance for environmental liability when it is available; however, these insurance contracts may not be adequate to cover such costs or damages or may not continue to be available at prices and terms that would be satisfactory. It is possible that in some cases the cost of compliance with these environmental laws could exceed the value of a particular tract of land, make it unsuitable for use in what would otherwise be its highest and best use, and/or be significant enough that it would materially adversely affect us.

Our business may be adversely affected if we lose key employees.

We depend to a large extent on the services of certain key management personnel. These individuals have extensive experience and expertise in our business lines and segments in which they work. The loss of any of these individuals could have a material adverse effect on our businesses. We do not maintain key-man life insurance with respect to any of our employees. Our success will be dependent on our ability to continue to employ and retain skilled personnel in our business lines and segments.

Risks Related to our Common Stock

Our largest stockholder has effective control over the election of our Board of Directors and other matters.

734 Investors, LLC ("734 Investors") and its two controlling persons, Remy Trafelet and George Brokaw, together beneficially own approximately 59% of our outstanding common stock as of December 1, 2016. Accordingly, by virtue of its ownership percentage, 734 Investors is able to elect all of our directors and officers, and has the ability to exert significant influence over our business and may make decisions with which other stockholders may disagree, including, among other things, changes in our business plan, delaying, discouraging or preventing a change of control of our Company or a potential merger, consolidation, tender offer, takeover or other business combination. Additionally, potential conflicts of interest could exist when we enter into related party transactions with 734 Investors such as the Silver Nip Citrus merger we entered into on February 28, 2015. The terms of the merger were negotiated and considered by a special committee comprised entirely of independent and disinterested members of our Board of Directors.

We are a “Controlled Company” under the NASDAQ Listing Rules and therefore are exempt from certain corporate governance requirements, which could reduce the influence of independent directors.

We are a “Controlled Company” under NASDAQ listing rules, because more than 50% of the voting power of our outstanding common stock is controlled by 734 Investors and its two controlling persons, Remy Trafelet and George Brokaw. As a consequence, we are exempt from certain NASDAQ requirements including the requirement that:

- Our Board of Directors be composed of a majority of independent directors;
- The compensation of our officers be determined by a majority of the independent directors or a compensation committee composed solely of independent directors; and
- Nominations to the Board of Directors be made by a majority of the independent directors or a nominations committee composed solely of independent directors.

However, NASDAQ does require that our independent directors have regularly scheduled meetings at which only independent directors are present. In addition, Internal Revenue Code Section 162(m) requires that a compensation committee of outside directors (within the meaning of Section 162(m)) approve stock option grants to executive officers in order for us to be able to claim deductions for the compensation expense attributable to such stock options. Notwithstanding the foregoing exemptions, we do have a majority of independent directors on our Board of Directors and we do have an Audit Committee, a Compensation Committee and a Nominating and Governance Committee composed primarily of independent directors.

Although we currently comply with certain of the NASDAQ listing rules that do not apply to controlled companies, our compliance is voluntary, and there can be no assurance that we will continue to comply with these standards in the future. If in the future our Board of Directors elects to rely on the exemptions permitted by the NASDAQ listing standards and reduce the number or proportion of independent directors on our Board and its committees, the influence of independent directors would be reduced.

Sales of substantial amounts of our outstanding common stock by our largest stockholder could adversely affect the market price of our common stock.

Our largest stockholder, 734 Investors, beneficially owns approximately 59% of our outstanding common stock as of December 1, 2016. Our common stock is thinly traded and our common stock prices can fluctuate significantly. As such, sales of substantial amounts of our common stock into the public market by 734 Investors or perceptions that significant sales could occur, could adversely affect the market price of our common stock.

Our common stock has low trading volume.

Although our common stock trades on the NASDAQ Global Market, it is thinly traded and our average daily trading volume is low compared to the number of shares of common stock we have outstanding. The low trading volume of our common stock can cause our stock price to fluctuate significantly as well as make it difficult for you to sell your common shares quickly. As a result of our stock being thinly traded and/or our low stock price, institutional investors might not be interested in owning our common stock.

We may not be able to continue to pay or maintain our cash dividends on our common stock and the failure to do so may negatively affect our share price.

We have historically paid regular quarterly dividends to the holders of our common stock. Dividends were reduced beginning in the third fiscal quarter of 2014 in order to retain cash which increases our flexibility to reinvest in our business and pursue growth opportunities consistent with our mission. Our ability to pay cash dividends depends on, among other things, our cash flows from operations, our cash requirements, our financial condition, the degree to which we are/or become leveraged, contractual restrictions binding on us, provisions of applicable law and other factors that our Board of Directors may deem relevant. There can be no assurance that we will generate sufficient cash from continuing operations in the future, or have sufficient cash surplus or net profits to pay dividends on our common stock. Our dividend policy is based upon our directors' current assessment of our business and the environment in which we operate and that assessment could change based on business developments (which could, for example, increase our need for capital expenditures) or new growth opportunities. Our Board of Directors may, in its discretion, decrease the level of cash dividends or entirely discontinue the payment of cash dividends. The reduction or elimination of cash dividends may negatively affect the market price of our common stock.

There can be no assurance that we will continue to repurchase shares of our common stock.

In fiscal year 2016, our Board of Directors authorized the repurchase of up to 50,000 shares of the Company’s common stock beginning February 18, 2016 and continuing through February 17, 2017. Our share repurchase program does not obligate us to repurchase any specific number of shares and may be suspended from time to time or terminated at any time prior to its expiration. There can be no assurance that we will repurchase shares in the future in any particular amounts or at all. A reduction in, or elimination of, share repurchases could have a negative effect on our share price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of September 30, 2016, we owned approximately 122,000 acres of land located in twelve counties in Florida. Acreage in each county and the primary classification with respect to the present use of these properties is shown in the following table:

	Total	Hendry	Polk	Collier	DeSoto	Glades	Lee	Alachua	Charlotte	Hardee	Highlands	Martin	Osceola
Orange Co.:													
Citrus Groves	47,127	5,485	6,805	7,291	21,208	—	—	—	2,503	574	1,224	674	1,363
Citrus Nursery	385	—	—	—	—	—	—	385	—	—	—	—	—
Total Citrus Groves	47,512	5,485	6,805	7,291	21,208	—	—	385	2,503	574	1,224	674	1,363
Improved Farmland:													
Irrigated	1,825	1,825	—	—	—	—	—	—	—	—	—	—	—
Conservation and Environmental Resources	70,962	66,940	—	4,022	—	—	—	—	—	—	—	—	—
Commercial	2	—	—	—	—	—	2	—	—	—	—	—	—
Mining	526	—	—	—	—	526	—	—	—	—	—	—	—
Other	957	957	—	—	—	—	—	—	—	—	—	—	—
Total	121,784	75,207	6,805	11,313	21,208	526	2	385	2,503	574	1,224	674	1,363

Approximately 61,000 acres of the properties listed are encumbered by credit agreements totaling approximately $202,200,000 as of September 30, 2016. For a more detailed description of the credit agreements and collateral please see Note 5. “Long-Term Debt and Lines of Credit” and Note 19. "Subsequent Events" in the accompanying Notes to the Consolidated and Combined Financial Statements.

We currently collect mining royalties on approximately 526 acres of land located in Glades County, Florida. These royalties do not represent a significant portion of our operating revenues or gross profits. We have identified 850 acres on our Hendry County land that may have potential to be used as a sand mine. The Hendry County parcel is currently classified as other land.

Item 3. Legal Proceedings

On March 11, 2015, a putative stockholder class action lawsuit captioned Shiva Y. Stein v. Alico, Inc., et al., No. 15-CA-000645 (the “Stein lawsuit”), was filed in the Circuit Court of the Twentieth Judicial District in and for Lee County, Florida, against Alico, Inc. (“Alico”), its current and certain former directors, 734 Citrus Holdings, LLC d/b/a Silver Nip Citrus, 734 Investors, LLC (“734 Investors”), 734 Agriculture, LLC (“734 Agriculture”) and 734 Sub, LLC (“734 Sub”) in connection with the acquisition of Silver Nip Citrus by Alico (the “Merger”). The complaint alleged that Alico’s directors at the time of the Merger, 734 Investors and 734 Agriculture breached fiduciary duties to Alico stockholders in connection with the Merger and that Silver Nip and 734 Sub aided and abetted such breaches. The lawsuit sought, among other things, monetary and equitable relief, costs, fees (including attorneys’ fees) and expenses.

On May 6, 2015, a putative stockholder class action and derivative lawsuit captioned Ruth S. Dimon Trust v. George R. Brokaw, et al., No. 15-CA-001162 (the “Dimon lawsuit”), was filed in the Circuit Court of the Twentieth Judicial District in and for Lee County, Florida, against Alico, its current directors, Silver Nip Citrus, 734 Investors and 734 Agriculture in connection with the Merger of Silver Nip Citrus by Alico. The complaint alleged breach of fiduciary duty, gross mismanagement, waste of corporate assets and tortious interference with contract against Alico’s directors; unjust enrichment against three of the directors; and aiding and abetting breach of fiduciary duty against Silver Nip Citrus, 734 investors and 734 Agriculture. The lawsuit sought, among other things, rescission of the Merger, an injunction prohibiting certain payments to Silver Nip Citrus members, unspecified damages, disgorgement of profits, costs, fees (including attorneys’ fees) and expenses.

On July 17, 2015, the plaintiffs in the Stein and Dimon lawsuits filed a stipulation and proposed order consolidating their cases for all purposes under the caption, In re Alico, Inc. Shareholder Litigation, Master File No. 15-CA-000645 (the “Consolidated Action”) and seeking the appointment of a lead plaintiff and lead and liaison counsel. The court entered that proposed order on July 21, 2015.

On October 16, 2015, the lead plaintiff in the Consolidated Action reported to the Court that the parties reached an agreement in principle to settle the Consolidated Action and other claims related to the Merger and that they were in the process of formally documenting their agreements. The proposed settlement contemplated that Alico would adopt certain changes to its corporate governance practices, policies and procedures concerning related party transactions; the Consolidated Action would be dismissed; and all claims that were or could have been asserted challenging any aspect of the Merger would be released. On March 31, 2016, the parties entered into a Stipulation of Settlement. The parties filed an Amended Stipulation of Settlement with the Court on April 22, 2016.

On April 28, 2016, the Court entered an order preliminarily approving the settlement and providing for notice to relevant Alico shareholders. Notice of the settlement was mailed to relevant Alico shareholders and a settlement hearing was held on September 12, 2016, during which the Court considered the fairness, reasonableness and adequacy of the settlement and plaintiffs' counsel’s request for an award of attorneys' fees and expenses.

Following the settlement hearing on September 12, 2016, the Court entered a final order and judgment that approved the settlement as fair, reasonable and adequate; directed the parties to consummate the settlement according to its terms; awarded plaintiffs’ counsel attorneys’ fees and expenses; and dismissed the Consolidated Action with prejudice.

From time to time, Alico may be involved in litigation relating to claims arising out of its operations in the normal course of business. There are no current legal proceedings to which the Company is a party to or of which any of its property is subject to that it believes will have a material adverse effect on its financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Prices

Our common stock is traded on the NASDAQ Global Market under the symbol ALCO. The high and low sales prices of our common stock in each quarter in the fiscal years 2016 and 2015 are presented below:

	2016 Price		2015 Price	
	High	Low	High	Low
Quarter Ended:				
December 31	$45.82	$37.55	$51.83	$34.67
March 31	$38.56	$20.99	$58.10	$43.80
June 30	$32.66	$26.02	$52.74	$44.52
September 30	$31.95	$26.50	$48.94	$37.16

Holders

On December 1, 2016, our stock transfer records indicate there were 260 holders of record of our common stock. The number of registered holders includes banks and brokers who act as nominee, each of whom may represent more than one stockholder.

Dividend Policy

The declaration and amount of any actual cash dividend are in the sole discretion of our Board of Directors and are subject to numerous factors that ordinarily affect dividend policy, including the results of our operations and financial position, as well as general economic and business conditions.

The following table presents cash dividends per share of our common stock declared in fiscal years ended September 30, 2016, 2015, and 2014:

Declaration Date	Record Date	Payment Date	Per Common Share
December 18, 2013	March 31, 2014	April 14, 2014	$0.12
July 10, 2014	September 30, 2014	October 15, 2014	$0.06
October 2, 2014	December 31, 2014	January 15, 2015	$0.06
February 27, 2015	March 31, 2015	April 15, 2015	$0.06
June 4, 2015	June 30, 2015	July 15, 2015	$0.06
September 14, 2015	September 30, 2015	October 15, 2015	$0.06
December 11, 2015	December 31, 2015	January 15, 2016	$0.06
March 8, 2016	March 31, 2016	April 15, 2016	$0.06
May 11, 2016	June 30, 2016	July 15, 2016	$0.06
September 6, 2016	September 30, 2016	October 14, 2016	$0.06

Stock Performance Graph

The graph below represents our common stock performance, comparing the value of $100 invested on September 30, 2011 in our common stock, the S&P 500 Index, the S&P Agricultural Products Index and a Company-constructed peer group, which includes Forestar Group, Inc., Limoneira Company, The St. Joe Company, Tejon Ranch Co. and Texas Pacific Land Trust.

INDEXED RETURNS

Company Name / Index	Base Period Sept 11	Years Ending Sept 12	Sept 13	Sept 14	Sept 15	Sept 16
Alico, Inc.	100	160.87	213.75	199.68	213.84	142.63
S&P 500 Index	100	130.20	155.39	186.05	184.91	213.44
S&P Agricultural Products Index	100	118.89	159.25	211.02	181.47	209.24
Peer Group	100	135.23	155.40	182.88	150.08	179.36

(Includes reinvestment of dividends)

Equity Compensation Arrangements

Effective January 27, 2015, the Company’s Board of Directors adopted the 2015 Stock Incentive Plan (the “2015 Plan”) which provides for up to 1,250,000 shares of the Company’s common stock to be available for issuance to provide a long-term incentive plan for officers, employees, directors and/or consultants to directly link incentives to stockholders' value. The 2015 Plan was approved by stockholders in February 2015. The adoption of the 2015 Plan supersedes the 2013 Incentive Equity Plan (the “2013 Plan”), which had been in place since April 2013. The 2013 Plan provided for the issuance of up to 350,000 shares of the Company’s common stock to Directors and Officers through March 2018. The following table illustrates the common shares remaining available for future issuance under the 2015 Plan:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity plans
Plan Category:			
Equity compensation plans approved by security holders	-	-	1,237,500
Total	-	-	1,237,500

Recent Sale of Unregistered Securities

None.

Issuer Repurchases of Equity Securities

In fiscal year 2015, our Board of Directors authorized the repurchase of up to 170,000 shares of the Company’s outstanding common stock beginning March 26, 2015 and continuing through December 31, 2016 (the “2015 Authorizations"). Through September 30, 2016, we had repurchased 170,000 common shares in accordance with the fiscal year 2015 Authorizations. The stock repurchases under the 2015 Authorizations were made through open market transactions at times and in such amounts as our broker determined subject to the provisions of SEC Rule 10b-18.

We adopted Rule 10b5-1 share repurchase plan under the Securities Exchange Act of 1934 (the “Plan”) in connection with share repurchase authorizations. The Plan allows us to repurchase our shares of common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Because repurchases under the Plan are subject to certain pricing parameters, there is no guarantee as to the exact number of common shares that will be repurchased under the Plan or that there will be any repurchases pursuant to the Plan. Subject to applicable regulations, we may elect to amend or cancel the Plan at our discretion.

In fiscal year 2016, the Board of Directors authorized the repurchase of up to 50,000 shares of the Company’s outstanding common stock beginning February 18, 2016 and continuing through February 17, 2017 (the "2016 Authorization"). The stock repurchases will be made through open market transactions at times and in such amounts as the Company’s broker determine subject to the provisions of SEC Rule 10b-18. The Company also adopted a Rule 10b5-1 share repurchase plan under the Securities Exchange Act of 1934 (the “Plan”) in connection with its share repurchase authorization. The Plan allows the Company to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. For the fiscal year ended September 30, 2016, the Company did not purchase any shares in accordance with the 2016 Authorization and has available to purchase 50,000 shares in accordance with the 2016 Authorization.

The following table describes our purchases of our common stock during the fourth quarter of 2016 for the 2016 Authorizations:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Shares Purchased As Part of Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Program
Date:				
July 2016	—	$—	—	50,000
August 2016	—	$—	—	50,000
September 2016	—	$—	—	50,000

We do not anticipate that any purchases under our Board of Directors' authorizations will be made from any officer, director or control person.

We purchased 64,136 and 14,310 shares of common stock in the open market during the first and second quarters of fiscal year 2016, respectively, at a weighted average price of $40.04 per common share in accordance with 2015 Authorizations.

Item 6. Selected Financial Data

The following tables present selected historical consolidated and combined financial information as of and for each of the fiscal years in the five-year period ended September 30, 2016. The Consolidated and Combined Financial Statements as of and for the fiscal years ended September 30, 2016, 2015 and 2014 include combined financial statement balances with Silver Nip Citrus, as result of our common control acquisition in February 2015.

The selected historical financial data presented below should be reviewed in conjunction with our Consolidated and Combined Financial Statements and the accompanying Notes thereto, included elsewhere in this Annual Report on Form 10-K.

(in thousands, except per share amounts)

	September 30,				
	2016	2015	2014	2013	2012
Selected Statement of Operations Information:					
Operating revenues	$144,196	$153,126	$104,003	$101,661	$127,187
Income from operations	$21,846	$19,505	$9,383	$11,935	$23,742
Net income attributable to common stockholders	$6,993	$13,214	$9,495	$19,646	$18,489
Basic earnings per common share	$0.84	$1.64	$1.29	$2.69	$2.51
Diluted earnings per common share	$0.84	$1.64	$1.29	$2.67	$2.51
Cash dividends declared per common share	$0.24	$0.24	$0.24	$0.36	$0.20
Selected Balance Sheet Information:					
Cash and cash equivalents	$6,625	$5,474	$31,130	$24,583	$13,328
Property and equipment, net	$379,247	$381,099	$142,610	$131,071	$122,834
Total assets	$458,662	$460,088	$273,613	$198,840	$185,083
Current portion of long-term debt	$4,493	$4,511	$3,581	$2,000	$3,267
Long-term debt, net of current portion	$192,726	$200,970	$68,769	$34,000	$36,633

Total Alico, Inc. stockholders' equity	$173,490	$170,704	$162,487	$142,736	$127,846
Noncontrolling interest	$4,773	$4,807	$—	$—	$—

During the fiscal year ended September 30, 2012, we utilized cash from operating and investing activities to reduce our outstanding debt by approximately $17,258,000, resulting in a reduction in long-term debt obligations. Net income includes a gain on sale of real estate of approximately $9,113,000 on the sale of land and impairment charges of approximately $1,918,000 on assets held for sale.

During the fiscal year ended September 30, 2013, net income includes the gain on sale of assets of approximately $20,300,000 related to the closing of the Conservation Easement in fiscal 2013.

During the fiscal year ended September 30, 2014, net income includes the gain on sale of assets of approximately $7,748,000 related primarily to the Polk and Martin County land sales and a gain on settlement of contingent consideration of $6,000,000.

During the fiscal year ended September 30, 2015, net income includes the gain on sale of assets of approximately $13,590,000 related to the sale of real estate, approximately $8,366,000 of interest expense, approximately $1,051,000 loss on extinguishment of debt related to the refinancing of our debt obligations, approximately $1,145,000 gain on bargain purchase related to acquisition of citrus business and an impairment charge of approximately $541,000 on an asset held for sale.

During the fiscal year ended September 30, 2016, net income includes the gain on sale of assets of approximately $618,000 related to the sale of real estate and approximately $9,893,000 of interest expense.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying Consolidated and Combined Financial Statements and related Notes thereto.

Cautionary Statement Regarding Forward-Looking Information

We provide forward-looking information in this Annual Report on Form 10-K, particularly in this Management's Discussion and Analysis and Results of Operations, 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 Annual Report on Form 10-K 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 citrus greening and citrus canker; 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 including our ability to achieve the anticipated results of the Orange-Co acquisition and Silver Nip Citrus merger; 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 included in Part I, Item 1A and elsewhere in this Annual Report on Form 10-K.

Introduction

Alico, Inc. ("Alico"), together with its subsidiaries (collectively, the "Company", "we", "us" or "our"), is a holding company with assets and related operations in agriculture, land management and natural resources. We are a Florida agribusiness and land management company, with by a legacy of achievement and innovation in citrus, cattle and resource conservation. We own approximately 122,000 acres of land in twelve Florida counties which includes approximately 90,000 acres of mineral rights. Our principal lines of business are citrus groves, cattle ranching and conservation, and related support operations. Our mission is to create value for our customers and stockholders 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our results of operations, financial condition and changes in financial condition for the periods presented. This MD&A is organized as follows:

- Business Overview. This section provides a general description of our business, as well as other matters that we believe are important in understanding our results of operations and financial condition.
- Consolidated and Combined Results of Operations. This section provides an analysis of our results of operations for the three fiscal years ended September 30, 2016. Our discussion is presented on a consolidated and combined basis

and includes discussion on future trends by segment.

- Liquidity and Capital Resources. This section provides an analysis of our cash flows for the three fiscal years ended September 30, 2016 and our outstanding debt, commitments and cash resources as of September 30, 2016.
- Critical Accounting Policies. This section identifies those accounting policies that we consider important to our results of operations and financial condition, require significant judgment and involve significant management estimates. Our significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2, "Summary of Significant Accounting Policies," to the accompanying Consolidated and Combined Financial Statements.

Business Overview

Business Description

The Company generates operating revenues primarily from the sale of its citrus products and cattle ranching operations. The Company operates as three segments and substantially all of its operating revenues are generated in the United States. During the fiscal year ended September 30, 2016, the Company generated operating revenues of approximately $144,196,000, income from operations of approximately $21,846,000, and net income attributable to common stockholders of approximately $6,993,000. Cash provided by operations was approximately $30,357,000 during the fiscal year ended September 30, 2016.

Fiscal Year Highlights and Other Developments

Water Storage Contract Approval

In December 2012, the South Florida Water Management District (“SFWMD” or "District") issued a solicitation request for projects to be considered for the Northern Everglades Payment for Environmental Services Program. The Company submitted its response proposing a dispersed water management project on a portion of its ranch land and on December 11, 2014 the SFWMD approved a contract with the Company and on September 29, 2015, the SFWMD amended the contract to extend it for an additional year.

The contract term is eleven years, and allows up to one year for implementation (design, permitting, construction and construction completion certification) and ten years of operation whereby the Company will provide water retention services. Payment for these services includes an amount not to exceed $4,000,000 of reimbursement for implementation. In addition, it provides for an annual fixed payment of $12,000,000 for operations and maintenance costs as long as the project is in compliance with the contract.

Annual payments under the contract are subject to the SFWMD receiving funds for the project from the Florida Legislature and SFWMD Governing Board budget appropriation. Funding for the first year of the dispersed water management project was included in the budget approved in the 2016 legislative session.

Project permitting is in process, and the Company intends to commence construction upon receipt of permits. Annual fixed payments will not commence until completion of construction.

Change in Fiscal Year of Subsidiary

As Alico, Inc. and 734 Citrus Holdings, LLC ("Silver Nip Citrus") were under common control at the time of the Merger, it is required under accounting principles generally accepted in the United States of America ("U.S. GAAP") to account for this common control acquisition in a manner similar to the pooling of interest method of accounting. Under this method of accounting, the Company's Consolidated and Combined Balance Sheets as of September 30, 2016 and 2015 reflect Silver Nip Citrus’ historical carryover basis in the assets and liabilities, instead of reflecting the fair market value of the assets and liabilities. Alico has also retrospectively recast its financial statements to combine the operating results of the Company and Silver Nip Citrus from the date common control began, November 19, 2013.

Silver Nip Citrus’ fiscal year end was June 30. Their financial condition and results of operations as of and for the fiscal years ended June 30, 2015 and 2014 were included in the financial condition and results of operations of the Company as of and for the fiscal years ended September 30, 2015 and 2014, respectively. Effective October 1, 2015, the fiscal year end for Silver Nip Citrus was changed to September 30 to reflect that of the Company. Accordingly, the Company’s financial condition as of September 30, 2016 and 2015 now includes the financial condition of Silver Nip

Citrus as of September 30, 2016 and 2015, respectively. The Company’s results of operations for the fiscal years ended September 30, 2016 and 2015 now includes the Silver Nip Citrus results of operations for fiscal years ended September 30, 2016 and 2015, respectively. The Company’s results of operations for the fiscal year ended September 30, 2014 include the operating results of Silver Nip Citrus from the date common control began, November 19, 2013 through September 30, 2014. The impact of this change was not material to the Consolidated and Combined Financial Statements, with an approximate $492,000 decrease in total assets and an approximate net loss of $596,000 for the transition period related to this change included in Stockholders' Equity at September 30, 2015.

Common Control Acquisition between the Company and 734 Citrus Holdings, LLC

Effective February 28, 2015, the Company completed the merger (the “Merger”) with Silver Nip Citrus pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) with 734 Sub, LLC, a wholly owned subsidiary of the Company (“Merger Sub”), Silver Nip Citrus and, solely with respect to certain sections thereof, the equity holders of Silver Nip Citrus. The ownership of

Silver Nip Citrus was held by 734 Agriculture, 74.89%, Mr. Clay Wilson, Chief Executive Officer of the Company, 5% and an entity controlled by Mr. Clay Wilson owned, 20.11%.

On November 19, 2013, 734 Agriculture and its affiliates, including 734 Investors, acquired approximately 51% of the Company’s outstanding common stock. 734 Agriculture is the sole managing member of 734 Investors. By virtue of their ownership percentage, 734 Agriculture is able to elect all of the Directors and, consequently, control the Company.

734 Agriculture has control over both Silver Nip Citrus and the Company. Therefore, the Merger was treated as a common control acquisition.

At closing of the Merger, Merger Sub merged with and into Silver Nip Citrus, with Silver Nip Citrus and its affiliates surviving the Merger as wholly-owned subsidiaries of the Company. Pursuant to the Merger Agreement, at closing the Company issued 923,257 shares of the Company’s common stock, par value $1.00 per share, to the holders of membership interests in Silver Nip Citrus. Silver Nip Citrus’ outstanding net indebtedness at the closing of the Merger was approximately $40,278,000 and other liabilities totaled $8,446,000. The Company acquired assets with a book value of approximately $65,739,000 and total net assets of $17,015,000. The common shares issued were recorded at the carrying amount of the net assets transferred.

As of September 30, 2016, the former holders of membership interests (the "Members") in Silver Nip Citrus earned and were issued an additional 148,705 shares of the Company’s common stock pursuant to the Merger Agreement. The additional purchase consideration was based on the value of the proceeds received by the Company from the sale of citrus fruit harvested on Silver Nip Citrus’s citrus groves for the 2014-2015 citrus harvest season. The Members are not expected to receive any additional Company common shares related to the 2014-2015 harvest season.

Orange-Co, LP Acquisition

On December 2, 2014, the Company completed the acquisition of certain citrus and related assets of Orange-Co, LP pursuant to an Asset Purchase Agreement, which we refer to as the Orange-Co, LP Purchase Agreement, dated as of December 1, 2014 and 51% of the ownership interests of Citree Holdings 1, LLC ("Citree"). The assets purchased include approximately 21,000 acres of citrus groves in DeSoto and Charlotte Counties, Florida, which comprise one of the largest contiguous citrus grove properties in the state of Florida. Total assets acquired were approximately $277,792,000, net of $2,060,000 in cash acquired and $4,838,000 in fair value attributable to the noncontrolling interest in Citree, including: (1) $147,500,000 in initial cash consideration funded from the proceeds of the sugarcane disposition and new term debt; (2) $7,500,000 in additional cash consideration to be released from escrow in equal parts, subject to certain limitations, on December 1, 2015 and June 1, 2016; (3) the refinancing of Orange-Co, LP’s outstanding debt including approximately $92,290,000 in term loan debt and a working capital facility of approximately $27,857,000; and (4) the assumption of certain other liabilities totaling $4,705,000. On December 1, 2015 and June 1, 2016, the Company paid $3,750,000 of additional consideration, as contemplated by the Orange-Co Purchase Agreement. The Company's $3,750,000 irrevocable letter of credit securing the final payment of the additional consideration was terminated following the final cash consideration payment (see Note 3, "Acquisitions and Dispositions" to the accompanying Consolidated and Combined Financial Statements).

Consolidated and Combined Results of Operations

The following discussion provides an analysis of Alico's results of operations and should be read in conjunction with the accompanying Consolidated and Combined Statements of Operations and Comprehensive Income for the years ended September 30, 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30, 2016	2015	Change $	%	Fiscal Year Ended September 30, 2015	2014	Change $	%
Operating revenues:								
Orange Co.	$137,282	$146,147	$(8,865)	(6.1)%	$146,147	$74,768	$71,379	95.5 %
Conservation and Environmental Resources	5,669	5,394	275	5.1 %	5,394	8,172	(2,778)	(34.0)%
Other Operations	1,245	1,585	(340)	(21.5)%	1,585	21,063	(19,478)	(92.5)%
Total operating revenues	144,196	153,126	(8,930)	(5.8)%	153,126	104,003	49,123	47.2 %
Gross profit:								
Orange Co.	34,935	35,911	(976)	(2.7)%	35,911	19,812	16,099	81.3 %
Conservation and Environmental Resources	(724)	586	(1,310)	(223.5)%	586	2,049	(1,463)	(71.4)%
Other Operations	848	(498)	1,346	(270.3)%	(498)	(667)	169	(25.3)%
Total gross profit	35,059	35,999	(940)	(2.6)%	35,999	21,194	14,805	69.9 %
General and administrative expenses	13,213	16,494	(3,281)	(19.9)%	16,494	11,811	4,683	39.6 %
Income from operations	21,846	19,505	2,341	12.0 %	19,505	9,383	10,122	107.9 %
Total other (expense) income, net	(9,366)	4,583	(13,949)	(304.4)%	4,583	11,495	(6,912)	(60.1)%
Income before income taxes	12,480	24,088	(11,608)	(48.2)%	24,088	20,878	3,210	15.4 %
Provision for income taxes	5,521	10,905	(5,384)	(49.4)%	10,905	11,383	(478)	(4.2)%
Net income	6,959	13,183	(6,224)	(47.2)%	13,183	9,495	3,688	38.8 %
Net loss attributable to noncontrolling interests	34	31	3	9.7 %	31	—	31	— %
Net income attributable to Alico, Inc. common stockholders	$6,993	$13,214	$(6,221)	(47.1)%	$13,214	$9,495	$3,719	39.2 %

The following table presents our operating revenues, by segment, as a percentage of total operating revenues for the fiscal years ended September 30, 2016, 2015 and 2014:

	Fiscal Year Ended September 30, 2016	2015	2014
Operating revenues:			
Orange Co.	95.2 %	95.5 %	71.9 %
Conservation and Environmental Resources	4.0 %	3.6 %	7.9 %
Other Operations	0.8 %	0.9 %	20.2 %
Total operating revenues	100.0%	100.0%	100.0%

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The following discussion provides an analysis of the Company's operating segments:

Orange Co.

The table below presents key operating measures for the fiscal years ended September 30, 2016, 2015 and 2014:
(in thousands, except per box and per pound solids data)

	Fiscal Year Ended September 30,		Change		Fiscal Year Ended September 30,		Change	
	2016	2015	Unit	%	2015	2014	Unit	%
Operating Revenues:								
Early and Mid-Season	$43,909	$51,926	$(8,017)	(15.4)%	$51,926	$25,273	$26,653	105.5 %
Valencias	75,311	76,624	(1,313)	(1.7)%	76,624	34,095	42,529	124.7 %
Fresh Fruit	5,173	6,116	(943)	(15.4)%	6,116	2,343	3,773	161.0 %
Purchase and Resale of Fruit	8,188	7,970	218	2.7 %	7,970	10,096	(2,126)	(21.1)%
Other	4,701	3,511	1,190	33.9 %	3,511	2,961	550	18.6 %
Total	$137,282	$146,147	$(8,865)	(6.1)%	$146,147	$74,768	$71,379	95.5 %
Boxes Harvested:								
Early and Mid-Season	3,634	4,445	(811)	(18.2)%	4,445	2,003	2,442	121.9 %
Valencias	5,195	5,569	(374)	(6.7)%	5,569	2,143	3,426	159.9 %
Total Processed	8,829	10,014	(1,185)	(11.8)%	10,014	4,146	5,868	141.5 %
Fresh Fruit	402	466	(64)	(13.7)%	466	213	253	118.8 %
Total	9,231	10,480	(1,249)	(11.9)%	10,480	4,359	6,121	140.4 %
Pound Solids Produced:								
Early and Mid-Season	20,167	26,139	(5,972)	(22.8)%	26,139	12,321	13,818	112.1 %
Valencias	31,237	36,083	(4,846)	(13.4)%	36,083	14,237	21,846	153.4 %
Total	51,404	62,222	(10,818)	(17.4)%	62,222	26,558	35,664	134.3 %
Pound Solids per Box:								
Early and Mid-Season	5.55	5.88	(0.33)	(5.6)%	5.88	6.15	(0.27)	(4.4)%
Valencias	6.01	6.47	(0.46)	(7.1)%	6.47	6.64	(0.17)	(2.6)%
Price per Pound Solids:								
Early and Mid-Season	$2.18	$1.99	$0.19	9.5 %	$1.99	$2.05	$(0.06)	(2.9)%
Valencias	$2.41	$2.12	$0.29	13.7 %	$2.12	$2.39	$(0.27)	(11.3)%
Price per Box:								
Fresh Fruit	$12.85	$13.12	$(0.27)	(2.1)%	$13.12	$11.00	$2.12	19.3 %
Operating Expenses:								
Cost of Sales	$64,824	$73,696	$(8,872)	(12.0)%	$73,696	$30,106	$43,590	144.8 %
Harvesting and Hauling	25,949	26,034	(85)	(0.3)%	26,034	12,463	13,571	108.9 %
Purchase and Resale of Fruit	7,815	7,652	163	2.1 %	7,652	9,972	(2,320)	(23.3)%
Other	3,759	2,854	905	31.7 %	2,854	2,415	439	18.2 %
Total	$102,347	$110,236	$(7,889)	(7.2)%	$110,236	$54,956	$55,280	100.6 %

Our citrus groves produce the majority of our annual operating revenues and the citrus grove business is seasonal because it is tied to the growing and picking seasons. Historically, the second and third quarters of our fiscal year produce the majority of our annual revenues, and our working capital requirements are typically greater in the first and fourth quarters of our fiscal year coinciding with our growing cycles.

We sell our Early and Mid-Season and Valencia oranges to processors that convert the majority of the citrus crop into orange juice. They generally buy their 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 their citrus on a per box basis. Other revenues consist of third-party grove caretaking and the contracting for harvesting and hauling of citrus.

Our operating expenses consist primarily of cost of sales and harvesting and hauling costs. 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

costs represent the costs of bringing citrus product to processors and varies based upon the number of boxes produced. Other expenses include the period costs of third-party grove caretaking, and the contracting for harvesting and hauling activities.
The decrease in revenues for the fiscal year ended September 30, 2016, as compared to the fiscal year ended September 30, 2015, was primarily due to the harvesting of approximately 1,185,000 fewer boxes of fruit and lower pound solids per box on higher price per pound solids. The resale of third party fruit increased by approximately 6,000 boxes for the fiscal year ended September 30, 2016, as compared to the fiscal year ended September 30, 2015. The increase in other revenues primarily relates to an additional 169,000 boxes contracted for harvest and haul for a third party, as compared to the fiscal year ended September 30, 2015.

The increase in revenues for the fiscal year ended September 30, 2015, as compared to fiscal year ended September 30, 2014, was primarily due to the acquisition of the assets of Orange-Co, LP in December 2014. Acquisition-related revenues were approximately $72,600,000 for the fiscal year ended September 30, 2015. Acquisition revenues represented approximately 52.0% of total citrus grove revenues for the fiscal year ended September 30, 2015. In addition, acquisition-related boxes harvested and pound solids produced were approximately 5,300,000 and 33,300,000 for the fiscal year ended September 30, 2015, which represented approximately 50.6% and 53.6% of our total boxes harvested and pound solids produced for the fiscal years ended September 30, 2015. We included the financial results of the acquired assets of Orange-Co, LP in the accompanying Consolidated and Combined Financial Statements from the date of acquisition, December 2014.

Total boxes harvested in fiscal year 2016 declined by approximately 11.9%, as compared to fiscal year 2015. Pound solids per box also declined by approximately 5.6% and 7.1% for the Early and Mid-Season and Valencia oranges, respectively, which resulted in approximately 10,818,000 less pound solids sold in fiscal year 2016 as compared to fiscal year 2015. The increases in boxes harvested and pound solids produced in fiscal year 2015, as compared to fiscal year 2014, were a result of the Orange-Co acquisition as well as Silver Nip Citrus' acquisition of the TRB grove and the acquisition of Crossing Grove (see Note 3, "Acquisitions and Dispositions" to the accompanying Consolidated and Combined Financial Statements). Excluding these acquisitions, total boxes harvested declined by approximately 4.0%, as compared to fiscal year 2014. Pound solids per box also declined by approximately 4.4% and 2.4% for the Early and Mid-Season and Valencia oranges, respectively.

These declines in both boxes harvested and pound solids produced in fiscal years 2016 and 2015 are believed to be mainly driven by growing season fluctuations in production which may have been attributable to various factors, including extreme weather patterns such as higher than normal temperatures during the Early and Mid-season harvest impacting all varieties and El Nino impacting the pound solids per box. Other factors include changes in weather impacting bloom, horticultural practices, and the effects of diseases and pests, including Citrus Greening. The industry and the Company both continue to experience premature fruit drop, as well as smaller-sized fruit as a result of the factors described above. Additionally, on March 4, 2016, the Florida Commissioner of Agriculture exercised his authority under the Section 1B Emergency Exemptions provisions of the Federal Insecticide, Fungicide and Rodenticide Act to allow use of certain foliar bactericide applications. The Environmental Protection Agency approved the emergency exception effective August 15, 2016 through December 31, 2016. The Florida Department of Agriculture and Consumer Services, at that time, will make a determination as to whether or not to request emergency exceptions for the next calendar year. These bactericides are approved and successfully applied on other permanent crops throughout the United States. Orange Co. began application of these bactericides to all of its groves in April 2016. The Company is encouraged by the potential of foliar bactericide treatments to enhance the overall health of citrus trees and thereby mitigate the impact of citrus greening.

The USDA, in its November 9, 2016 Citrus Crop Forecast for the 2016-17 harvest season, indicated that the Florida orange crop will decrease from approximately 81,600,000 boxes for the 2015-16 crop year to approximately 72,000,000 boxes for the 2016-17 crop year, a decrease of approximately 11.8%. The 2015-16 Florida orange crop declined by approximately 15,350,000 boxes or approximately 15.8% compared to the 2014-15 crop.

We estimate our 2017 processed boxes will decrease by approximately 4.5% compared to our fiscal year 2016 processed boxes, on a per acre basis. For fiscal year 2017, we expect that the forecasted 14.2% decrease in the size of the statewide crop could cause the price per pound solids for fiscal year 2017 to be above the price per pound solid for fiscal year 2016. We expect that our operating expenses for fiscal year 2017 will remain consistent with fiscal year 2016 on a per acre basis.

The decrease in gross profit for fiscal year 2016, as compared to fiscal year 2015 related primarily to decreased revenues of approximately $8,865,000 discussed above partially offset by decreased operating expenses of approximately $7,889,000 primarily related to decreased cost of sales. The increase in gross profit for the fiscal year ended September 30, 2015, as compared to fiscal year ended September 30, 2014, was primarily due to the acquisition of the assets of Orange-Co, LP in December 2014. Acquisition-related gross profit was approximately $17,900,000 for the fiscal year ended September 30, 2015.

Conservation and Environmental Resources

The table below presents key operating measures for the fiscal years ended September 30, 2016, 2015 and 2014:

(in thousands, except per pound data)	Fiscal Year Ended September 30,		Change		Fiscal Year Ended September 30,		Change	
	2016	2015	Unit	%	2015	2014	Unit	%
Revenue From:								
Sale of Calves	$4,078	$3,805	$273	7.2 %	$3,805	$5,735	$(1,930)	(33.7)%
Sale of Culls	526	511	15	2.9 %	511	1,118	(607)	(54.3)%
Land Leasing	852	851	1	0.1 %	851	981	(130)	(13.3)%
Other	213	227	(14)	(6.2)%	227	338	(111)	(32.8)%
Total	$5,669	$5,394	$275	5.1 %	$5,394	$8,172	$(2,778)	(34.0)%
Pounds Sold:								
Calves	2,503	1,550	953	61.5 %	1,550	2,964	(1,414)	(47.7)%
Culls	714	446	268	60.1 %	446	1,181	(735)	(62.2)%
Price Per Pound:								
Calves	$1.63	$2.45	$(0.82)	(33.5)%	$2.45	$1.93	$0.52	26.9 %
Culls	$0.74	$1.15	$(0.41)	(35.7)%	$1.15	$0.95	$0.20	21.1 %
Operating Expenses:								
Cost of Calves Sold	$3,395	$2,248	$1,147	51.0 %	$2,248	$3,569	$(1,321)	(37.0)%
Cost of Culls Sold	299	220	79	35.9 %	220	456	(236)	(51.8)%
Land Leasing Expenses	298	214	84	39.3 %	214	274	(60)	(21.9)%
Water Conservation	2,322	2,126	196	9.2 %	2,126	1,793	333	18.6 %
Other	79	—	79	NM	—	31	(31)	(100.0)%
Total	$6,393	$4,808	$1,585	33.0 %	$4,808	$6,123	$(1,315)	(21.5)%

NM - Not Meaningful

Ranch

The increase in revenues from the sale of calves in fiscal year 2016, as compared to fiscal year 2015, is primarily due to the increase in pounds sold, partially offset by a decrease in price per pound. The slight increase in revenues from the sale of culls in fiscal year 2016, as compared to fiscal year 2015, results from an increase in pounds sold, partially offset by a decrease in price per pound. The decrease in gross profit for fiscal year 2016, as compared to fiscal year 2015, relates primarily to the decrease in price per pound sold for calves and culls. The decrease in pounds sold during fiscal year 2015 relates primarily to the timing of calf sales and retaining calves to maintain the breeding herd. Approximately 892 calves from fiscal 2016 will be retained.

The decrease in revenues from the sale of calves in fiscal year 2015, as compared to fiscal year 2014, is primarily due to the decrease in pounds sold, partially offset by an increase in price per pound. The decrease in revenues from the sale of culls in fiscal year 2015, as compared to fiscal year 2014, results from a decrease in pounds sold, partially offset by an increase in price per pound. The decrease in gross profit for fiscal year 2015, as compared to fiscal year 2014, relates primarily to the decrease in pounds sold of beef, offset by the increase in the price per pound sold for calves and culls. The decrease in pounds sold during fiscal year 2015 relates primarily to the timing of calf sales and retaining calves to maintain the breeding herd. Approximately 950 calves were retained.

For fiscal year 2017, we expect to have a breeding herd of approximately 8,800 cows which includes retaining an additional 1,200 calves to further expand the breeding herd. We expect that the price per pound of beef sold will be approximately 10.0% less than fiscal year 2016 and will sell total pounds of beef in line with fiscal year 2016. We expect operating expenses for fiscal year 2017 to remain relatively consistent with fiscal year 2016.

Conservation

In December 2012, the SFWMD issued a solicitation request for projects to be considered for the Northern Everglades Payment for Environmental Services Program. In March 2013, the Company submitted its response proposing a dispersed water management project on a portion of its ranch land.

On December 11, 2014, the SFWMD approved a contract with the Company. The contract term is eleven years and allows up to one year for implementation (design, permitting, construction and construction completion certification) and ten years of operation, whereby the Company will provide water retention services. Payment for these services includes an amount not to exceed $4,000,000 of reimbursement for implementation. In addition, it provides for an annual fixed payment of $12,000,000 for operations and maintenance costs, as long as the project is in compliance with the contract and subject to annual Board approval of funding. The contract specifies that the Board has to approve the payments annually and there can be no assurance that it will approve the annual fixed payments. The Florida budget for the state's 2016/2017 fiscal year was recently approved and included funding for the Program. Permitting is currently underway with construction to follow immediately upon receipt of permits. It is anticipated that payments under the contract should commence in fiscal year 2017. Operating expenses were approximately $2,322,000, $2,126,000 and $1,793,000 for the three years ended September 30, 2016, 2015 and 2014, respectively.

Other Operations

The table below presents key operating measures for the fiscal years ended September 30, 2016, 2015 and 2014:

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

	Fiscal Year Ended September 30,		Change		Fiscal Year Ended September 30,		Change	
	2016	2015	Unit	%	2015	2014	Unit	%
Revenue From:								
Sale of Sugarcane	$—	$—	$—	—	$—	$17,428	$(17,428)	(100)%
Molasses Bonus	—	—	—	—	—	817	(817)	(100)%
USSC Lease	—	503	(503)	(100)%	503	1,389	(886)	(63.8)%
Other Leases	1,245	1,082	163	15.1 %	1,082	1,429	(347)	(24.3)%
Total	$1,245	$1,585	$(340)	(21.5)%	$1,585	$21,063	$(19,478)	(92.5)%
Net Standard Tons Sold	—	—	—	—	—	590	(590)	NM
Price Per Net Standard Ton:								
Sale of Sugarcane	$—	$—	$—	—	—	$29.54	$(29.54)	(100)%
Molasses	—	—	—	—	—	1.38	(1.38)	(100)%
Net Standard Tons/Acre	—	—	—	—	—	35.20	(35.2)	(100)%
Operating Expenses:								
Cost of Sales	$—	$—	$—	—	$—	$14,368	$(14,368)	(100)%
Harvesting and Hauling	—	—	—	—	—	3,759	(3,759)	(100)%
Land Leasing Expenses	397	1,608	(1,211)	(75.3)%	1,608	3,603	(1,995)	(55.4)%
Guarantee Payment to Global	—	475	(475)	(100)%	475	—	475	NM
Total	$397	$2,083	$(1,686)	(80.9)%	$2,083	$21,730	$(19,647)	(90.4)%

NM = Not material

On May 19, 2014, the Company entered into a triple net agricultural lease with its sole sugarcane customer, USSC, on approximately 19,181 acres of land planted or plantable to sugar in Hendry County, Florida. As a result of the lease, the Company was no longer directly engaged in sugarcane farming. The annual base rent under the USSC Lease was approximately $3,548,000 and the Company recognized approximately $503,000 and $1,389,000 for the fiscal years ended September 30, 2015 and 2014, respectively.

On November 21, 2014, the Company completed the sale of approximately 36,000 acres of land used for sugarcane production and land leasing to Global for $97,913,921 in cash. The USSC Lease was assigned to Global in conjunction with the land sale. As a result of the disposition of our sugarcane land, we are no longer involved in sugarcane and, as of November 1, 2014, the Improved Farmland segment is no longer material to our business and is now included in the Other Operations segment.

The sales price is subject to post-closing adjustments over a ten (10)-year period. The Company realized a gain of approximately $42,753,000 on the sale. Initially, approximately $29,140,000 of the gain was deferred due to the Company’s continuing involvement in the property pursuant to a post-closing agreement and the potential price adjustments. The deferral represents the Company’s estimate of the maximum exposure to loss as a result of the continuing involvement. The USSC Lease is tied to the market price of sugar, and a guarantee payment is required annually, in advance, to supplement the rent paid by USSC in the event that the sugar prices are below certain thresholds. In fiscal year 2015, the sugar prices did not rise above the threshold and the Company paid approximately $475,000 to Global.

General and Administrative

General and administrative expenses for the fiscal year ended September 30, 2016 were approximately $13,213,000 compared to approximately $16,494,000 for the fiscal year ended September 30, 2015. The decrease in general and administrative expenses in fiscal year 2016 relates primarily to an approximate $4,700,000 decrease in professional and legal fees associated with the Orange-Co, LP and Silver Nip acquisitions in fiscal year 2015 and an approximate $138,000 decrease in separation and consulting agreement expenses, offset by certain fiscal year 2016 expenses including approximately $506,000 in legal fees and settlement charges related to the shareholder litigation.

The increase of approximately $4,683,000 in general and administrative expenses for the fiscal 2015, as compared to fiscal year 2014, relates primarily to professional and legal costs associated with the acquisitions, dispositions and mergers, as described in the accompanying Consolidated and Combined Financial Statements, which totaled approximately $6,485,000 and $2,639,000 for the fiscal years 2015 and 2014, respectively. The costs included approximately $5,592,000 in transaction and other real estate closing costs and approximately $893,000 related to other consulting costs for the fiscal year 2015. Excluding the transaction-related costs noted, the overall general and administrative increase relates to the significantly expanded size of the Company from fiscal year 2014 to fiscal year 2015.

Other (Expense) Income, net

Other (expense) income, net decreased by approximately $13,949,000 in fiscal year 2016, as compared to fiscal year 2015, due to approximately $12,972,000 decrease in gains on sale of real estate and approximately $1,527,000 in increased interest expense primarily due to the refinanced term loan debt from the Orange-Co, LP asset acquisition in December 2014.

Other (expense) income, net decreased by approximately $6,912,000 in fiscal year 2015, as compared to fiscal year 2014, due to approximately $5,998,000 increase in interest expense primarily due to the refinanced term loan debt from the Orange-Co, LP asset acquisition and a $6,000,000 gain on settlement of contingent consideration arrangement recognized in fiscal year 2014 offset by approximately $5,842,000 decrease in gains on sale of real estate.

Provision for Income Taxes

For the fiscal years ended September 30, 2016, 2015 and 2014, the provision for income taxes was approximately $5,521,000, $10,905,000, and $11,383,000, respectively, and the related effective income tax rates were approximately 44.2%, 45.3% and 54.5%, respectively.

During fiscal year 2015, the Company revised effective income tax rates to reflect the impact of claiming certain deductions on amended federal and state income tax returns filed for the fiscal years ended September 30, 2011 through September 30, 2013. Other changes to the effective tax rates relate primarily to the nondeductible nature of political contributions and lobbying expenses. In addition, there were limitations on certain deductions related to the vesting of the long-term incentive grants for fiscal year 2014, and non-deductible transaction costs related to the Silver Nip Citrus merger for fiscal year 2015. In addition, in fiscal 2016, the Company identified a $1,494,000 error related to an understatement of income tax expense for the fiscal year ended September 30, 2014. As previously noted, the Company and Silver Nip Citrus were under common control at the time of the Merger and, accordingly, we retrospectively recast our financial statements to combine the operating results of the Company and Silver Nip Citrus from the date common control began, November 19, 2013. Silver Nip Citrus had a September 30 year end for tax reporting purposes at the time of the Merger. The tax returns for the year ended September 30, 2014 and the short period ended February 28, 2015, date of the Merger, were prepared and filed in the second quarter of fiscal 2016. The Company reviewed the as-filed tax returns in an effort to true-up the tax provision. During this review, the Company identified the error that impacts the Silver Nip Citrus financial condition and results of operations as of and for the period ended June 30, 2014.

The Internal Revenue Service ("IRS") has concluded their audits of the Company's income tax returns for the fiscal years ended September 30, 2013, 2012 and 2011 with no income tax adjustments.

Seasonality

Historically, the second and third quarters of Alico's fiscal year produce the majority of the Company's annual revenue. Working capital requirements are typically greater in the first and fourth quarters of the fiscal year, coinciding with harvesting cycles. Because of the seasonality of the 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 30,		
	2016	2015	Change
Cash and cash equivalents	$6,625	$5,474	$1,151
Total current assets	$73,108	$70,763	$2,345
Total current liabilities	$18,731	$24,134	$(5,403)
Working capital	$54,377	$46,629	$7,748
Total assets	$458,662	$460,088	$(1,426)
Term loans and line of credit	$202,219	$205,481	$(3,262)
Current ratio	3.90 to 1	2.93 to 1	

Our business has historically generated positive net cash flows from operations. Sources of cash primarily include cash flows from operations, amounts available under our credit facilities and access to capital markets. Our access to additional borrowings under our revolving lines of credit is subject to the satisfaction of customary borrowing conditions. As a public company, we may have access to other sources of capital. However, our access to, and the availability of, financing on acceptable terms in the future will be affected by many factors, including (i) our financial condition, prospects and credit rating, (ii) the liquidity of the overall capital markets and (iii) the state of the economy. There can be no assurance that we will continue to have access to the capital markets on acceptable terms or at all.

The principal uses of cash that affect our liquidity position include the following: operating expenses including employee costs, the cost of maintaining our citrus groves, harvesting and hauling of our citrus products, capital expenditures, income tax payments, acquisitions, dividends, and debt service costs including interest and principal payments on our term loans and other credit facilities. In addition to the acquisitions and dispositions disclosed elsewhere, we have evaluated and expect to continue to evaluate possible acquisitions and dispositions of certain businesses. Such transactions may be material and may involve cash, the issuance of other securities or the assumption of indebtedness.

Management believes that a combination of cash-on-hand, cash generated from operations and availability under the Company's lines of credit will provide sufficient liquidity to service the principal and interest payments on its indebtedness and will satisfy working capital requirements and capital expenditures for at least the next twelve months and over the long term. Alico has a $70,000,000 working capital line of credit, of which approximately $59,800,000 is available for general use as of September 30, 2016, and a $25,000,000 revolving line of credit, of which $20,000,000 is available for general use as of September 30, 2016 (see Note 5. “Long-Term Debt and Lines of Credit" to the accompanying Consolidated and Combined Financial Statements). If the Company pursues significant growth opportunities in the future, it could have a material adverse impact on its cash balances and may need to finance such activities by drawing down monies under its lines of credit or by obtaining additional debt or equity financing. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms. Any inability to obtain additional financing could impact Alico's ability to pursue different growth opportunities.

Our level of debt could have important consequences on our business, including, but not limited to, increasing our vulnerability to general adverse economic and industry conditions, limiting the availability of our cash flow to fund future investments, capital expenditures, working capital, business activities and other general corporate requirements and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Cash Management Impacts

Cash and cash equivalents increased approximately $1,151,000 for the fiscal year ended September 30, 2016, as compared to the fiscal year ended September 30, 2015; Cash and cash equivalents decreased by approximately $25,656,000 for the fiscal year ended September 30, 2015, as compared to the fiscal year ended September 30, 2014; and increased approximately $3,879,000 for the fiscal year ended September 30, 2014 as compared to the fiscal year ended September 30, 2013. The components of these changes are discussed below.

Consolidated and Combined Statements of Cash Flows

The following table details the items contributing to the Consolidated and Combined Statement of Cash Flows for fiscal years 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Net cash flows provided by operating activities	$30,357	$33,726	$25,063	(10.0)%	34.6%
Net cash flows used in investing activities	(13,034)	(177,057)	(21,988)	(92.6)%	NM
Net cash flows (used in) provided by financing activities	(16,172)	117,675	804	(113.7)%	NM
Net increase (decrease) in cash and cash equivalents	$1,151	$(25,656)	$3,879	(104.5)%	NM

NM - Not Meaningful

Net Cash Provided By Operating Activities

The following table details the items contributing to Net Cash Provided by Operating Activities for the fiscal years 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30,			Fiscal Year Ended September 30,		
	2016	2015	Change	2015	2014	Change
Net income	$6,959	$13,183	$(6,224)	$13,183	$9,495	$3,688
Gain on sale of sugarcane land	(618)	(13,734)	13,116	(13,734)	—	(13,734)
Depreciation and amortization	15,382	14,732	650	14,732	9,638	5,094
Deferred income tax expense	5,277	12,350	(7,073)	12,350	6,806	5,544
Loss (gain) on sale of property and equipment	443	(473)	916	(473)	(7,297)	6,824
Impairment of asset held for sale	—	541	(541)	541	—	541
Loss on extinguishment of debt	—	457	(457)	457	—	457
Non-cash interest expense on deferred gain on sugarcane land	1,406	607	799	607	—	607
Stock-based compensation expense	925	952	(27)	952	1,835	(883)
Other, including working capital changes	583	5,111	(4,528)	5,111	4,586	525
Net cash provided by operating activities	$30,357	$33,726	$(3,369)	$33,726	$25,063	$8,663

The decrease in net income for the year September 30, 2016 compared to the year ended September 30, 2015 is related primarily to the gain on the sale of our sugarcane land recognized in fiscal 2015 as discussed in Note 3. "Acquisitions and Dispositions" to the Consolidated and Combined Financial Statements. Changes in income from operations are discussed in “Consolidated and Combined Statements of Results of Operations.”

The increase in net income for the year ended September 30, 2015 compared to the year ended September 30, 2014 is related primarily to the gain on the sale of our sugarcane land in fiscal year 2015 as discussed in Note 3. "Acquisitions and Dispositions" to the Consolidated and Combined Financial Statements and an increase in income from operations as discussed in “Consolidated and Combined Statements of Results of Operations.”

Net Cash Used In Investing Activities

The following table details the items contributing to Net Cash Used in Investing Activities for the fiscal years 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30,			Fiscal Year Ended September 30,		
	2016	2015	Change	2015	2014	Change
Capital expenditures	$(14,305)	$(11,523)	$(2,782)	$(11,523)	$(13,280)	$1,757
Acquisition of citrus business	—	(265,587)	265,587	(265,587)	(32,769)	(232,818)
Proceeds from sale of assets	799	99,114	(98,315)	99,114	20,237	78,877
Other	472	939	(467)	939	3,824	(2,885)
Net cash used in investing activities	$(13,034)	$(177,057)	$164,023	$(177,057)	$(21,988)	$(155,069)

The decrease in net cash used in investing activities for the fiscal year ended September 30, 2016, as compared to the fiscal year ended September 30, 2015, was primarily due to the acquisition of Orange-Co for approximately $265,600,000 in December 2014, partially offset by the utilization of proceeds from the disposition of Alico's sugarcane land of approximately $97,200,000 via a tax-deferred like-kind exchange pursuant to Internal Revenue Code Section 1031 (see Note 3. “Acquisitions and Dispositions" to the accompanying Consolidated and Combined Financial Statements).

The increase in net cash used in investing activities for the fiscal year ended September 30, 2015, as compared to the fiscal year ended September 30, 2014 was primarily due to the acquisition of Orange-Co for approximately $265,600,000 in December 2014, partially offset by the utilization of proceeds from the disposition of Alico's sugarcane land in fiscal 2015 of approximately $97,200,000 via a tax-deferred like-kind exchange pursuant to Internal Revenue Code Section 1031 (see Note 3. “Acquisitions and Dispositions" to the accompanying Consolidated and Combined Financial Statements) and a decrease of approximately $1,757,000 in capital expenditures.

Net Cash (Used In) Provided By Financing Activities

The following table details the items contributing to Net Cash (Used in) Provided by Financing Activities for the fiscal year ended September 30, 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30,			Fiscal Year Ended September 30,		
	2016	2015	Change	2015	2014	Change
Borrowings notes payable	$—	$—	$—	$—	$11,000	$(11,000)
Proceeds from term loans	2,500	184,500	(182,000)	184,500	—	184,500
Repayments on revolving line of credit	(53,882)	(87,031)	33,149	(87,031)	(2,400)	(84,631)
Borrowings on revolving line of credit	58,882	81,031	(22,149)	81,031	3,641	77,390
Repayment of term loan	—	(34,000)	34,000	(34,000)	—	(34,000)
Principal payments on term loans	(10,761)	(17,870)	7,109	(17,870)	(3,208)	(14,662)
Contingent consideration paid	(7,500)	—	(7,500)	—	—	—
Financing costs	—	(2,834)	2,834	(2,834)	—	(2,834)
Treasury stock purchases	(3,141)	(4,013)	872	(4,013)	(4,844)	831
Dividends paid	(1,993)	(1,877)	(116)	(1,877)	(2,780)	903
Distributions to members	—	—	—	—	(605)	605
Capital lease obligation payments	(277)	(231)	(46)	(231)	—	(231)
Net cash (used in) provided by financing activities	$(16,172)	$117,675	$(133,847)	$117,675	$804	$116,871

The decrease in net cash provided by financing activities for the year ended September 30, 2016, as compared to the year ended September 30, 2015 was primarily due to net proceeds from the Company’s restructured long-term debt on December 3, 2014, in connection with the Orange-Co acquisition (see Note 5. “Long-term Debt and Lines of Credit” to the accompanying Consolidated and Combined Financial Statements). The restructured credit facilities included $125,000,000 in fixed interest rate term loans and $57,500,000 in variable interest rate term loans. The proceeds of the new credit facilities were partially offset by the repayment of an existing $34,000,000 variable interest rate term loan in fiscal year 2015.

Alico drew, on a net basis, $5,000,000 and repaid $6,000,000 on its revolving lines of credit, primarily to manage working capital requirements and investing activities for the years ended September 30, 2016 and 2015, respectively. The decrease in principal payments on term loans for the year ended September 30, 2016, compared to the year ended September 30, 2015, relates to an $8,750,000 optional principal prepayment on the fixed term loan made in fiscal year 2015. There have been no prepayments for the year ended September 30, 2016. Outstanding balances on the Company's $20,000,000 line of credit secured by real estate were $5,000,000 and zero at September 30, 2016 and 2015, respectively.

On December 1, 2015 and June 1, 2016, the Company paid $3,750,000 of additional consideration on the Orange-Co acquisition, as contemplated by the Orange-Co Purchase Agreement. Alico's $3,750,000 irrevocable letter of credit securing the final payment of the additional consideration was terminated following the final cash consideration payment.

The increase in net cash provided by financing activities for the year ended September 30, 2015 compared to the year ended September 30, 2014 was primarily due to net proceeds from the Company’s restructured long-term debt on December 3, 2014, in connection with the Orange-Co acquisition (see Note 5. “Long-term Debt and Lines of Credit” to the accompanying Consolidated and Combined Financial Statements). The proceeds of the new credit facilities were partially offset by the repayment of an existing $34,000,000 variable interest rate term loan in fiscal year 2015. Alico repaid, on a net basis, $6,000,000 and drew $1,241,000 on its revolving lines of credit for the years ended September 30, 2015 and 2014, respectively, to manage working capital requirements and investing activities.

The WCLC agreement provides for Rabo to issue up to $20,000,000 in letters of credit on the Company's behalf. As of September 30, 2016, there was approximately $10,200,000 in outstanding letters of credit which correspondingly reduced Alico's availability under the line of credit. There was no outstanding balance on the WCLC as of September 30, 2016.

Contractual Obligations and Off Balance Sheet Arrangements

We have various contractual obligations which are fixed and determinable. The following table presents our significant contractual obligations and commercial commitments on an undiscounted basis as of September 30, 2016 and the future periods in which such obligations are expected to be settled in cash.

(in thousands)

	Payments Due by Period				
	Total	<1 Year	1-3 Years	3-5 Years	5+ Years
Long-term debt	$202,219	$4,493	$19,200	$30,940	$147,586
Interest on long-term debt	68,829	7,539	14,241	12,390	34,659
Retirement benefits	12,616	348	535	420	11,313
Consulting/non-compete agreement	100	100	—	—	—
Operating leases	1,021	662	358	1	—
Capital leases	588	288	300	—	—
Tree purchase commitments	222	222	—	—	—
Total	$285,595	$13,652	$34,634	$43,751	$193,558

Purchase Commitments

Alico, through its wholly owned subsidiary Alico Fruit Company, previously entered into contracts for the purchase of citrus fruit during the normal course of its business. These obligations were typically covered by sales agreements. Alico Fruit Company is no longer engaged in contracted purchase and resale of fruit, and there were no obligations outstanding at September 30, 2016.

Alico enters into fruit marketing agreements to purchase fruit from certain third party growers in connection with providing caretaking services to these growers. These obligations are typically covered by sales agreements.

Critical Accounting Policies

Our Consolidated and Combined Financial Statements are prepared in accordance with U.S. GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in those financial statements and accompanying notes. Management considers an accounting policy to be critical if it is important to our financial condition and results of operations and if it requires significant judgment and estimates on the part of management in its application. We consider policies relating to the following matters to be critical accounting policies:

Revenue Recognition

Revenues from agricultural crops are recognized at the time the crop is harvested and delivered to the customer. The Company recognizes revenues from cattle sales at the time the cattle are delivered. Management reviews the reasonableness of the revenue accruals quarterly based on buyers’ and processors’ advances to growers, cash and futures markets and experience in the industry. Adjustments are made throughout the fiscal year to these estimates as more current relevant information regarding the specific markets become available. Differences between the estimates and the final realization of revenues can be significant and can be either positive or negative. During the periods presented in this Annual Report on Form 10-K, no material adjustments were made to the reported revenues from our crops.

Alico Fruit Company ("AFC") operations primarily consist of providing supply chain management services to Alico, as well as to other citrus growers in the state of Florida. AFC also purchases and resells citrus fruit; in these transactions, AFC (i) acts as a principal; (ii) takes title to the products; and (iii) has the risks and rewards of ownership, including the risk of loss for collection, delivery or returns. Therefore, AFC recognizes revenues based on the gross amounts due from customers for its marketing activities. Supply chain management service revenues are recognized when the services are performed.

Inventory

We capitalize the cost of growing crops into inventory until the time of harvest. Once a given crop is harvested, the related inventoried costs are recognized as cost of sales to provide an appropriate matching of costs incurred with the related revenues recognized. We record inventory at the lower of cost or net realizable value. Management regularly assesses estimated inventory valuations based on current and forecasted usage of the related commodity, observable prices, estimated completion costs and other relevant factors that may affect the net realizable value.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Major improvements are capitalized while maintenance and repairs are expensed in the period the cost is incurred. Costs related to the development of citrus groves, through planting of trees, are capitalized. Such costs include land clearing, excavation and construction of ditches, dikes, roads and reservoirs among other costs. After the planting, caretaking costs or pre-productive maintenance costs are capitalized for four years. After four years, a grove is considered to have reached maturity and the accumulated costs are depreciated over 25 years, except for land clearing and excavation, which are considered costs of land and not depreciated.

The breeding herd consists of purchased animals and replacement breeding animals raised on our ranch. Purchased animals are stated at the cost of acquisition. The cost of animals raised on the ranch is based on the accumulated cost of developing such animals for productive use. Breeding animals are depreciated over 5-7 years.

Income Taxes

In preparing our Consolidated and Combined Financial Statements, significant judgment is required to estimate our income taxes. Our estimates are based on our interpretations of federal and state laws. Deferred income taxes are recognized for the income tax effect of temporary differences between financial statement carrying amounts and the income tax basis of assets and liabilities. We regularly review our deferred tax assets to determine whether future taxable income will be sufficient to realize the benefits of these assets. A valuation allowance is provided for deferred income tax assets for which it is deemed, more likely than not, that future taxable income will not be sufficient to realize the related income tax benefits from these assets. The amount of the net deferred income tax asset that is considered realizable could be adjusted if estimates of future taxable income are adjusted. We apply 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. Adjustments to temporary differences, permanent differences or uncertain tax positions could materially impact our financial position, cash flows and results of operations.

Business Combinations

The Company accounts for its business acquisitions under the acquisition method of accounting in accordance with the Financial Accounting Standards Board - Accounting Standards Codification™ ("FASB ASC") No. 805, “Business Combinations”, which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed and any noncontrolling interest in the acquiree and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities and noncontrolling interest in the acquiree, based on fair value estimates as of the date of acquisition. In accordance with FASB ASC No. 805, the Company recognizes and measures goodwill, if any, as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

When we acquire a business from an entity under common control, whereby the companies are ultimately controlled by the same party or parties both before and after the transaction, it is treated similar to the pooling of interests method of accounting, whereby the assets and liabilities are recorded at the transferring entity’s historical cost instead of reflecting the fair market value of assets and liabilities.

Impairment of Long-Lived Assets

We evaluate property, cattle, equipment and other long-lived assets for impairment when events or changes in circumstances (triggering events) indicate that the carrying value of assets contained in our financial statements may not be recoverable. Depending on the asset under review, we use varying methods to determine fair value, such as discounting expected future cash flows, determining resale values by market or applying a capitalization rate to net operating income using prevailing rates for a given market. Unfavorable changes in economic conditions and net operating income for a specific property will change our estimates. If an impairment loss is recognized, the adjusted carrying amount of the asset becomes its cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated or amortized over the remaining useful life of that asset. As of September 30, 2016, long-lived assets included property and equipment and intangible assets.

Fair Value Measurements

The carrying amounts in the balance sheets for operating accounts receivable, mortgages and notes receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short term maturity of these items. When stated interest rates are below market, we discount mortgage notes receivable to reflect their estimated fair value. We carry our investments at fair value. The carrying amounts reported for our long-term debt approximates fair value as our borrowings with commercial lenders are at interest rates that vary with market conditions and fixed rates that approximate market rates for comparable loans.

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The fair value hierarchy is defined as follows:

Level 1- Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2- Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3- Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management’s best estimate of what market participants would use in valuing the asset or liability at the measurement date.

Impact of Accounting Pronouncements

See Item 8. "Financial Statements and Supplemental Data" - Note 1. "Description of Business and Basis of Presentation" for additional information about the impact of accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk - Market risk represents the potential loss resulting from adverse changes in the value of financial instruments, either derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates, commodity prices, and equity security prices. The Company handles market risks in accordance with its established policies; however, Alico does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company does consider, on occasion, the need to enter into financial instruments to manage and reduce the impact of changes in interest rates; however, the Company entered into no such instruments during the three-year period ended September 30, 2016. The Company held various financial instruments as of September 30, 2016 and 2015, consisting of financial assets and liabilities reported in the Company’s Consolidated and Combined Balance Sheets and off-balance sheet exposures resulting from letters of credit issued for the benefit of Alico.

Interest Rate Risk - The Company is subject to interest rate risk from the utilization of financial instruments such as term loan debt and other borrowings. The Company’s primary long-term obligations are fixed rate debts subject to fair value risk due to interest rate fluctuations. The Company believes that the carrying value of our long-term debt approximates fair value given the stability of market interest rates.

The Company is also subject to interest rate risk on its variable rate debt. A one-percentage-point increase in prevailing interest rates would have increased interest expense on our variable rate debt obligations by approximately $626,000 before income taxes for the fiscal year ended September 30, 2016.

Foreign-Exchange Rate Risk - The Company currently has no exposure to foreign-exchange rate risk because all of its financial transactions are denominated in U.S. dollars.

Commodity Price Risk - The Company has no financial instruments subject to commodity price risk.

Equity Security Price Risk - None of the Company’s financial instruments have potential exposure to equity security price risk.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated and Combined Financial Statements

All schedules are omitted for the reason that they are not applicable or the required information is included in the financial statements or notes.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Alico, Inc.

We have audited the accompanying consolidated and combined balance sheets of Alico, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the related consolidated and combined statements of operations and comprehensive income, changes in equity, and cash flows for each of the three fiscal years in the period ended September 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Alico, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three fiscal years in the period ended September 30, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alico, Inc. and Subsidiaries' internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated December 6, 2016 expressed an unqualified opinion on the effectiveness of Alico, Inc. and Subsidiaries’ internal control over financial reporting.

/s/ RSM US LLP
Orlando, Florida
December 6, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Alico, Inc.

We have audited Alico, Inc. and Subsidiaries' internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Alico, Inc. and Subsidiaries’ management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alico, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated and combined balance sheets of Alico, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the related consolidated and combined statements of operations and comprehensive income, changes in equity, and cash flows for each of the three fiscal years in the period ended September 30, 2016, and our report dated December 6, 2016 expressed an unqualified opinion.

/s/ RSM US LLP
Orlando, Florida
December 6, 2016

ALICO, INC.
CONSOLIDATED AND COMBINED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$6,625	$5,474
Accounts receivable, net	4,740	3,137
Inventories	58,469	58,273
Income tax receivable	1,013	2,088
Prepaid expenses and other current assets	2,261	1,791
Total current assets	73,108	70,763
Property and equipment, net	379,247	381,099
Goodwill	2,246	2,246
Deferred financing costs, net of accumulated amortization	2,369	2,978
Other non-current assets	1,692	3,002
Total assets	$458,662	$460,088
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,975	$4,407
Accrued liabilities	6,920	13,813
Long-term debt, current portion	4,493	4,511
Deferred tax liability, current portion	53	151
Obligations under capital leases, current portion	288	277
Other current liabilities	1,002	975
Total current liabilities	18,731	24,134
Long-term debt	192,726	200,970
Lines of credit	5,000	—
Deferred tax liability	31,004	25,629
Deferred gain on sale	28,440	29,122
Deferred retirement obligations	4,198	4,134
Obligations under capital leases	300	588
Total liabilities	280,399	284,577
Commitments and Contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	—	—
Common stock, $1.00 par value, 15,000,000 shares authorized; 8,416,145 and 8,416,145 shares issued and 8,315,535 and 8,325,580 shares outstanding at September 30, 2016 and September 30, 2015, respectively	8,416	8,416
Additional paid in capital	18,155	19,795
Treasury stock, at cost, 100,610 and 90,565 shares held at September 30, 2016 and September 30, 2015, respectively	(4,585)	(3,962)
Retained earnings	151,504	146,455
Total Alico stockholders' equity	173,490	170,704
Noncontrolling interest	4,773	4,807

Total stockholders' equity	178,263	175,511
Total liabilities and stockholders' equity	$458,662	$460,088

See accompanying notes to the Consolidated and Combined Financial Statements.

ALICO, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share amounts)

	Fiscal Year Ended September 30,		
	2016	2015	2014
Operating revenues:			
Orange Co.	$137,282	$146,147	$74,768
Conservation and Environmental Resources	5,669	5,394	8,172
Other Operations	1,245	1,585	21,063
Total operating revenues	144,196	153,126	104,003
Operating expenses:			
Orange Co.	102,347	110,236	54,956
Conservation and Environmental Resources	6,393	4,808	6,123
Other Operations	397	2,083	21,730
Total operating expenses	109,137	117,127	82,809
Gross profit	35,059	35,999	21,194
General and administrative expenses	13,213	16,494	11,811
Income from operations	21,846	19,505	9,383
Other (expense) income:			
Investment and interest income, net	—	2	131
Interest expense	(9,893)	(8,366)	(2,368)
Gain on bargain purchase	—	1,145	—
Gain on sale of real estate	618	13,590	7,748
Gain on settlement of contingent consideration arrangement	—	—	6,000
Loss on extinguishment of debt	—	(1,051)	—
Impairment of asset held for sale	—	(541)	—
Other expense, net	(91)	(196)	(16)
Total other (expense) income, net	(9,366)	4,583	11,495
Income before income taxes	12,480	24,088	20,878
Provision for income taxes	5,521	10,905	11,383
Net income	6,959	13,183	9,495
Net loss attributable to noncontrolling interests	34	31	—
Net income attributable to Alico, Inc. common stockholders	6,993	13,214	9,495
Comprehensive income attributable to noncontrolling interests	—	—	—
Comprehensive income attributable to Alico, Inc. common stockholders	$6,993	$13,214	$9,495
Per share information attributable to Alico, Inc. common stockholders:			
Earnings per common share:			
Basic	$0.84	$1.64	$1.29
Diluted	$0.84	$1.64	$1.29
Weighted-average number of common shares outstanding:			
Basic	8,303	8,056	7,336
Diluted	8,311	8,061	7,354
Cash dividends declared per common share	$0.24	$0.24	$0.24

See accompanying notes to the Consolidated and Combined Financial Statements.

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ALICO, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Treasury Stock	Retained Earnings	Members' Equity	Total Alico, Inc. Equity	Noncontrolling Interest	Total Equity
Balance at September 30, 2013	7,377	$ 7,377	$ 9,496	$ (2,816)	$ 128,679	$ —	$ 142,736	$ —	$ 142,736
Net income	—	—	—	—	8,050	1,445	9,495	—	9,495
Dividends	—	—	—	—	(1,761)	(605)	(2,366)	—	(2,366)
Treasury stock purchases	—	—	—	(4,844)	—	—	(4,844)	—	(4,844)
Members' equity as of common control November 19, 2013	—	—	—	—	—	15,631	15,631	—	15,631
Stock-based compensation:									
Directors	—	—	(26)	1,087	—	—	1,061	—	1,061
Executives	—	—	(5,728)	5,923	—	—	195	—	195
Members' equity	—	—	—	—	—	579	579	—	579
Balance at September 30, 2014	7,377	7,377	3,742	(650)	134,968	17,050	162,487	—	162,487
Net income (loss)	—	—	—	—	13,423	(209)	13,214	(31)	13,183
Dividends	—	—	—	—	(1,936)	—	(1,936)	—	(1,936)
Treasury stock purchases	—	—	—	(4,013)	—	—	(4,013)	—	(4,013)
Acquisition of citrus businesses	1,039	1,039	15,937	—	—	(16,976)	—	4,838	4,838
Stock-based compensation:									
Directors	—	—	61	701	—	—	762	—	762
Executives	—	—	55	—	—	—	55	—	55
Members' equity	—	—	—	—	—	135	135	—	135
Balance at September 30, 2015	8,416	8,416	19,795	(3,962)	146,455	—	170,704	4,807	175,511
Net income (loss)	—	—	—	—	6,993	—	6,993	(34)	6,959
Dividends	—	—	—	—	(1,990)	—	(1,990)	—	(1,990)
Treasury stock purchases	—	—	—	(3,141)	—	—	(3,141)	—	(3,141)
Contingent Consideration	—	—	(1,483)	1,483	—	—	—	—	—
Stock-based compensation:									
Directors	—	—	(307)	1,035	46	—	774	—	774
Executives	—	—	150	—	—	—	150	—	150
Members' equity	—	—	—	—	—	—	—	—	—
Balance at September 30, 2016	8,416	$ 8,416	$ 18,155	$ (4,585)	$ 151,504	$ —	$ 173,490	$ 4,773	$ 178,263

See accompanying notes to Consolidated and Combined Financial Statements.

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ALICO, INC.
CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS
(in thousands)

	Fiscal Year Ended September 30,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$6,959	$13,183	$9,495
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of sugarcane land	(618)	(13,734)	—
Depreciation and amortization	15,382	14,732	9,638
Loss (gain) on breeding herd sales	296	(183)	(555)
Deferred income tax expense	5,277	12,350	6,806
Cash surrender value	(20)	(27)	202
Deferred retirement benefits	65	623	(173)
Magnolia Fund undistributed loss (earnings)	103	(57)	(163)
Loss (gain) on sale of property and equipment	147	(290)	(6,742)
Impairment of asset held for sale	—	541	—
Loss on extinguishment of debt	—	457	—
Non-cash interest expense on deferred gain on sugarcane land	1,406	607	—
Stock-based compensation expense	925	952	1,835
Other	—	245	—
Changes in operating assets and liabilities:			
Accounts receivable	(1,707)	5,983	(2,676)
Inventories	(196)	8,659	9,985
Prepaid expenses	(1,759)	(1,347)	—
Income tax receivable	1,074	—	3,401
Other assets	821	465	523
Accounts payable and accrued expenses	3,720	(522)	(8,599)
Income tax payable	—	(6,660)	—
Other liabilities	(1,518)	(2,251)	2,086
Net cash provided by operating activities	$30,357	$33,726	$25,063
Cash flows from investing activities:			
Acquisition of citrus businesses, net of cash acquired	$—	$(265,587)	$(32,769)
Proceeds on sale of sugarcane land	—	97,151	—
Purchases of property and equipment	(14,305)	(11,523)	(13,280)
Return on investment in Magnolia Fund	171	675	3,814
Proceeds from sale of assets	799	1,963	14,473
Proceeds from surrender of life insurance policies	297	—	—
Proceeds from sale of real estate	—	—	5,764
Other	4	264	10
Net cash used in investing activities	$(13,034)	$(177,057)	$(21,988)

	Fiscal Year Ended September 30,		
	2016	2015	2014
Cash flows from financing activities:			
Borrowings notes payable	$—	$—	$11,000
Proceeds from term loans	2,500	184,500	—
Repayments on revolving line of credit	(53,882)	(87,031)	(2,400)
Borrowings on revolving line of credit	58,882	81,031	3,641
Repayment of term loan	—	(34,000)	—
Principal payments on term loans	(10,761)	(17,870)	(3,208)
Financing costs	—	(2,834)	—
Contingent consideration paid	(7,500)	—	—
Treasury stock purchases	(3,141)	(4,013)	(4,844)
Dividends paid	(1,993)	(1,877)	(2,780)
Distributions to members	—	—	(605)
Capital lease obligation payments	(277)	(231)	—
Net cash (used in) provided by financing activities	$(16,172)	$117,675	$804
Net increase (decrease) in cash and cash equivalents	$1,151	$(25,656)	$3,879
Cash and cash equivalents at beginning of the period	5,474	31,130	27,251
Cash and cash equivalents at end of the period	$6,625	$5,474	$31,130
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amount capitalized	$7,530	$6,167	$2,047
Cash income tax refunds, net of income taxes paid	$(878)	$—	$—
Cash paid for income taxes, net of income tax refunds	$—	$5,213	$1,177
Supplemental disclosure of non-cash investing and financing activities:			
Escrow deposit in other assets applied to capital expenditures	$—	$250	$—
Property and equipment purchased with capital leases	$—	$37	$1,400
Equipment purchased with long-term debt	$—	$—	$108

See accompanying notes to the Consolidated and Combined Financial Statements.

ALICO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
September 30, 2016, 2015 and 2014
Note 1. Description of Business and Basis of Presentation

Description of Business

Alico, Inc. (“Alico”), together with its subsidiaries (collectively, the “Company", "we", "us" or "our”), is a Florida agribusiness and land management company owning approximately 122,000 acres of land throughout Florida, including approximately 90,000 acres of mineral rights. The Company manages its land based upon its primary usage, and reviews its performance based upon two primary classifications - Orange Co. and Conservation and Environmental Resources. Financial results are presented based upon its three business segments (Orange Co., Conservation and Environmental Resources and Other Operations).

Basis of Presentation

The Company has prepared the accompanying financial statements on a consolidated and combined basis. These accompanying Consolidated and Combined Financial Statements, which are referred to herein as the “Financial Statements”, have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, the accompanying Financial Statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the Company’s results as of and for the fiscal years ended September 30, 2016, 2015 and 2014. All intercompany transactions and account balances between the consolidated and combined businesses have been eliminated.

Effective February 28, 2015, the Company completed the merger (“Merger”) with 734 Citrus Holdings, LLC (“Silver Nip Citrus”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) with 734 Sub, LLC, a wholly owned subsidiary of the Company (“Merger Sub”), Silver Nip Citrus and, solely with respect to certain sections thereof, the equity holders of Silver Nip Citrus. The ownership of Silver Nip Citrus was held by 734 Agriculture, 74.89%, Mr. Clay Wilson, Chief Executive Officer of the Company, 5% and an entity controlled by Mr. Clay Wilson owned, 20.11%.

As the Company and Silver Nip Citrus were under common control at the time of the Merger, it is required under U.S. GAAP to account for this common control acquisition in a manner similar to the pooling of interest method of accounting. Under this method of accounting, Alico's Consolidated and Combined Balance Sheets as of September 30, 2016 and September 30, 2015 reflect Silver Nip Citrus’ historical carryover basis in the assets and liabilities instead of reflecting the fair market value of the assets and liabilities. The Company has also retrospectively recast its financial statements to combine the operating results of the Company and Silver Nip Citrus from the date common control began, November 19, 2013.

Correction of an Immaterial Error in Prior Periods

In March 2016, the Company identified a $1,494,000 error related to an understatement of income tax expense for the fiscal year ended September 30, 2014. As previously noted, the Company and Silver Nip Citrus were under common control at the time of the Merger and, accordingly, we retrospectively recast our financial statements to combine the operating results of the Company and Silver Nip Citrus from the date common control began, November 19, 2013. Silver Nip Citrus had a September 30 year end for tax reporting purposes at the time of the Merger. The tax returns for the year ended September 30, 2014 and the short period ended February 28, 2015, the date of the Merger, were prepared and filed in the second quarter of fiscal 2016. The Company reviewed the as-filed tax returns in an effort to true-up the tax provision. During this review, the Company identified the error that impacts the Silver Nip Citrus financial condition and results of operations as of and for the period ended June 30, 2014.

In accordance with Financial Accounting Standards Board Accounting Standards Codification 250, Accounting Changes and Error Corrections, we evaluated the materiality of the error from quantitative and qualitative perspectives. We concluded that the error was immaterial to the Company's prior period interim and annual Consolidated and Combined Financial Statements, and, accordingly no amendments to previously filed interim or annual periodic reports were required. Consequently, the Company adjusted for this error by revising its fiscal 2014 financial statements, when presented in future filings, by increasing income tax expense and its long term deferred tax liability by $1,494,000. The Company recognized the cumulative effect of the error by increasing long term deferred tax liability and reducing additional paid-in capital by $1,494,000 and reducing diluted earnings per share by $0.20 for the fiscal year ended September 30, 2014. The pre-merger net earnings of Silver Nip Citrus are classified as additional paid-in capital in the accompanying Consolidated and Combined Balance Sheets as of September 30, 2016 and September 30, 2015.

Change in Fiscal Year of Subsidiary

Silver Nip Citrus' fiscal year end was previously June 30, and their financial condition and results of operations as of and for the fiscal years ended June 30, 2015 and 2014 were included in the financial condition and results of operations of the Company as of and for the fiscal years ended September 30, 2015 and 2014, respectively. Effective October 1, 2015, the fiscal year end for Silver Nip Citrus was changed to September 30 to reflect that of the Company. Accordingly, the Company's financial condition as of September 30, 2016 and September 30, 2015 now includes the financial condition of Silver Nip Citrus as of September 30, 2016 and September 30, 2015, respectively, and the Company's results of operations for the twelve months ended months ended September 30, 2016 and 2015 now includes the Silver Nip Citrus results of operations for the twelve months ended months ended September 30, 2016 and 2015, respectively. The impact of this change was not material to the Consolidated and Combined Financial Statements with an approximate $492,000 decrease in total assets and an approximate net loss of $596,000 for the transition period related to this change included in Stockholders' Equity at October 1, 2015.

Segments

Operating segments are defined in the criteria established under the Financial Accounting Standards Board - Accounting Standards Codification ("FASB ASC") Topic 280 as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by the Company's chief operating decision maker ("CODM") in deciding how to assess performance and allocate resources. For the fiscal year ended September 30, 2015, the Company's CODM assessed performance and allocated resources based on five operating segments: Citrus Groves, Improved Farmland, Ranch and Conservation, Agricultural Supply Chain Management and Other Operations. Effective October 1, 2015, the former Citrus Groves and Agricultural Supply Chain Management segments have been combined in Orange Co. and, as a result of the disposition of the Company's sugarcane land in fiscal year 2015, it is no longer involved in sugarcane, and the Improved Farmland segment is no longer material to its business and has been combined in Other Operations. The Company's CODM will assess performance and allocate resources based on three operating segments: Orange Co., Conservation and Environmental Resources and Other Operations. Disclosures related to the fiscal year ended September 30, 2015 have been revised to be consistent with the current operating segment structure.

Principles of Consolidation

The Financial Statements include the accounts of Alico, Inc. and the accounts of all the subsidiaries in which a controlling interest is held by the Company. The Financial Statements represent the Consolidated and Combined Balance Sheets, Statements of Operations and Comprehensive Income and Statements of Cash Flows of Alico, Inc. and its subsidiaries. Under U.S. GAAP, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. The Company's subsidiaries include: Alico Land Development, Inc., Alico-Agri, Ltd., Alico Plant World, LLC, Alico Fruit Company, LLC, Alico Citrus Nursery, LLC, Alico Chemical Sales, LLC, 734 Citrus Holdings LLC and subsidiaries, Alico Fresh Fruit LLC, Alico Skink Mitigation, LLC and Citree Holdings 1, LLC. The Company considers the criteria established under FASB ASC Topic 810, "Consolidations" in its consolidation process. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the accompanying Financial Statements, the disclosure of contingent assets and liabilities in the Financial Statements and the accompanying Notes, and the reported amounts of revenues and expenses and cash flows during the periods presented. Actual results could differ from those estimates based upon future events. The Company evaluates estimates on an ongoing basis. The estimates are based on current and expected economic conditions, historical experience, the experience and judgment of the Company's management and various other specific assumptions that the Company believes to be reasonable. The Company evaluates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in the Company's evaluations.

Noncontrolling Interest in Consolidated Affiliate

The Financial Statements include all assets and liabilities of the less-than-100%-owned affiliate the Company controls, Citree Holdings I, LLC ("Citree"). Accordingly, the Company has recorded a noncontrolling interest in the equity of such entity. Citree had a net loss of $69,230 for the fiscal year ended September 30, 2016, of which $35,307 is attributable to the Company. Citree had a net loss of $64,014 for the fiscal year ended September 30, 2015, of which $32,647 is attributable to the Company.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," as a new ASC topic (Topic 606). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU further provides guidance for any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, lease contracts). The FASB subsequently issued ASU 2015-14 to defer the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with earlier adoption permitted. The FASB also recently issued ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," and 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," that clarify or amend the original Topic 606. ASU 2014-09 can be adopted using one of two retrospective transition methods: 1) retrospectively to each prior reporting period presented or 2) as a cumulative-effect adjustment as of the date of adoption. The Company has not yet selected a transition method and is currently evaluating the impact of ASU 2014-09 on the Company's Financial Statements upon adoption.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern" (Subtopic 205-40): Disclosure of Uncertainty about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance that establishes management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and setting rules for how this information should be disclosed in the financial statements. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2016, with early adoption permitted. We will adopt this guidance on October 1, 2017 and do not expect it to have a material impact on our Financial Statements upon adoption.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation" (Topic 810): Amendments to the Consolidation Process ("ASU 2015-02"). ASU 2015-02 amends the consolidation analysis for limited partnerships and other variable interest entities ("VIEs"). This guidance, which is effective for annual periods, and interim periods within those annual periods, beginning December 15, 2015, will be adopted on October 1, 2016, and is not expected to have a significant impact on our Financial Statements upon adoption.

In April 2015, the FASB issued ASU No. 2015-04, "Compensation - Retirement Benefits" (Topic 715). ASU 2015-04 will allow employers with fiscal year ends that do not coincide with a calendar month end to make an accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year ends (i.e., on an alternative measurement date). An employer that makes this election must consistently apply the practical expedient from year to year and to all of its defined benefit plans. ASU 2015-04 will be effective for interim and fiscal periods beginning after December 15, 2015; prospective application is required and early adoption is permitted. The Company will adopt this guidance on October 1, 2016. This guidance is not expected to have a significant impact on our Financial Statements upon adoption.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest" (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-.03"). ASU 2015-03 changes the presentation of debt issuance costs from an asset to a direct deduction from the related liability. This guidance, which is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, may be early adopted for financial statements that have not been previously issued and its provisions are to be retrospectively applied as a change in accounting principle. Upon adoption, this guidance is expected to decrease Other Assets, which includes our deferred financing costs on our debt obligations, and comparably decrease Long-term debt on our Balance Sheets. This guidance is not expected to have any impact on our financial condition, results of operations or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory” (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 simplifies the measurement of inventory by requiring certain inventory to be subsequently measured at the lower of cost and net realizable value. The amendments in this guidance are effective for fiscal years beginning after December 15, 2016 and for interim periods therein and are not expected to have a significant impact on our Financial Statements upon adoption.

In August 2015, the FASB issued ASU No. 2015-15, “Interest—Imputation of Interest” (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (“ASU 2015-15). In ASU 2015 -15, the SEC adds guidance to Subtopic 835-30 pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. In April 2015, the FASB issued ASU 2015-03, “Interest—Imputation of Interest” (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. According to the SEC, the guidance in ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance in ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance in ASU 2015-15 is effective upon issuance. The guidance in ASU 2015-15 and ASU 2015-03 are not expected to have a significant impact on our Financial Statements upon adoption.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations” (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2105-16 requires that (i) an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, (ii) the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, and (iii) an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this Update apply to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in this guidance are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this guidance are not expected to have a significant impact on our Financial Statements upon adoption.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which will require entities to present all deferred tax liabilities and assets as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. The standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. The standard can be applied either prospectively to all deferred tax liabilities and assets, or retrospectively to all periods presented. As this standard impacts presentation only, the adoption of ASU 2015-17 is not expected to have an impact on our Financial Statements upon adoption.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)." This guidance will require entities that enter into leases as a lessee to recognize right-of-use assets and lease liabilities for those leases classified as operating leases under previous GAAP. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The Company is currently evaluating the impact this guidance will have on our Financial Statements, and it will become effective for Alico at the beginning of its first quarter of fiscal 2020.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The amendment clarifies the implementation guidance for principal versus agent considerations as contained in ASU No. 2014-09, Revenue from Contracts with Customers. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to a customer. ASU No. 2016-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption of ASU No. 2016-08 is permitted but not before December 15, 2016. The Company is currently evaluating the impact of ASU No. 2016-08 on our Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on our Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230).” This ASU will provide guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The effective date for adoption of this guidance would be our fiscal year beginning October 1, 2018, with early adoption permitted. The Company is currently evaluating the effect that ASU 2016-15 will have on our Financial Statements.

In October 2016, the FASB issued ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory” (ASC Topic 740, Income Taxes), which will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This ASU is effective for the Company on October 1, 2018 with early adoption permitted. The Company has not yet evaluated the effect, if any, that ASU 2016-16 will have on our Financial Statements.

The Company has reviewed other recently issued accounting standards which have not yet been adopted in order to determine their potential effect, if any, on the results of operations or financial condition. Based on the review of these other recently issued standards, the Company does not currently believe that any of those accounting pronouncements will have a significant effect on its current or future financial position, results of operations, cash flows or disclosures.

Seasonality

The Company is primarily engaged in the production of fruit for sale to citrus markets, 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 working capital requirements are typically greater in the first and fourth quarters of the fiscal year. The results of the reported periods herein are not necessarily indicative of the results for any other interim periods or the entire fiscal year.

Note 2. Summary of Significant Accounting Policies

Business Combinations

The Company accounts for its business acquisitions under the acquisition method of accounting as indicated in FASB ASC No. 805, “Business Combinations”, which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities and noncontrolling interest in the acquiree, based on fair value estimates as of the date of acquisition. In accordance with FASB ASC No. 805, the Company recognizes and measures goodwill, if any, as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

When we acquire a business from an entity under common control, whereby the companies are ultimately controlled by the same party or parties both before and after the transaction, it is treated similar to the pooling of interests method of accounting. The assets and liabilities are recorded at the transferring entity’s historical cost instead of reflecting the fair value of assets and liabilities.

Revenue Recognition

Revenues from agricultural crops are recognized at the time the crop is harvested and delivered to the customer. Receivables from crops sold are recorded for the estimated proceeds to be received from the customer on a quarterly basis, management reviews the reasonableness of the revenues accrued based on buyers’ and processors’ advances to growers, cash and futures markets and experience in the industry. Adjustments are made throughout the year to these estimates as more current relevant information regarding the specific markets becomes available. Differences between the estimates and the final realization of revenues can be significant and can be either an increase or decrease to reported revenues. During the periods presented in this report, no material adjustments were made to the reported revenues of the Company’s crops.

Alico recognizes revenues from cattle sales at the time the cattle are delivered.

Alico Fruit Company, LLC ("AFC") operations primarily consist of providing supply chain management services to Alico, as well as to other citrus growers and processors in the state of Florida. AFC also purchases and resells citrus fruit; in these transactions, AFC (i) acts as a principal; (ii) takes title to the products; and (iii) has the risks and rewards of ownership, including the risk of loss for collection, delivery or returns. Therefore, AFC recognizes revenues based on the gross amounts due from customers for its marketing activities. Supply chain management services revenues are recognized when the services are performed.

Cash and Cash Equivalents

The Company considers cash in banks and highly liquid instruments with an original maturity of three months or less to be cash and cash equivalents. At various times throughout the fiscal year, and as of September 30, 2016, some accounts held at financial institutions were in excess of the federally insured limit of $250,000. The Company has not experienced any losses on these accounts and believes credit risk to be minimal.

Accounts receivable

Accounts receivable from customers are generated from revenues based on the sale of citrus, cattle, leasing and other transactions. The Company grants credit in the course of its operations to third party customers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts based on the aging of accounts receivable. The estimate, evaluated monthly by the Company, is based on historical collection experience, current macroeconomic climate and market conditions and a review of the current status each customer's account. Changes in the financial viability of significant customers and worsening of economic conditions may require changes to its estimate of the recoverability of the receivables. Such changes in estimates are recorded in the period in which these changes become known. The allowance for doubtful accounts is charged to general and administrative expenses in the Consolidated and Combined Statements of Operations and Comprehensive Income. As of September 30, 2016 and 2015, allowances for doubtful accounts were approximately $12,900 and $8,300, respectively.

The following table presents accounts receivable, net for fiscal years ended September 30, 2016 and 2015:

(in thousands)	September 30,	
	2016	2015
Accounts receivable	$4,753	$3,145
Allowance for doubtful accounts	(13)	(8)
Accounts receivable, net	$4,740	$3,137

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short term and immediate nature of these financial instruments. The carrying amounts of our debt approximate fair value due to the transactions are with commercial lenders at interest rates that vary with market conditions and fixed rates that approximate market rates for obligations with similar terms and maturities (see Note 11. "Fair Value Measurements").

Concentrations

Revenues and accounts receivable from the Company's major customers as of September 30, 2016 and 2015 and for the fiscal years ended September 30, 2016, 2015 and 2014, are as follows:

(in thousands)	Accounts Receivable		Revenue			% of Total Revenue		
	2016	2015	2016	2015	2014	2016	2015	2014
USSC	$—	$—	$—	$—	$19,633	— %	— %	18.9%
Florida Orange Marketers, Inc.	$—	$—	$—	$—	$23,826	— %	— %	22.9%
Citrosuco North America, Inc.	$—	$—	$1,296	$3,870	$804	0.9 %	2.5 %	0.8 %
Louis Dreyfus	$—	$—	$—	$22,460	$24,135	— %	14.7%	23.2%
Cutrale Citrus Juice	$—	$—	$22,735	$23,556	$3,984	15.8%	15.4%	3.8 %
Minute Maid	$—	$—	$49,271	$57,484	$—	34.2%	37.5%	— %
Tropicana	$1,710	$1,019	$46,898	$21,925	$16,433	32.5%	14.3%	15.8%

The citrus industry is subject to various factors over which growers have limited or no control, including weather conditions, disease, pestilence, water supply and market price fluctuations. Market prices are highly sensitive to aggregate domestic and foreign crop sizes, as well as factors including, but not limited to, weather and competition from foreign countries.

Real Estate

In recognizing revenues from land sales, the Company applies specific revenue recognition criteria, in accordance with U.S. GAAP, to determine when land sales revenues can be recorded. For example, in order to fully recognize a gain resulting from a real estate transaction, the sale must be consummated with a sufficient down payment of at least 20% to 25% of the sales price depending upon the type and timeframe for development of the property sold and any receivable from the sale cannot be subject to future subordination. In addition, the seller cannot retain any material continuing involvement in the property sold. When these criteria are not met, the Company recognizes a gain proportionate to collections utilizing either the installment method or deposit method as appropriate.

Inventories

The costs of growing crops, including but not limited to labor, fertilization, fuel, crop nutrition and irrigation, are capitalized into inventory throughout the respective crop year. Such costs are expensed as cost of sales when the crops are harvested and are recorded as operating expenses in the Consolidated and Combined Statements of Operations and Comprehensive Income. Inventories are stated at the lower of cost or net realizable value. The cost for unharvested citrus crops is based on accumulated production costs incurred during the period from January 1 through the balance sheet date. The cost of the beef cattle inventory is based on the accumulated cost of developing such animals for sale from July 1 through the balance sheet date (see Note 6. “Inventories”).

Property and Equipment

Property and equipment, which includes amounts under capitalized leases, are stated at cost, net of accumulated depreciation and amortization. Major improvements are capitalized while expenditures for maintenance and repairs are expensed when incurred. Costs related to the development of citrus groves through planting of trees are capitalized. Such costs include land clearing, excavation and construction of ditches, dikes, roads, and reservoirs, among other costs. After the planting, caretaking costs or pre-productive maintenance costs are capitalized for four years. After four years, a grove is considered to have reached maturity and the accumulated costs are depreciated over 25 years, except for land clearing and excavation, which are considered costs of land and not depreciated.

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

Real estate costs incurred for the acquisition, development and construction of real estate projects are capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets, with the exception of leasehold improvements and assets acquired through capital leases, which are depreciated over their estimated useful lives if the lease transfers ownership or contains a bargain purchase option, otherwise the term of the lease.

The estimated useful lives for property and equipment are primarily as follows:

Citrus trees	25 years
Equipment and other facilities	3-20 years
Buildings and improvements	25-39 years
Breeding herd	5-7 years

Changes in circumstances, such as technological advances or changes to our business model or capital strategy could result in the actual useful lives differing from the original estimates. In those cases where we determine that the useful life of property and equipment should be shortened, we would depreciate the asset over its revised estimated remaining useful life, thereby increasing depreciation expense (see Note 7. “Property and Equipment, Net”).

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company records impairment losses on long-lived assets used in operations, other than goodwill, when events and circumstances indicate that the assets might be impaired and the estimated cash flows (undiscounted and without interest charges) to be generated by those assets over the remaining lives of the assets are less than the carrying amounts of those assets. The net carrying values of assets not recoverable are reduced to their fair values. Our cash flow estimates are based on historical results adjusted to reflect our best estimates of future market conditions and operating conditions. As of

September 30, 2016 and 2015, long-lived assets were comprised of property and equipment. The Company recorded an impairment loss of approximately $541,000 on property classified as assets held for sale for the fiscal year ended September 30, 2015.

Other Non-Current Assets

Other non-current assets primarily include investments owned in agricultural cooperatives, cash surrender value on life insurance and equity investment in affiliate (Magnolia). Investments in stock related to agricultural cooperatives are carried at cost.

Income Taxes

The Company complies with the asset and liability method of accounting for deferred income taxes. The provision for income taxes includes income taxes currently payable and those deferred as a result of temporary differences between the financial statements and the income tax basis of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on deferred income tax assets and liabilities is recognized in income or loss in the period that includes the enactment date. A valuation allowance is provided to reduce deferred tax assets to the amount of future tax benefit when it is more likely than not that some portion of the deferred tax assets will not be realized. Projected future taxable income and ongoing tax planning strategies are considered and evaluated when assessing the need for a valuation allowance. Any increase or decrease in a valuation allowance could have a material adverse or beneficial impact on the Company’s income tax provision and net income or loss in the period the determination is made. As of September 30, 2016 and 2015, the Company did not record a valuation allowance on deferred tax assets. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. The Company records interest related to unrecognized tax benefits in income tax expense.

Earnings per Share

Basic earnings per share for our common stock is calculated by dividing net income attributable to Alico common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is similarly calculated, except that the calculation includes the dilutive effect of the assumed issuance of shares of common stock issuable under equity-based compensation plans in accordance with the treasury stock method, or any other type of securities convertible into common stock, except where the inclusion of such common shares would have an anti-dilutive effect.

The following table presents a reconciliation of basic to diluted weighted average common shares outstanding for fiscal years ended September 30, 2016, 2015 and 2014:

(in thousands)	Fiscal Year Ended September 30,		
	2016	2015	2014
Weighted Average Common Shares Outstanding - Basic	8,303	8,056	7,336
Unvested Restricted Stock Awards	8	5	18
Weighted Average Common Shares Outstanding - Diluted	8,311	8,061	7,354

There were no employee stock options granted for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. Non-vested restricted shares of common stock entitle the holder to receive non-forfeitable dividends upon issuance and are included in the calculation of diluted earnings per common share. For the fiscal years ended September 30, 2016, 2015 and 2014, there were no anti-dilutive equity awards or convertible securities that were excluded from the calculation of diluted earnings per common share.

Stock-Based Compensation

Stock-based compensation is measured based on the fair value of the equity award at the grant date and is typically expensed on a straight-line basis over the vesting period. Upon the vesting of restricted stock, the Company issues common stock from common shares held in treasury. The Company measures the cost of employee services on the grant date fair value of the equity award. The cost is recognized over the period during which the employee is required to provide services in exchange for the equity award (usually the vesting period).

Effective January 27, 2015, the Company's Board of Directors adopted the 2015 Stock Incentive Plan (the "2015 Plan") which provides for up to an additional 1,250,000 common shares available for issuance to provide a long-term incentive plan for officers, employees, directors and/or consultants to directly link incentives to stockholder value. The 2015 Plan was approved by the Company's stockholders in February 2015.

The adoption of the 2015 Plan supersedes the 2013 Incentive Equity Plan ("2013 Plan"), which had been in place since April 2013. In fiscal year 2015, the Company awarded 12,500 restricted shares of the Company's common stock ("Restricted Stock") to two senior executives under the 2015 Plan at a weighted average fair value of $49.49 per common share, vesting over three to five years.

The 2013 Plan was approved by the Company's stockholders in February 2013. Under the terms of the 2013 Plan, 350,000 shares of the Company's common stock were to be awarded to recipients in the form of restricted stock units or stock options. Common shares issued pursuant to awards under the 2013 Plan, if any, were outstanding shares of common stock which have been repurchased by the Company.

The Company's incentive equity plans provide for grants to executives in various forms including restricted shares of the Company's common stock. Awards are discretionary and are determined by the Compensation Committee of the Board of Directors. Awards vest based upon service conditions. Non-vested restricted shares generally vest over requisite service periods of one to six years from the date of grant.

Total stock-based compensation expense for the three years ended September 30, 2016 in general and administrative expense was as follows:

(in thousands)	Fiscal Year Ended September 30,		
	2016	2015	2014
Stock compensation expense:			
Executives	$150	$55	$195
Board of Directors	774	762	1,061
Members	—	135	579
Total stock compensation expense	$924	$952	$1,835

All shares of restricted common stock awarded under the Long-Term Incentive Program, awarded by the Company in May 2011, vested automatically upon the acquisition of a controlling interest in the Company by 734 Investors, LLC in November 2013. As a result, the Company issued 152,403 shares of treasury stock in January 2014, before withholdings for income taxes. The Company recognized $195,000 of stock-based compensation expense related to the acceleration of vesting of the restricted stock during fiscal year 2014. In December 2013, the Company determined that it would repurchase half of the gross shares awarded to Named Executive Officers other than the CEO, totaling 58,610 common shares immediately upon their issuance for the purpose of retaining treasury shares for future issuance.

There were no employee stock options granted in fiscal years 2016, 2015 or 2014, respectively.

Equity Method Investments and Variable Interest Entities

The Company evaluates the method of accounting for investments in which it does not hold an equity interest of at least 50% based on the amount of control it exercises over the operations of the investee, exposure to losses in excess of its investment, the ability to significantly influence the investee and whether the Company is the primary beneficiary of the investee. Investments not qualifying for consolidation are accounted for under the equity method whereby the ongoing investment in the entity, consisting of its initial investment adjusted for distributions, gains and losses of the entity are classified as a single line in the balance sheet and as a non-operating item in the income statement.

In May 2010, the Company invested $12,150,000 to obtain a 39% limited partner equity interest in Magnolia TC 2, LLC (“Magnolia”), a Florida limited liability company whose primary business activity is acquiring tax certificates issued by various counties in the state of Florida on properties which have property tax delinquencies. Revenues are recognized by Magnolia when the interest obligation under the tax certificates it holds becomes a fixed amount. In order to redeem a tax certificate in Florida, a minimum of 5% of the face amount of the certificate (delinquent taxes) must be paid to the certificate holder regardless of the amount of time the certificate has been outstanding. Expenses include an acquisition fee of 1%, interest expense, a monthly management fee and other administrative costs. The investment in Magnolia is accounted for in accordance with the equity method of accounting, whereby the Company records its 39% interest in the reported income or loss of the fund each quarter and is included in other non-current assets in the Consolidated and Combined Balance Sheets. Based on the September 30, 2016 unaudited internal financial statements of Magnolia, the Company recognized net investment loss of approximately $103,000 for the fiscal year ended September 30, 2016. The Company recognized net investment income of approximately $57,000 and $163,000 for the fiscal years ended September 30, 2015, and 2014, respectively. Net investment income is included in Interest and investment, net in the Consolidated and Combined Statements of Operations and Comprehensive Income. Magnolia made certain distributions during the fiscal years ended September 30, 2016, 2015 and 2014; the Company’s share of those distributions was approximately $171,000, $675,000, and $3,814,000, respectively.

Note 3. Acquisitions and Dispositions

Acquisition of Orange-Co, LP Assets

On December 2, 2014, the Company completed the acquisition of certain citrus and related assets of Orange-Co, LP, including 51% of the ownership interests of Citree, pursuant to an Asset Purchase Agreement, which is referred to as the Orange-Co Purchase Agreement, dated as of December 1, 2014. The assets the Company purchased include approximately 20,263 acres of citrus groves in DeSoto and Charlotte Counties, Florida, which comprise one of the largest contiguous citrus grove properties in the state of Florida. Total assets acquired were approximately $277,792,000, net of approximately $2,060,000 in cash acquired and approximately $4,838,000 in fair value attributable to noncontrolling interest in Citree, including: (i) approximately $147,500,000 in initial cash consideration funded from the proceeds of the sugarcane disposition and new term loan debt; (ii) $7,500,000 in additional cash consideration released from escrow in equal parts, subject to certain limitations, on December 1, 2015 and June 1, 2016; (iii) the refinancing of Orange-Co, LP’s outstanding debt including approximately $92,290,000 in term loan debt and a working capital facility of approximately $27,857,000 and (iv) the assumption of certain other liabilities totaling approximately $4,705,000. On December 1, 2014, Alico deposited an irrevocable standby letter of credit issued by Rabo Agrifinance, Inc. in the aggregate amount of $7,500,000 into an escrow account to fund the additional cash consideration. On December 1, 2015 and June 1, 2016, the Company paid $3,750,000 of additional consideration, as contemplated by the Orange-Co Purchase Agreement. The Company's $3,750,000 irrevocable letter of credit securing the final payment of the additional consideration was terminated following the final cash consideration payment.

This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while transaction and integration costs associated with the acquisition were expensed as incurred. The excess of the purchase price over the fair value of assets acquired, net of liabilities assumed, and noncontrolling interests is recognized as goodwill. All goodwill recognized will be deductible for income tax purposes.

For the fiscal years ended September 30, 2016 and 2015 the Company incurred approximately $31,000 and $3,078,000, respectively, in professional and legal costs in connection with the Orange-Co acquisition. These costs are included in general and administrative expenses in the Consolidated and Combined Statements of Operations and Comprehensive Income.

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The following table summarizes the final allocation of the acquisition cost to the assets acquired and liabilities assumed at the date of acquisition, based on their estimated fair values:
(in thousands)

Assets:	Amount
Accounts receivable	$888
Other current assets	845
Inventories	35,562
Property and equipment:	
Citrus Trees	164,123
Land	63,395
Equipment and other facilities	13,431
Goodwill	2,246
Other assets	2,140
Total assets, net of cash acquired	$282,630
Liabilities:	
Accounts payable and accrued liabilities	$4,205
Debt	500
Contingent consideration	7,500
Total liabilities assumed	$12,205
Assets acquired less liabilities assumed	$270,425
Less: fair value attributable to noncontrolling interest	(4,838)
Total purchase consideration	$265,587
Cash proceeds from sugarcane disposition	$97,126
Working capital line of credit	27,857
Term loans	140,604
Total purchase consideration	$265,587

The unaudited pro-forma information below for the fiscal years ended September 30, 2015 and 2014 gives effect to this acquisition as if the acquisitions had occurred on October 1, 2013. The pro-forma financial information is not necessarily indicative of the results of operations if the acquisition had been effective as of this date.

(in thousands except per share amounts)	Fiscal Year Ended September 30,	
	2015	2014
	(unaudited)	
Revenues	$153,654	$175,420
Income from operations	$19,489	$35,450
Net income attributable to Alico Inc. common stockholders	$12,723	$22,906
Basic earnings per common share	$	