

MAUI LAND & PINEAPPLE CO INC
Form 10-Q
August 08, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 2007

OR

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

Commission file number 1-6510

MAUI LAND & PINEAPPLE COMPANY, INC.

(Exact name of registrant as specified in its charter)

HAWAII
(State or other jurisdiction
of incorporation or organization)
P. O. BOX 187, KAHULUI, MAUI, HAWAII
(Address of principal executive offices)

99-0107542
(IRS Employer
Identification No.)
96733-6687
(Zip Code)

(808) 877-3351

(Registrant's telephone number, including area code)

NONE

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2007
Common Stock, no par value	8,147,709 shares

MAUI LAND & PINEAPPLE COMPANY, INC.
AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	6/30/07 (in thousands)	12/31/06
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,204	\$ 1,143
Accounts and notes receivable	13,248	25,440
Inventories	12,176	18,024
Other current assets	1,711	1,813
Total current assets	36,339	46,420
Property	234,107	260,837
Accumulated depreciation	(99,707)	(130,988)
Property net	134,400	129,849
Other Assets	54,190	43,930
Total	\$ 224,929	\$ 220,199
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt and capital lease obligations	\$ 1,263	\$ 1,410
Trade accounts payable	12,965	16,145
Income taxes payable	8,322	346
Other current liabilities	9,001	9,516
Total current liabilities	31,551	27,417
Non-Current Liabilities		
Long-term debt and capital lease obligations	16,054	49,716
Accrued retirement benefits	31,371	29,272
Other non-current liabilities	13,801	12,887
Total non-current liabilities	61,226	91,875
Minority Interest in Subsidiary	551	538
Commitments and Contingencies (Note 14)		
Stockholders Equity		
Common stock, no par value 23,000,000 shares authorized, 7,929,154 and 7,287,779 issued and outstanding	33,189	15,168
Additional paid-in capital	5,950	4,743
Retained earnings	94,769	82,765
Accumulated other comprehensive loss	(2,307)	(2,307)
Stockholders Equity	131,601	100,369
Total	\$ 224,929	\$ 220,199

See accompanying Notes to Condensed Consolidated Financial Statements.

MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS

(UNAUDITED)

	Three Months Ended	
	6/30/07	6/30/06
	(in thousands except share amounts)	
Operating Revenues		
Net sales	\$ 30,332	\$ 22,861
Operating income	7,983	10,632
Other income	375	88
Total Operating Revenues	38,690	33,581
Operating Costs and Expenses		
Cost of sales	18,330	13,249
Operating expenses	10,016	10,935
Shipping and marketing	4,170	3,296
General and administrative	8,234	9,135
Pineapple restructuring charges (Note 17)	5,416	
Total Operating Costs and Expenses	46,166	36,615
Operating Loss	(7,476)	(3,034)
Equity in income (losses) of affiliates	2,225	(1,540)
Interest expense	(333)	
Interest income	350	511
Loss Before Income Tax Benefit	(5,234)	(4,063)
Income Tax Benefit	(1,724)	(1,463)
Net Loss	(3,510)	(2,600)
Retained Earnings, Beginning of Period	98,279	89,315
Retained Earnings, End of Period	\$ 94,769	\$ 86,715
Earnings Per Common Share		
Basic	\$ (0.44)	\$ (0.36)
Diluted	\$ (0.44)	\$ (0.36)

See accompanying Notes to Condensed Consolidated Financial Statements.

MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
AND RETAINED EARNINGS

(UNAUDITED)

	Six Months Ended	
	6/30/07	6/30/06
	(in thousands except share amounts)	
Operating Revenues		
Net sales	\$ 80,419	\$ 71,822
Operating income	18,670	20,516
Other income	584	195
Total Operating Revenues	99,673	92,533
Operating Costs and Expenses		
Cost of sales	31,516	29,080
Operating expenses	19,092	19,773
Shipping and marketing	7,318	6,873
General and administrative	19,899	18,761
Pineapple restructuring charges (Note 17)	5,416	
Total Operating Costs and Expenses	83,241	74,487
Operating Income	16,432	18,046
Equity in income (losses) of affiliates	4,083	(1,368)
Interest expense	(1,044)	(29)
Interest income	641	812
Income Before Income Taxes	20,112	17,461
Income Tax Expense	7,908	6,286
Net Income	12,204	11,175
Retained Earnings, Beginning of Period	82,765	75,540
Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48 Note 12)	(200)	
Retained Earnings, End of Period	\$ 94,769	\$ 86,715
Earnings Per Common Share		
Basic	\$ 1.59	\$ 1.54
Diluted	\$ 1.58	\$ 1.52

See accompanying Notes to Condensed Consolidated Financial Statements.

MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	6/30/07	6/30/06
	(in thousands)	
Net Cash Provided by (Used in) Operating Activities	\$ 8,129	\$ (2,101)
Investing Activities		
Purchases of property	(14,210)	(22,233)
Proceeds from disposal of property	37,583	16,258
Other	(5,596)	(4,182)
Net Cash Provide by (Used in) Investing Activities	17,777	(10,157)
Financing Activities		
Payments of long-term debt and capital lease obligations	(63,361)	(26,288)
Proceeds from long-term debt	29,150	34,400
Stock option exercises	1,422	
Issuance of common stock	14,944	
Net Cash Provided by (Used in) Financing Activities	(17,845)	8,112
Net Increase (Decrease) in Cash and Cash Equivalents	8,061	(4,146)
Cash and Cash Equivalents at Beginning of Period	1,143	7,216
Cash and Cash Equivalents at End of Period	\$ 9,204	\$ 3,070

Supplemental Disclosures of Cash Flow Information Interest (net of amounts capitalized) of \$995,000 and \$29,000 was paid during the six months ended June 30, 2007 and 2006, respectively. Income taxes of \$277,000 and \$2,381,000 were paid during the six months ended June 30, 2007 and 2006, respectively.

Non-Cash Investing Activities Accounts and notes receivable at June 30, 2007 includes \$2.6 million related to the sale of pineapple operations equipment, materials and supplies that were sold in connection with the Company's restructuring of the pineapple operations. In 2006, net cash sales proceeds of \$21.9 million were deposited with a qualified exchange intermediary for reinvestment on a tax-deferred basis. Amounts included in trade accounts payable for additions to property and other assets totaled \$4,087,000 and \$4,383,000 at June 30, 2007 and 2006, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements.

MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the financial position, results of operations and cash flows for the interim periods ended June 30, 2007 and 2006.
2. The Company's reports for interim periods utilize numerous estimates of production cost, general and administrative expenses, and other costs for the full year. Future actual amounts may differ from the estimates. Amounts in the interim reports are not necessarily indicative of results for the full year.
3. Net income was equal to comprehensive income for the interim periods ended June 30, 2007 and 2006.
4. The effective tax rate for 2007 and 2006 differs from the statutory federal rate primarily because of the state tax provision, state tax credits, and certain non-deductible expenses.
5. Accounts and notes receivable are reflected net of allowance for doubtful accounts of \$277,000 and \$555,000 at June 30, 2007 and December 31, 2006, respectively.
6. Inventories as of June 30, 2007 and December 31, 2006 were as follows:

	6/30/07	12/31/06
	(in thousands)	
Pineapple products		
Finished goods	\$ 1,664	\$ 1,416
Work in progress		299
Raw materials		492
Real estate held for sale	3,255	8,449
Merchandise, materials and supplies	7,257	7,368
Total Inventories	\$ 12,176	\$ 18,024

The Company accounts for the costs of growing pineapple in accordance with the annual accrual method, which has been used by Hawaii's pineapple and sugarcane growers since the 1950s. Under this method, revenues and costs are determined on the accrual basis, and pineapple production costs incurred during a year are charged to the costs of crops harvested during that year. These costs include land preparation and planting, cultivation, irrigation, crop development, harvesting and hauling to the central processing facility. They also include certain overhead costs that are directly related to the growing of pineapple. Accordingly, no costs are assigned to the growing (unharvested) crops. The annual accrual method is the most appropriate method of accounting for the costs of growing pineapple because of pineapple's crop cycle (18 to 48 months) and the uncertainties about fruit quality and the number of crops to be harvested from each planting (one to three crops). AICPA Statement of Position No. 85-3 (SOP), *Accounting by Agricultural Producers and Agricultural Cooperatives*, states that all direct and indirect costs of growing crops should be accumulated and growing crops should be reported at the lower of cost or market. However, SOP No. 85-3 does not apply to growers of pineapple and sugarcane in tropical regions because tropical agriculture (of which pineapple and sugarcane production in Hawaii are examples) differs greatly from agriculture in temperate regions of the mainland United States. The Company's growing (unharvested) crops generally consisted of approximately 3,500 to 4,000 acres that are expected to yield up to

48 tons per acre for the first crop harvested. The Company's growing crops are in various stages of development, and will be harvested principally in the years 2007 through 2009.

7. Average Common Shares Outstanding Used to Compute Earnings Per Share

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Basic	7,925,228	7,256,800	7,674,202	7,255,806
Diluted	7,925,228	7,256,800	7,745,694	7,352,414

In 2007 and 2006, diluted shares included common stock equivalents, principally employee stock options and restricted stock awards. For the three months ended June 30, 2007 and 2006, potentially dilutive common shares of 67,954 and 100,525, respectively, from stock-based compensation arrangements are not included in the number of diluted common shares because to do so would have an antidilutive effect on the earning per share amounts (i.e., decrease loss per common share).

8. Kapalua Bay Holdings, LLC

The Company has a 51% ownership interest in Kapalua Bay Holdings, LLC, a Delaware limited liability company (Bay Holdings), which is the sole member of Kapalua Bay LLC, a Delaware limited liability company (Kapalua Bay). Major operating and financial decisions require approval of all the members in Bay Holdings and, accordingly, the Company's investment in Bay Holdings is being accounted for using the equity method, rather than being consolidated with the Company's financial statements, because the Company does not have a controlling interest in Bay Holdings.

Kapalua Bay is constructing a residential development on land that it owns at the site of the former Kapalua Bay Hotel, and a spa on an adjacent parcel of land that is owned by the Company and leased to Kapalua Bay. The Kapalua Bay Hotel closed in April 2006 to prepare for the commencement of sales and marketing efforts for the whole and fractional condominium units that comprise the Residences at Kapalua Bay project. In June 2006, Kapalua Bay began to enter into binding sales contracts and, in the second half of 2006, demolition and construction began.

The Company's equity in the earnings (losses) of Bay Holdings was \$4.1 million and (\$1.4) million for the six months ended June 30, 2007 and 2006, respectively, and \$2.2 million and (\$1.5) million for the three months ended June 30, 2007 and 2006, respectively. Upon formation of Kapalua Bay in 2004, the Company's non-monetary contributions to Bay Holdings, including a 21-acre land parcel, were valued at \$25 million by the members through arms-length negotiations. The land contribution was recorded by the Company in its investment carrying value in Bay Holdings at historical cost, which was nominal, and Kapalua Bay recorded the contribution at its fair market value of \$25 million. In 2007, Bay Holdings began to recognize profit from binding sales contracts on the whole and fractional ownership condominiums on a percentage-of-completion method. Accordingly, in 2007, the Company began to recognize a proportionate amount of the unrealized appreciation of the fair value of the land and other non-monetary contributions to Kapalua Bay and other deferred costs related to the joint venture. This resulted in income, net of deferred costs, of \$1.2 million and \$692,000, respectively, for the six months and three months ended June 30, 2007, and is included in the Company's equity in earnings of Bay Holdings.

In July 2006, Kapalua Bay entered into a Construction Loan Agreement (the Loan Agreement) with Lehman Brothers Holdings Inc., a Delaware corporation (Lehman), for the lesser of \$370 million or 61.6% of the total projected cost of the project (the Loan). Disbursements under the Loan Agreement are contingent upon, among other things, no event of default or material adverse change occurring with respect to Kapalua Bay or the project. The Loan is not revolving in nature and

amounts repaid may not be subsequently advanced. All Loan proceeds disbursed shall be used only for specified budgeted items for which such proceeds were advanced. Lehman is not obligated to make loan advances exceeding \$85 million until sales of residential units equals or exceeds \$285.0 million. As of June 30, 2007, total loan advances were \$81.7 million and Kapalua Bay had executed approximately \$251 million in binding sales commitments.

The Loan is collateralized by the project assets, including the fee simple interest in the land owned by Kapalua Bay, the adjacent spa parcel owned by the Company, and all of the sales contracts.

The Company and the other members of the joint venture have guaranteed to the lender completion of the project and each member's pro rata share of costs and losses incurred by the lender as a result of the occurrence of specified triggering events during the term of the Loan Agreement. The members' guarantee to the lender does not include payment in full of the Loan. The Company has recognized a liability of \$968,000, representing the estimated fair value of its obligation under this guarantee.

Summarized operating statement information for Bay Holdings is as follows: