

MAUI LAND & PINEAPPLE CO INC  
Form 10-Q  
November 09, 2006

# 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 **SEPTEMBER 30, 2006**

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)

**99-0107542**  
(IRS Employer  
Identification No.)

**P. O. BOX 187, KAHULUI, MAUI, HAWAII 96733-6687**

(Address of principal executive offices)

Registrant's telephone number, including area code: **(808) 877-3351**

**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 November 3, 2006
Common Stock, no par value	7,522,050 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)**

	9/30/06 (in thousands)	12/31/05
<i>ASSETS</i>		
Current Assets		
Cash and cash equivalents	\$ 1,436	\$ 7,216
Accounts and notes receivable	20,114	19,605
Inventories	23,992	17,305
Other current assets	5,501	5,271
Total current assets	51,043	49,397
Property	274,182	236,250
Accumulated depreciation	(148,563 )	(139,315 )
Property net	125,619	96,935
Other Assets	36,466	39,667
Total	\$ 213,128	\$ 185,999
<i>LIABILITIES AND STOCKHOLDERS EQUITY</i>		
Current Liabilities		
Current portion of long-term debt and capital lease obligations	\$ 808	\$ 837
Trade accounts payable	17,171	18,418
Deferred revenue	7,637	11,380
Other current liabilities	8,657	9,862
Total current liabilities	34,273	40,497
Long-Term Liabilities		
Long-term debt	33,130	10,284
Accrued retirement benefits	29,796	29,792
Other long-term liabilities	13,804	13,729
Total long-term liabilities	76,730	53,805
Minority Interest in Subsidiary	532	517
Commitments and Contingencies		
Stockholders Equity		
Common stock, no par value 9,000,000 and 8,000,000 shares authorized, 7,260,779 and 7,254,779 issued and outstanding	14,401	14,186
Additional paid-in-capital	4,446	2,930
Retained earnings	84,222	75,540
Accumulated other comprehensive loss	(1,476 )	(1,476 )
Stockholders Equity	101,593	91,180
Total	\$ 213,128	\$ 185,999

See accompanying Notes to Condensed Consolidated Financial Statements.

## MAUI LAND &amp; PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND RETAINED EARNINGS

(UNAUDITED)

	Three Months Ended	
	9/30/06	9/30/05
	(in thousands except share amounts)	
Operating Revenues		
Net sales	\$ 29,768	\$ 35,510
Operating income	10,010	8,557
Other income	83	35
Total Operating Revenues	39,861	44,102
Operating Costs and Expenses		
Cost of sales	16,845	18,570
Operating expenses	9,973	9,462
Shipping and marketing	4,658	3,878
General and administrative	10,339	9,299
Total Operating Costs and Expenses	41,815	41,209
Operating Income (Loss)	(1,954 )	2,893
Equity in income (loss) of affiliates	(2,214 )	30
Interest expense	(131 )	(71 )
Interest income	343	158
Income (Loss) Before Income Taxes	(3,956 )	3,010
Income Tax Expense (Benefit)	(1,463 )	1,006
Net Income (Loss)	(2,493 )	2,004
Retained Earnings, Beginning of Period	86,715	68,710
Retained Earnings, End of Period	\$ 84,222	\$ 70,714
Earnings Per Common Share		
Basic	\$ (0.34 )	\$ 0.28
Diluted	\$ (0.34 )	\$ 0.27

See accompanying Notes to Condensed Consolidated Financial Statements.

## MAUI LAND &amp; PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)  
AND RETAINED EARNINGS

(UNAUDITED)

	Nine Months Ended	
	9/30/06	9/30/05
	(in thousands except share amounts)	
Operating Revenues		
Net sales	\$ 101,590	\$ 106,789
Operating income	30,526	26,229
Other income	278	415
Total Operating Revenues	132,394	133,433
Operating Costs and Expenses		
Cost of sales	45,925	53,968
Operating expenses	29,746	27,218
Shipping and marketing	11,531	10,845
General and administrative	29,100	25,801
Total Operating Costs and Expenses	116,302	117,832
Operating Income	16,092	15,601
Equity in losses of affiliates	(3,582 )	(186 )
Interest expense	(160 )	(308 )
Interest income	1,155	188
Income Before Income Taxes	13,505	15,295
Income Tax Expense	4,823	5,552
Net Income	8,682	9,743
Retained Earnings, Beginning of Period	75,540	60,971
Retained Earnings, End of Period	\$ 84,222	\$ 70,714
Earnings Per Common Share		
Basic	\$ 1.20	\$ 1.35
Diluted	\$ 1.18	\$ 1.33

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Nine Months Ended</b>	
	<b>9/30/06</b>	<b>9/30/05</b>
	<b>(in thousands)</b>	
Net Cash Provided by (Used in) Operating Activities	\$ (15,788 )	\$ 3,449
Investing Activities		
Purchases of property	(36,029 )	(11,250 )
Proceeds from disposal of property	38,156	2,740
Contributions to affiliates	(7,523 )	
Other	(7,333 )	(2,301 )
Net Cash Used in Investing Activities	(12,729 )	(10,811 )
Financing Activities		
Payments of long-term debt and capital lease obligations	(53,263 )	(12,287 )
Proceeds from long-term debt	76,000	11,600
Net Cash Provided by (Used in) Financing Activities	22,737	(687 )
Net Decrease in Cash and Cash Equivalents	(5,780 )	(8,049 )
Cash and Cash Equivalents at Beginning of Period	7,216	11,531
Cash and Cash Equivalents at End of Period	\$ 1,436	\$ 3,482

Supplemental Disclosures of Cash Flow Information Interest (net of amounts capitalized) of \$-0- and \$316,000 was paid during the nine months ended September 30, 2006 and 2005, respectively. Income taxes of \$6,534,000 and \$303,000 were paid during the nine months ended September 30, 2006 and 2005, respectively.

Non-Cash Investing Activities Amounts included in accounts payable for additions to property and other assets totaled \$6,260,000 and \$2,041,000 at September 30, 2006 and 2005, 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 September 30, 2006 and 2005.
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 September 30, 2006 and 2005.
4. The effective tax rate for 2006 and 2005 differs from the statutory federal rate primarily because of the state tax provision and state tax credits.
5. Accounts and notes receivable are reflected net of allowance for doubtful accounts of \$409,000 and \$265,000 at September 30, 2006 and December 31, 2005, respectively.
6. Inventories as of September 30, 2006 and December 31, 2005 were as follows:

	9/30/06 (in thousands)	12/31/05
Pineapple products		
Finished goods	\$ 5,299	\$ 2,425
Work in progress	833	367
Raw materials	1,953	861
Real estate held for sale	8,354	5,651
Merchandise, materials and supplies	7,553	8,001
Total Inventories	\$ 23,992	\$ 17,305

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 cannery. 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 at September 30, 2006 consisted of approximately 3,700 acres that are expected to yield approximately 29 tons per acre. At December 31, 2005, growing crops consisted of approximately 5,500 acres that are expected to yield



approximately 33 tons per acre. The Company's growing crops are in various stages of development, and will be harvested principally in the years 2006 through 2008.

The Company uses the percentage-of-completion method to recognize revenues and profits from the sale of residential land parcels where the Company is obligated to construct improvements (roads, sidewalks, drainage, and utilities) after the closing of the sale. Under this method, revenues are recognized over the improvement construction period on the basis of costs incurred as a percentage of total costs to be incurred. The Company recognizes revenues and profits using the percentage-of-completion method for the sale of lots that closed escrow in Honolua Ridge Phase I and Phase II residential subdivision at the Kapalua Resort. In the first nine months of 2006, eight lots closed escrow in Honolua Ridge Phase II bringing the number sold to 15, with 10 lots remaining to be sold. At September 30, 2006, construction of the improvements for Honolua Phase II was estimated to be approximately 83% complete. Construction of Honolua Ridge Phase I and all of the lot sales were completed by the end of 2005. Costs of sales are allocated to each lot based on relative sales values. The estimated costs of the projects consist primarily of executed contracts with contractors. These estimates could be affected by unanticipated construction or land conditions that could result in additional change orders to the existing contracts or other unforeseen variables that may affect the total cost of the improvements to be constructed. At September 30, 2006, deferred revenues (current liability) on the Company's balance sheet related to Honolua Ridge Phase II were \$6.5 million.

## 7. Real Estate Sales

In March 2006, the Company sold approximately 1,800 acres of Upcountry Maui land for \$22.9 million. The Company recognized a gain of \$21.5 million and deposited cash proceeds of \$21.9 million with a qualified exchange intermediary. As of September 30, 2006, the re-investment period expired on \$38 million of proceeds, including the March 2006 sale and previous sales of properties in 2005, and the funds were returned to the Company by the exchange intermediary.

## 8. Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, using the modified prospective application transition method. The Company had previously accounted for its stock-based compensation arrangements under SFAS No. 123, *Accounting for Stock-Based Compensation*. Because the fair value recognition provisions of SFAS No. 123 and SFAS No. 123(R) were materially consistent under the Company's equity plans, the adoption of SFAS No. 123(R) did not have a significant impact on the Company's financial position or results of operations. SFAS No. 123(R) requires all share-based payments, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. Under the modified prospective method, awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS No. 123(R). The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. In addition, prior to adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123(R) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

The total compensation expense recognized for stock-based compensation was \$1,731,000 and \$1,667,000 for the nine months ended September 30, 2006 and 2005, respectively, and \$522,000 and \$500,000, for the three months ended September 30, 2006 and 2005, respectively. The total tax benefit related thereto was \$606,000 and \$600,000, for the nine months ended September 30, 2006 and 2005, respectively, and \$183,000 and \$180,000, for the three months ended September 30, 2006 and 2005, respectively.

*Stock Options*

In May 2006, the Company's shareholders approved the 2006 Equity and Incentive Award Plan (the 2006 Plan) and an increase in the number of shares of common stock authorized under the Articles of Association by 1,000,000 shares, all of which have been reserved for issuance under the 2006 Plan. The 2006 Plan provides that the administrator can grant stock options and other equity instruments. The terms of certain grants types follow general guidelines, but the term and conditions of each award can vary at the discretion of the administrator. With respect to awards granted to non-employee directors, the administrator of the 2006 Plan is the Board of Directors. The Compensation Committee of the Board is the administrator of the 2006 Plan for all other persons, unless the Board assumes authority for administration. Upon approval of the 2006 Plan, the Company's Stock and Incentive Compensation Plan of 2003 (the 2003 Plan) was terminated and no further grants will be made under that plan.

The 2003 Plan was approved by the Company's shareholders in December 2003 and included 500,000 shares of common stock authorized for issuance. The Company also has stock compensation agreements with its President and Chief Executive Officer under which non-qualified stock options (200,000 shares) and restricted stock (100,000 shares) were granted in 2003.

A summary of stock option award activity as of and for the nine months ended September 30, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value \$(000)(1)
Outstanding at December 31, 2005	613,500	\$ 28.99		
Granted	325,000	\$ 37.86		
Exercised				
Forfeited	(26,500 )	\$ 38.95		
Outstanding at September 30, 2006	912,000	\$ 31.86	8.0	\$ 2,411
Exercisable at September 30, 2006	302,233	\$ 25.00	6.2	\$ 1,934

**(1) For in the money options**

The weighted average fair value of options granted during the nine months ended September 30, 2006 and 2005 was \$5,206,000 and \$1,899,000, respectively. The total fair value of shares vested during the nine months ended September 30, 2006 and 2005 was \$1,060,000 and \$780,000, respectively.

For the nine months ended September 30, 2006 and 2005, the fair value of the Company's stock options awarded to employees was estimated using a Black-Scholes option pricing model and the following weighted average assumptions:

	Nine Months Ended September 30,	
	2006	2005
Expected life of options in years	6.2	5.0
Expected volatility	32.4 %	33.7 %
Risk-free interest rate	5.0 %	3.8 %
Expected dividend yield		

SFAS No. 123(R) requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 6.3%.

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Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

As of September 30, 2006, there was \$7,654,000 of total unrecognized compensation for awards granted under the stock options plans that is expected to be recognized over a weighted average period of 2.3 years.

### *Restricted Stock*

In 2006, 149,750 shares of restricted stock were granted pursuant to the 2006 and 2003 Plans, including 100,000 shares to the Company's President and Chief Executive Officer, 8,250 shares to new and re-elected directors, and the remainder to certain officers of the Company. The restricted shares vest as service is provided or vest subject to the achievement of certain performance measures. In the first nine months of 2006, 6,000 shares of restricted stock vested as the directors' service requirements were met. The weighted average grant-date fair value of restricted stock granted during the nine months ended September 30, 2006 and 2005 was \$35.94 and \$39.00, per share, respectively.

A summary of the activity for nonvested restricted stock awards as of and for the quarter ended September 30, 2006 is presented below:

	Shares	Weighted Average Grant Date Fair Value (\$)
Nonvested balance at December 31, 2005	123,771	27.90
Granted	149,750	35.94
Forfeited	(6,250 )	34.62
Vested	(6,000 )	35.90
Nonvested balance at September 30, 2006	261,271	32.99

## 9. Operating Segment Information:

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
	(in thousands)			
<b>Revenues</b>				
Agriculture	\$ 18,231	\$ 20,295	\$ 48,495	\$ 52,338
Resort	10,782	9,615	35,148	30,642
Community Development	10,905	14,124	48,506	50,351
Other	(57 )	68	245	102
Total Operating Revenues	\$ 39,861	\$ 44,102	\$ 132,394	\$ 133,433
<b>Operating Profit (Loss)*</b>				
Agriculture	\$ (3,972 )	\$ (2,490 )	\$ (9,697 )	\$ (7,181 )
Resort	(1,975 )	(2,202 )	(3,400 )	(4,230 )
Community Development	2,028	7,631	26,098	26,967
Other	(249 )	(16 )	(491 )	(141 )
Total Operating Profit (Loss)	(4,168 )	2,923	12,510	15,415
Interest Expense	(131 )	(71 )	(160 )	(308 )
Interest Income	343	158	1,155	188
Income Tax (Expense) Benefit	1,463	(1,006 )	(4,823 )	(5,552 )
Net Income (Loss)	\$ (2,493 )	\$ 2,004	\$ 8,682	\$ 9,743

\* Includes allocated corporate general and administrative expenses



In 2006, responsibility for the Company's Public Utilities Commission regulated water and sewage transmission operations that were accounted for in the Resort segment was transferred to the Community Development segment and prior year amounts were restated for comparability.

The Community Development segment as reorganized is comprised of all of the Company's real estate entitlement, development, construction, sales, leasing and conservation activities, and Public Utilities Commission regulated water and sewage transmission operations. The Community Development segment also includes the Company's 51% equity interest in Kapalua Bay Holdings LLC (Note 14). Remaining in the Resort segment are the operations of three championship golf courses, a tennis facility, several retail outlets, and a vacation rental program (The Kapalua Villas) at the Kapalua Resort.

**10. Average Common Shares Outstanding Used to Compute Earnings Per Share**

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Basic	7,258,800	7,230,319	7,256,815	7,228,501
Diluted	7,258,800	7,303,749	7,350,597	7,315,657

For the three months ended September 30, 2006, potentially dilutive common shares of 91,160 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).

**11. Components of Net Periodic Benefit Cost**

	Three Months Ended September 30, 2006 (in thousands)		Nine Months Ended September 30, 2006 2005	
	2006	2005	2006	2005
<b>Pension Benefits</b>				
Service cost	\$ 587	\$ 346	\$ 1,389	\$ 1,204
Interest cost	947	706	2,459	2,268
Expected return on plan assets	(909 )	(804 )	(2,525 )	(2,424 )
Amortization of prior service cost	11	17	35	41
Amortization of transition liability	7	6	19	19
Curtailment loss	74		74	
Recognized actuarial loss	304	33	498	285
Net expense	\$ 1,021	\$ 304	\$ 1,949	\$ 1,393
<b>Other Benefits</b>				
Service cost	\$ 56	\$ 109	\$ 250	\$ 292
Interest cost	101	232	577	712
Amortization of prior service cost	(31 )	(31 )	(95 )	(96 )
Special termination benefits	69		69	
Curtailment (gain)	(7 )		(7 )	
Recognized actuarial (gain)	(284 )	(16 )	(386 )	(152 )
Net Expense	\$ (96 )	\$ 294	\$ 408	\$ 756

The Company expects to contribute \$2.2 million to its defined benefit pension plans and expects to contribute \$686,000 to its other post-retirement benefit plans in 2006. In September 2006, as a result of efficiencies gained with the new fresh fruit packing facility that commenced operations at the end of June 2006, the Company reduced its workforce by approximately 6%. This resulted in a curtailment loss to the bargaining and hourly pension plan and a curtailment gain to the postretirement health plan. The Company also recognized special termination benefits for additional years of service credited to postretirement health insurance benefits for the former workers who were eligible for retirement.

## 12. Commitments and Contingencies

Pursuant to a 1999 settlement agreement with the County of Maui, the Company and several chemical manufacturers have agreed that until December 1, 2039, they will pay for 90% of the capital cost to install filtration systems in any future water wells if the presence of a nematocide commonly known as DBCP exceeds specified levels, and for the ongoing maintenance and operating cost for filtration systems on existing and future wells. The Company estimated its share of the cost to operate and maintain the filtration systems for the existing wells and its share of the cost of a letter of credit used to secure its obligations, and recorded a liability of \$250,000 in 1999. The Company recognized an additional liability and expense of \$48,000 and \$167,000 in 2005 and 2004, respectively, and paid \$238,000 in 2005 for its share of the capital costs to install a filtration system for an existing well. The Company is presently not aware of any plans by the County of Maui to install other filtration systems or to drill any water wells in areas affected by agricultural chemicals. Accordingly, a reserve for costs relating to any future wells has not been recorded because the Company is not able to reasonably estimate the amount of liability (if any).

In addition to the matter noted above, there are various other claims and legal actions pending against the Company. In the opinion of management, after consultation with legal counsel, the resolution of these other matters is not expected to have a material adverse effect on the Company's financial position or results of operations.

The Company, as an investor in various affiliates (partnerships, limited liability companies), may under specific circumstances be called upon to make additional capital contributions.

At September 30, 2006, the Company had commitments under signed contracts totaling \$21.7 million, which primarily relate to real estate development projects.

## 13. Related Party Transactions

In March 2006, the Company entered into an agreement to sell 190 acres of Upcountry Maui land and improvements thereon to David C. Cole, the Company's Chairman, President and Chief Executive Officer, for \$4.9 million. As provided for in the purchase and sale agreement, in August 2006, the boundaries of the subject property were adjusted to accommodate natural topographic features based on completion of a survey map; and accordingly, an amendment to the agreement revises the sales price to \$4.1 million for 157 acres. Prior to the closing of the sale, the Company will lease a 3,500 square foot residence that is located on the property to Mr. Cole for \$1,500 per month, which amount represents fair market value based on an estimate by a third party realtor.

In August 2006, the Company entered into an agreement to sell approximately 89 acres of Upcountry Maui land to Duncan MacNaughton, a member of the Company's Board of Directors, for \$3.6 million. The agreement with Mr. MacNaughton was cancelled in November 2006.

In April 2006, the Company entered into an agreement to sell approximately 181 acres of Upcountry Maui land to a Vice President/Community Development of the Company for \$2.8 million.

These land sale agreements were structured in compliance with the Company's policy for related party real estate sales. Such policy requires an independent appraisal of the property value, allows for a

3% discount to the sales price in lieu of broker's commissions, and requires review and approval of the sales price by the Audit Committee of the Board of Directors (the Committee). The Committee reviewed the appraisals and the terms of the agreements with the other independent Directors, and the sales were approved by all of the independent Directors. The sales agreements require a deposit of \$50,000 upon execution and the balance of the sales price is payable in cash upon closing of the sale. Subdivision of the land parcels is a condition precedent to the closing of the sales. The Company estimates that the closings will occur in 2007. The subject properties had been previously designated for sale in 2004 as part of the real estate that is considered non-core to the Company's operations.

#### 14. 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). Kapalua Bay intends to construct a residential development on land that it owns at the site of the former Kapalua Bay Hotel, which was closed in April 2006, and a spa on an adjacent parcel of land that is owned by the Company and leased to 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.

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). Upon closing of the Loan, the lender disbursed an initial advance of \$40.1 million to Kapalua Bay. Kapalua Bay paid Lehman a loan fee of \$3.7 million out of the proceeds of the initial advance under the Loan Agreement, which payment represents one percent (1.0%) of the maximum Loan amount and is non-refundable regardless of when the loan is repaid or whether any further advances of the Loan are made. 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. The lender is not obligated to make further advances until certain building permits for the project have been issued. The Company estimates that such building permits will be issued in the fourth quarter of 2006. After issuance of the building permits, Kapalua Bay may borrow up to an additional \$44.9 million for certain purposes, for a total advance of \$85 million. Subsequent borrowings by Kapalua Bay are contingent upon sales of residential units equal to or exceeding \$285.0 million. As of October 2006, Kapalua Bay has received approximately \$190 million in non-binding sales commitments.

Interest accrues on the Loan at a floating rate equal to the one (1) month LIBOR rate plus two hundred twenty (220) basis points, or 2.2% (the Adjusted LIBOR Rate). Subject to certain limitations, during the term of the Loan, Kapalua Bay may elect to have the then-current Adjusted LIBOR Rate apply to some or all of the outstanding Loan amount. All principal and interest amounts due under the Loan shall be due and payable in full on August 1, 2009 unless Kapalua Bay elects to extend the maturity date for up to two additional terms of twelve (12) months, which elections are subject to the satisfaction of certain conditions. Kapalua Bay may not prepay the Loan at any time prior to the second anniversary of the Effective Date, but may prepay the Loan thereafter, provided that it pays certain costs and fees as set forth in the Loan Agreement.

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.

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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 Loan Agreement. During the first nine months of 2006, the Company made cash contributions of \$7.5 million to the joint venture.

Summarized operating statement information for Kapalua Bay Holdings, LLC for the three months and nine months ended September 30, 2006 and 2005 were as follows:

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>	<b>2005</b>	<b>Ended September 30,</b>	<b>2005</b>
	<b>2006</b>		<b>2006</b>	
	<b>(in thousands)</b>			
Revenues	\$ 197	\$ 6,689	\$ 6,865	\$ 18,727
Expenses	4,539	6,798	13,890	19,110
Net Profit (Loss)	\$ (4,342 )	\$ (109 )	\$ (7,025 )	\$ (383 )

Note: Kapalua Bay Hotel was closed for demolition in April 2006 in connection with the construction of the residential development. The Company's portion of the losses is recorded as Equity in Losses of Affiliates in the Condensed Consolidated Statements of Operations.

### 15. New Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The new interpretation will be effective for fiscal years beginning after December 15, 2006. The Company will be required to adopt this interpretation in the first quarter of 2007. At this time, the Company has not completed its review and assessment of the impact of adoption of FIN 48.

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS No. 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157, but does not expect that the adoption of SFAS No. 157 will have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS No. 158), Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans. The standard amends FASB Statements Nos. 87, 88, 106 and 132(R) and would require an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The pension asset or liability is the difference between the plan assets at fair value and the projected benefit obligation as of year end. The Company is required to adopt this standard effective for the year ending December 31, 2006.



The Company is currently assessing the impact of SFAS No. 158 on its consolidated financial position, results of operations, or cash flows.

**16. Subsequent Event**

On October, 27, 2006, the Company, as Borrower, entered into a Loan Agreement with the Bank of Hawaii, as Lender, which was subsequently assigned by the Bank of Hawaii to GE Capital Public Finance, Inc. Pursuant to the terms of a Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing executed by the Company in favor of the Lender, the loan is secured by approximately 24 acres of land and other real estate comprising the Company's cannery property. The principal amount of the loan is \$10 million and interest on the loan accrues at a fixed rate of 6.93%. The loan is fully amortized over a 20-year term with monthly interest and principal payments of \$77,169 commencing on December 1, 2006. The Company may prepay the outstanding principal of the loan at anytime subject to a prepayment penalty of 2% in the first year and 1% in the second year of the loan.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2005 and the unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. Depending upon the context, the terms the Company, we, our, and us, refers to either the Company alone, or the Company and its subsidiaries.

*Overview of the Company*

Maui Land & Pineapple Company, Inc. is a Hawaii corporation and the successor to a business organized in 1909. Principal subsidiaries include Maui Pineapple Company, Ltd. and Kapalua Land Company, Ltd. Our reportable operating segments are Agriculture, Resort and Community Development.

*Agriculture*

The Agriculture segment primarily includes growing, packing, processing, and marketing processed and fresh pineapple. The fruit grown by us principally consists of three types of pineapple, *Maui Gold* and *Hawaiian Gold*® (usually sold as fresh, whole fruit), *Champaka* (largely used for canning) and fresh organic pineapple.

Our current strategy is to expand our presence in the fresh pineapple market, while selectively reducing our reliance on the processed pineapple market. Therefore, over recent years, we have decreased the tonnage of fruit going to our cannery and commensurately reduced the number of processed pineapple customers that we serve.

Our strategy focuses on marketing only the highest quality of fresh pineapple. We use our processed pineapple operations to complement the fresh operations, and direct fruit to either our processed or our fresh packing facility at the time of harvest based on a variety of factors, including market conditions, fruit size and fruit quality. The transition of our Agriculture operations continues with an emphasis on automating many labor-intensive functions and upgrading our workforce through selective training and performance-based compensation programs.

The fresh fruit market is a year-round business, which requires consistency of supply. Over the past two years, we have made significant progress in changing our agronomic practices and planting schedules to produce a more consistent and predictable supply of fruit throughout the year. In addition, we have made significant progress in implementing improved crop maintenance and agronomic practices that we believe will improve our plant yields (tons of fruit per acre) and fruit quality.

*Resort*

The Kapalua Resort is part of approximately 21,800 acres of our land-holdings in West Maui, most of which remain as open space. Presently, the Kapalua Resort development includes approximately 2,575 acres bordering the ocean with five white sand beaches and includes The Ritz-Carlton, Kapalua, eight residential subdivisions, three championship golf courses (The Bay, The Village and The Plantation), a ten-court tennis facility, several restaurants, and over 800 single family residential lots, condominiums and homes. We operate Kapalua Resort's three golf courses, the tennis facility, several retail shops, a vacation rental program (The Kapalua Villas), and provide certain services to the Resort. As of September 30, 2006 we had 264 units in the Kapalua Villas vacation rental program.

### *Community Development*

The Community Development segment includes our real estate entitlement, development, construction, sales, leasing, and conservation activities. The focus for this segment is the creation of holistic communities, including a broad range of residential products on Maui. The segment also includes the operations of Kapalua Realty Company, our general brokerage real estate company located within the Resort, and our Public Utilities Commission regulated water and sewage operations that service the Kapalua Resort.

The Community Development segment also includes the management of several leases, including the ground lease underlying The Ritz-Carlton, Kapalua, and our 51% equity interest in Kapalua Bay Holdings LLC, the limited liability company that purchased the Kapalua Bay Hotel. Kapalua Bay Holdings LLC is demolishing the Kapalua Bay Hotel and the adjacent shops in order to develop new whole and fractional residential units, an ocean-side spa, and a beach club at that location.

We have approximately 1,700 acres of land in Maui that are at various stages in the land entitlement process. We must obtain appropriate entitlements for land that we intend to develop or use for construction. Securing proper land entitlement is a process that requires obtaining county, state and federal approvals, which can take several years to complete and entails a variety of risks.

The Community Development segment is working on a number of real estate development and Kapalua Resort revitalization projects, some of which are as follows:

- Honolua Ridge Phase II is a 25-lot subdivision of agricultural zoned land at the Kapalua Resort, which is presently under construction and being sold. The lots range in size from 4 to 30 acres.
- Kapalua Mauka is a 690-unit residential, golf and commercial project, which received zoning approval in February 2006. Detailed planning for Kapalua Mauka is currently underway.
- Pulelehua is a proposed new urbanism community of approximately 882 units in West Maui that will include a variety of housing types, mixed commercial and residential uses, and neighborhood serving commercial uses. Over 50% of the homes and apartments are intended to be affordable for working families as defined by the County of Maui. We are presently in the entitlement phase of this project.
- Hali`imaile Town is a planned new town in Upcountry Maui that we expect to be a holistic community where sustainable agriculture, education, and green building principles are core design elements. We are presently in the conceptual design phase of this project, with entitlement applications to be submitted in 2007. We are proceeding with the design of a mixed-use residential and commercial area on eleven acres of existing urban-zoned land.

### *Current Developments*

In the third quarter of 2006, some of the Company's significant transactions, events and key initiatives include the following:

- The third quarter was the first full quarter of fresh fruit processing at the Company's new fresh fruit packing facility in Kahului. Operations commenced at the new facility at the end of June.
- In July, demolition of the Kapalua Bay Hotel commenced, and we began sales of fractional ownership units that will be constructed on the site. Sale of the whole-ownership units began in June. Construction loan financing for this project was also concluded in July.
- In July, we announced the formation of Hawaii BioEnergy LLC, an international consortium including our Company. The LLC will research the viability of renewable energy crops, products and services in the State of Hawaii.



- In July, our Agriculture segment and corporate services implemented a new accounting system. Implementation of this system for our Resort and Community Development segments was completed in May.
- In August, we began implementation of our plans to centralize and reorganize our accounting and other corporate service functions.
- In September, we held a Pineapple Festival at our Kahului cannery grounds that was free to the public and celebrated the past, present and the future of pineapple in Maui.
- In September and early October, the Company terminated through voluntary resignation and layoffs approximately 6% of its work force as the improved technology of our new fresh fruit packing facility automated certain tasks.

#### Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of accounting estimates. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The Company's critical accounting policies that require the use of estimates and assumptions were discussed in detail in the most recently filed Form 10-K and have not changed materially from that discussion.

#### RESULTS OF OPERATIONS

*Three Months Ended September 30, 2006 compared to Three Months Ended September 30, 2005*

#### CONSOLIDATED

	Three Months Ended September 30,		
	2006	2005	difference
	(in millions, except per share amounts)		
<i>Consolidated Revenues</i>	\$ 39.9	\$ 44.1	\$ (4.2 )
<i>Net Income (Loss)</i>	\$ (2.5 )	\$ 2.0	\$ (4.5 )
<i>Basic Earnings Per Common Share</i>	\$ (0.34 )	\$ 0.28	\$ (0.62 )

We reported a net loss of \$2.5 million (\$.34 per share) for the third quarter of 2006 compared to net income of \$2.0 million (\$.28 per share) for the third quarter of 2005. The primary difference in operating results between the three months ended September 30, 2006 and 2005 was due to \$6.0 million in revenues and \$5.6 million in consolidated pre-tax profit from land sales that were recorded in the three months ended September 30, 2005. Consolidated revenues for the third quarter of 2006 were \$39.9 million compared to \$44.1 million for the third quarter of 2005. The reduction in consolidated revenues in the third quarter of 2006 was partially due to a decrease of \$2.1 million in revenues from the Agriculture segment and a decrease of \$3.2 million in revenues from the Community Development segment, partially offset by an increase of \$1.2 million in revenues from the Resort segment.

#### *General and Administrative*

Consolidated general and administrative expenses increased by 11%, or \$1.0 million to \$10.3 million for the third quarter of 2006 from \$9.3 million for the third quarter of 2005.

The major components of the difference in general and administrative expenses were as follows:

	Three Months Ended September 30,		
	2006 (in millions)	2005	difference
Salaries & wages	\$ 2.8	\$ 2.2	\$ 0.6
Employee incentives & stock compensation	0.3	0.7	(0.4 )
Employee severance	1.7	0.2	1.5
Pension and other postretirement expense	0.9	0.6	0.3
Professional services	1.3	1.9	(0.6 )
Depreciation expense	0.9	1.4	(0.5 )
Other	2.4	2.3	0.1
Total	\$ 10.3	\$ 9.3	\$ 1.0

Approximately half of the increase in salaries and wages in the third quarter of 2006 was due to salaries and wages for our Agriculture segment personnel who were taken out of operations to be trained for other work. These employees were removed from the pineapple operations in connection with our transition to a less labor-intensive operation that is more focused on fresh fruit. The remaining increase in salaries and wages was the result of increases in personnel and wage adjustments. The increase in employee severance cost reflects the reduction in the Agriculture segment work force in September 2006.

Pension expense increased in the third quarter of 2006 compared to the third quarter of 2005 primarily because of reduction in the discount rate from 6% to 5.875% between the two periods and the use of an updated mortality table in 2006.

The decrease in professional services primarily reflects costs incurred in 2005 to maintain and adjust the accounting system that was being used by our corporate services and Agriculture segment. A decision was made in the fourth quarter of 2005 to replace accounting information technology systems and standardize our primary accounting systems and processes used by all of our businesses. In addition, the decrease in professional service costs in the third quarter of 2006 is due to higher cost incurred in 2005 to prepare the Company for compliance with the Sarbanes-Oxley Act of 2002, Section 404.

The reduction in depreciation expense charged to general and administrative expense reflects the change in estimated useful lives for our cannery and can plant assets. In 2005, we estimated that the new cannery and can plant would be in service by the end of the second quarter of 2006. In January 2006, our plans were revised to move forward with the fresh fruit packing facility and to postpone the completion of the cannery and can plant renovations to 2007. We prospectively revised the depreciation charges in the fourth quarter of 2005 for this change in estimated useful lives of the cannery and can plant. The reduction in depreciation expense for the cannery and can plant was partially offset by the acceleration of depreciation charges for the agriculture and corporate accounting systems. These accounting system assets were fully depreciated in the first half 2006, as the new accounting system was placed in service as of the beginning of the third quarter of 2006.

General and administrative expenses are incurred at the corporate level and at the operating segment level. All general and administrative expenses incurred at the corporate level are allocated to the operating segments. Such allocations are consistent with our management's evaluation of service provided to the operating segments.

#### *Interest Expense*

Interest expense was \$131,000 for the third quarter of 2006 compared to \$71,000 for the third quarter of 2005. Interest incurred in the third quarter of 2006 was \$726,000, of which \$595,000 was capitalized to construction projects. Our major capital projects under construction in 2006 include Honolua Ridge

Phase II, The Village at Kapalua Resort, the fresh fruit packing facility and corporate offices, and replacement of our accounting systems. In the third quarter of 2005, interest incurred was \$320,000 of which \$249,000 was capitalized. Our effective interest rate on borrowings was 7.8% in the third quarter of 2006 compared to 6.6% in the third quarter of 2005.

## AGRICULTURE

	Three Months Ended September 30,		
	2006	2005	difference
	(in millions)		
Revenues	\$ 18.2	\$ 20.3	\$ (2.1 )
% of consolidated revenues	46 %	46 %	
Operating Loss	\$ (4.0 )	\$ (2.5 )	\$ (1.5 )

The Agriculture segment produced an operating loss of \$4.0 million for the third quarter of 2006 compared to an operating loss of \$2.5 million for the third quarter of 2005. Revenues for the third quarter of 2006 were \$18.2 million or 10% lower than the third quarter of 2005.

The Agriculture segment revenues were lower in the third quarter of 2006 compared to the third quarter of 2005 because lower case volume of processed pineapple sales were only partially offset by higher case volume of fresh pineapple sales. Operating losses reported by the Agriculture segment for the third quarters of 2006 and 2005 included \$568,000 and \$715,000, respectively, of accelerated depreciation charges for assets where the estimated useful lives have been reduced because of changes in our pineapple operations. In addition, the Agriculture segment recorded charges of \$387,000 and \$210,000, in the third quarters of 2006 and 2005, respectively, related to re-training employees; and severance charges of \$1.6 million in the third quarter of 2006 as a result of the severance of a portion of the Agriculture workforce because of production efficiencies gained by the operation of the new fresh fruit packing plant.

### *Processed and Fresh Operations*

The case volume of fresh pineapple sales increased by 17% and the average revenue per case of fresh pineapple sold decreased by 7% in the third quarter of 2006 compared to the third quarter of 2005. Revenues from fresh pineapple sales were approximately 46% of the Agriculture segment net sales for the third quarter of 2006, compared to approximately 38% for the third quarter of 2005.

The case volume of processed pineapple sales decreased by 27% for the third quarter of 2006 as compared to the third quarter of 2005 primarily reflecting our strategy to reduce supply to selected retail market segments. The average sales prices for our processed pineapple products increased by approximately 5% for the third quarter of 2006 compared to the third quarter of 2005.

Processed pineapple sold to the U. S. Government (primarily to the Department of Agriculture) comprised approximately 44% of our case volume of canned pineapple sales in the third quarter of 2006 compared to 46% in the third quarter of 2005.

The Agriculture segment cost of sales was lower by 15% in the third quarter of 2006 compared to the third quarter 2005, primarily reflecting the reduced sales volume of processed pineapple partially offset by the increased sales volume of fresh pineapple. The average per unit cost of sales for processed pineapple was higher in 2006 compared to 2005 because of the reduced tonnage of fruit being processed, while the average per unit cost of sales for fresh pineapple was approximately 9% lower primarily reflecting efficiencies that the operation is beginning to realize with the operation of the new fresh fruit packing facility.

Agriculture segment shipping and marketing cost increased by \$519,000 or 19%, in the third quarter of 2006 as compared to the third quarter of 2005 principally reflecting the higher sales volume of fresh pineapple and increased freight fuel surcharge costs. We have been able to partially mitigate the effects of increased shipping costs by increasing our usage of ocean transportation to ship our fresh product to the mainland United States. In the third quarter of 2006 we shipped approximately 95% of our fresh product to the mainland United States by ocean transportation (as compared to air freight, which is more costly) compared to 79% in the third quarter of 2005.

## RESORT

	Three Months Ended September 30,		difference
	2006 (in millions)	2005	
Revenues	\$ 10.8	\$ 9.6	\$ 1.2
% of consolidated revenues	27 %	22 %	
Operating Loss	\$ (2.0 )	\$ (2.2 )	\$ 0.2

The Resort segment reported an operating loss of \$2.0 million for the third quarter of 2006 compared to \$2.2 million for the third quarter of 2005. Resort segment revenues were \$10.8 million for the third quarter of 2006 compared to \$9.6 million for the third quarter of 2005, an increase of 12%, as a result of increased revenues from the Kapalua Villas and from our golf operations primarily due to rate increases.

Hotel and condominium room occupancies at the Kapalua Resort and to a somewhat lesser extent for Maui in general, largely drives resort activity as reflected by increased golf play and merchandise sales. In early April 2006, the Kapalua Bay Hotel held its final guest night and the hotel was permanently closed, resulting in approximately 20% fewer rooms available at Kapalua Resort, and as expected, negatively affecting the number of paid rounds of golf and retail sales in 2006.

### *Golf, Retail and Villas*

Revenues from golf operations increased by 7% for the third quarter of 2006 compared to the third quarter of 2005. Paid rounds of golf decreased by 17% and average green and cart fees increased by 40% in the third quarter of 2006 compared to the third quarter of 2005.

Resort retail sales for the third quarter of 2006 were about 10% lower than sales in the third quarter of 2005, reflecting the closure in May 2006 of our Logo Shop, Kids Shop and Home Store comprising approximately 5,800 square feet in the Kapalua Shops following the closure of the adjacent Kapalua Bay Hotel. In mid-October 2006, our new 1,900 square foot Kapalua Collections store featuring upscale resort wear opened at the new Honolua Village Center in our central resort area.

Revenues from the Kapalua Villas were higher in the third quarter of 2006 compared to the third quarter of 2005 reflecting a 16% higher average room rate partially offset by a 9% decrease in the number of occupied rooms. The increase in average room rate in the third quarter of 2006 compared to the third quarter of 2005 reflects an increase in direct bookings and a more aggressive pricing strategy across all channels and product categories that reflect a shift to higher-end products and service at the Kapalua Resort.



**COMMUNITY DEVELOPMENT**

	<b>Three Months Ended September 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>difference</b>
	<b>(in millions)</b>		
<i>Revenues</i>	\$ 10.9	\$ 14.1	\$ (3.2 )
<i>% of consolidated revenues</i>	27 %	32 %	
<i>Operating Profit</i>	\$ 2.0	\$ 7.6	\$ (5.6 )

The Community Development segment reported an operating profit of \$2.0 million for the third quarter of 2006 compared to \$7.6 million for the third quarter of 2005. Revenues from this operating segment decreased by 23% to \$10.9 million for the third quarter of 2006 compared to \$14.1 million for the third quarter of 2005.

Lower results in 2006 primarily reflect land sales transactions during the third quarter of 2005, and our equity in the losses of Kapalua Bay LLC that were recorded in 2006. In the third quarter of 2005, the Company concluded the sale of approximately 109 acres of Upcountry Maui land. Revenues of \$6.0 million and operating profit of \$5.6 million from this real estate sales transactions were recognized by the Community Development segment in the third quarter of 2005.

Our equity in the losses of Kapalua Bay Holdings, LLC was \$2.2 million in the third quarter of 2006 compared to \$56,000 in the third quarter of 2005. The increased loss was primarily the result of closure of the Kapalua Bay Hotel in April 2006 and the preparation for and commencement of sales and marketing efforts for the whole and fractional condominium units that will comprise the Residences at Kapalua Bay project.

*Real Estate Sales*

Our Honolua Ridge Phase II subdivision consists of 25 agricultural-zoned lots, which began selling in August 2005. Through the end of the third quarter of 2006, 15 lots had closed escrow, with five lots closing in the third quarter of 2006. Revenues and profit from this project are being recognized on a percentage-of-completion method, under which we recognized revenues of \$8.5 million in the third quarter of 2006. Honolua Ridge Phase II was approximately 83% complete at September 30, 2006. Our balance sheet at September 30, 2006 included deferred revenues of \$6.5 million related to Honolua Ridge Phase II, which represents cash received from the sale of lots that have not been recognized as revenues under the percentage-of-completion method.

In the third quarter of 2005, we recognized revenues of \$5.8 million on a percentage-of-completion method, from our Honolua Ridge Phase I and Phase II. Honolua Ridge Phase I was approximately 96% complete at the end of the third quarter of 2005 and 24 lot sales had closed escrow through that date. All of the Honolua Ridge Phase I lots were sold and construction of the project was 100% complete by the end of 2005. Honolua Ridge Phase II was 14% complete at the end of the third quarter of 2005.

*Nine Months Ended September 30, 2006 compared to Nine Months Ended September 30, 2005***CONSOLIDATED**

	<b>Nine Months Ended September 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>difference</b>
	<b>(in millions, except per share amounts)</b>		
<i>Consolidated Revenues</i>	\$ 132.4	\$ 133.4	\$ (1.0 )
<i>Net Income</i>	\$ 8.7	\$ 9.7	\$ (1.0 )
<i>Basic Earnings Per Common Share</i>	\$ 1.20	\$ 1.35	\$ (0.15 )

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We reported net income of \$8.7 million (\$1.20 per share) for the first nine months of 2006 compared to net income of \$9.7 million (\$1.35 per share) for the first nine months of 2005. Consolidated revenues for the first nine months of 2006 were \$132.4 million compared to \$133.4 million for the first nine of 2005. The lower net income were attributable to increased losses from the Agriculture segment and a reduction in operating profit from the Community Development segment, partially offset by lower losses from our Resort operations.

### *General and Administrative*

Consolidated general and administrative expenses increased by 13% to \$29.1 million for the first nine months of 2006 from \$25.8 million for the first nine months of 2005.

The major components of the difference in general and administrative expenses were as follows:

	<b>Nine Months Ended September 30,</b>		<b>difference</b>
	<b>2006</b>	<b>2005</b>	
	<b>(in millions)</b>		
Salaries & wages	\$ 8.3	\$ 6.3	\$ 2.0
Employee incentives & stock compensation	2.4	2.1	0.3
Employee severance	1.9	0.6	1.3
Pension and other postretirement expense	2.4	2.1	0.3
Professional services	3.9	4.3	(0.4 )
Depreciation expense	3.5	3.9	(0.4 )
Other	6.7	6.5	0.2
Total	\$ 29.1	\$ 25.8	\$ 3.3

Approximately \$1.0 million of the increase in salaries and wages in the first nine months of 2006 was due to salaries and wages for our Agriculture segment personnel who were taken out of operations to be trained for other work. These employees were removed from the pineapple operations in connection with the transition to a less labor-intensive operation that is more focused on fresh fruit. The remaining increase in salaries and wages were the result of increases in personnel and wage adjustments including stock option and restricted stock grants. The increase in employee severance cost reflects the reduction in the Agriculture segment work force in September 2006.

Pension expense increased in the first nine months of 2006 compared to the same period in 2005 primarily because of a reduction in the discount rate from 6% to 5.875% between the two periods and the usage of a more current mortality table in 2006.

The decrease in professional services primarily reflects costs incurred in 2005 to maintain and adjust the accounting system that was being used by our Agriculture segment. A decision was made in the fourth quarter of 2005 to replace accounting information technology systems and standardize our primary accounting systems and processes used by all of our businesses. In addition, the decrease in professional service costs in the first nine months of 2006 is due to higher cost incurred in 2005 to prepare the Company for compliance with the Sarbanes-Oxley Act of 2002, Section 404.

The reduction in depreciation expense charged to general and administrative expense reflects the change in estimated useful lives for our cannery and can plant assets. In 2005, we estimated that the new cannery and can plant would be in service by the end of the second quarter of 2006. In January 2006, our plans were revised to move forward with the fresh fruit packing facility and to postpone the completion of the cannery and can plant renovations to 2007. We prospectively revised the depreciation charges in the fourth quarter of 2005 for this change in estimated useful lives of the cannery and can plant. The reduction in depreciation expense for the cannery and can plant was partially offset by the acceleration of depreciation charges for the agriculture and corporate accounting systems. These accounting system assets

were fully depreciated in the first half 2006, as the new accounting system was placed in service as of the beginning of the third quarter of 2006.

General and administrative expenses are incurred at the corporate level and at the operating segment level. All general and administrative expenses incurred at the corporate level are allocated to the operating segments. Such allocations are consistent with our management's evaluation of the services provided to the operating segments.

#### *Interest Expense*

Interest expense was \$160,000 for the first nine months of 2006 compared to \$308,000 for the first nine months of 2005. Interest incurred in the first nine months of 2006 was \$1,547,000, of which \$1,387,000 was capitalized to construction projects. Our major capital projects under construction in 2006 include Honolulu Ridge Phase II, The Village at Kapalua Resort, the fresh fruit packing facility and offices, and replacement of our accounting systems. In the first nine months of 2005, interest incurred was \$894,000 of which \$586,000 was capitalized. Our effective interest rate on borrowings was 7.6% in the first nine months of 2006 compared to 6.2% in the first nine months of 2005.

#### **AGRICULTURE**

	<b>Nine Months Ended September 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>difference</b>
	<b>(in millions)</b>		
<i>Revenues</i>	\$ 48.5	\$ 52.3	\$ (3.8 )
<i>% of consolidated revenues</i>	37 %	39 %	
<i>Operating Loss</i>	\$ (9.7 )	\$ (7.2 )	\$ (2.5 )

The Agriculture segment produced an operating loss of \$9.7 million for the first nine months of 2006 compared to an operating loss of \$7.2 million for the first nine months of 2005. Revenues for the first nine months of 2006 were \$48.5 million or 7% lower than the first nine months of 2005 primarily due to a lower case volume of processed pineapple sales that were only partially offset by higher case volume of fresh pineapple sales.

Operating losses reported by the Agriculture segment for the first nine months of 2006 and 2005 include \$1.9 million and \$2.2 million, respectively, of accelerated depreciation charges related to assets where the estimated useful lives were reduced because of changes in our pineapple operations. The Agriculture segment also recorded \$1.9 million for employee severance cost in the first nine months of 2006 primarily as a result of production efficiencies gained by the operation of the new fresh fruit packing plant and charges of \$764,000 related to inventories that were considered obsolete with the change to the new packing facility that went into operation at the end of June 2006. In addition, the Agriculture segment recorded \$1.4 million of charges related to re-training employees in the first nine months of 2006 compared to \$210,000 of re-training charges in the same period in 2005.

#### *Processed and Fresh Operations*

The case volume of fresh pineapple sales increased by 28% and the average revenue per case of fresh pineapple sold decreased by 3% in the first nine months of 2006 compared to the first nine months of 2005. Revenues from fresh pineapple sales were approximately 47% of the Agriculture segment net sales for the first nine months of 2006, compared to approximately 35% for the first nine months of 2005.

The case volume of processed pineapple sales decreased by 31% for the first nine months of 2006 as compared to the first nine months of 2005 primarily reflecting our strategy to reduce supply to selected

retail market segments. The average sales prices for our processed pineapple products increased by approximately 9% for the first nine months of 2006 compared to the same period of 2005.

Processed pineapple sold to the U. S. Government (primarily to the Department of Agriculture) comprised approximately 36% of our case volume of canned pineapple sales in the first nine months of 2006 compared to 41% in the first nine months of 2005. The decrease in the percentage of processed pineapple sales to the U. S. Government is a result of unanticipated sales in 2005 that did not recur in 2006.

The Agriculture segment cost of sales was lower by 12% in the first nine months of 2006 compared to the first nine months of 2005, primarily reflecting the reduced sales volume of processed pineapple partially offset by the increased sales volume of fresh pineapple. The average per unit cost of sales for processed pineapple was higher in 2006 compared to 2005 because of the reduced tonnage of fruit being processed, while the average per unit cost of sales for fresh pineapple was lower primarily reflecting efficiencies that the operation is beginning to realize with the operation of the new fresh packing facility.

Agriculture segment shipping and marketing cost increased by \$1.1 million or 15%, in the first nine months of 2006 as compared to the same period of 2005 principally reflecting the higher sales volume of fresh pineapple and increased freight fuel surcharge costs. However, the average shipping and selling cost for our fresh pineapple was lower in the first nine months of 2006 compared to the first nine months of 2005 primarily because in 2006 we shipped approximately 81% of our fresh product to the mainland United States by ocean transportation (as compared to air freight, which is more costly) compared to 71% in the first nine months of 2005.

## RESORT

	Nine Months Ended September 30,		
	2006	2005	difference
	(in millions)		
<i>Revenues</i>	\$ 35.1	\$ 30.6	\$ 4.5
<i>% of consolidated revenues</i>	27 %	23 %	
<i>Operating Loss</i>	\$ (3.4 )	\$ (4.2 )	\$ 0.8

The Resort segment reported an operating loss of \$3.4 million for the first nine months of 2006 compared to \$4.2 million for the first nine months of 2005. Resort segment revenues were \$35.1 million for the first nine months of 2006 compared to \$30.6 million for the first nine months of 2005, an increase of 15%, as a result of higher revenues from the Kapalua Villas and from our golf operations primarily due to rate increases.

The Plantation Course was closed from April through July of 2005 for renovation of the greens and bunkers. The closure of that golf course for four months in 2005 negatively impacted the operating results from Resort operations in the first nine months of 2005 compared to the same period in 2006.

Hotel and condominium room occupancies at the Kapalua Resort, and to a somewhat lesser extent for Maui in general, largely drive resort activity as reflected by increased golf play and merchandise sales. In early April 2006, the Kapalua Bay Hotel held its final guest night and the hotel was permanently closed. This closure resulted in approximately 20% fewer available rooms at Kapalua Resort, and as expected, negatively affecting the number of paid rounds of golf and retail sales in the first nine months of 2006.

*Golf, Retail and Villas*

Revenues from golf operations increased by 18% for the first nine months of 2006 compared to the first nine months of 2005. Overall, paid rounds of golf decreased by 5%, and average green and cart fees increased by 38% in the first nine months of 2006 compared to the first nine months of 2005.

Resort retail sales for the first nine months of 2006 were about 5% lower than sales in the first nine months of 2005. Lower retail sales reflect the closure of the Kapalua Bay Hotel and the closure of our Logo Shop, Kids Shop and Home Store in May 2006, and our Kapalua Collection Store in March 2006. These shops were adjacent to the hotel and represented approximately 6,600 square feet of retail area. In mid-October 2006, our new 1,900 square foot Kapalua Collections store featuring upscale resort wear opened at The Honolua Village Center in our central resort area.

Revenues from the Kapalua Villas increased in the first nine months of 2006 compared to the first nine months of 2005, primarily reflecting a 20% increase in the average room rates, partially offset by a lower number of occupied rooms. The increase in average room rates were due to a greater number of direct bookings and a more aggressive pricing strategy across all channels and product categories.

**COMMUNITY DEVELOPMENT**

	<b>Nine Months Ended September 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>difference</b>
	<b>(in millions)</b>		
<i>Revenues</i>	\$ 48.5	\$ 50.4	\$ (1.9 )
<i>% of consolidated revenues</i>	37 %	38 %	
<i>Operating Profit</i>	\$ 26.1	\$ 27.0	\$ (0.9 )

The Community Development segment reported an operating profit of \$26.1 million for the first nine months of 2006 compared to \$27.0 million for the first nine months of 2005. Revenues from this operating segment were \$48.5 million for the first nine months of 2006 compared to \$50.4 million for the first nine months of 2005.

In the first nine months of 2006, we recognized revenues of \$22.9 million and a pre-tax gain of \$21.5 million from the sale of approximately 1,800 acres of non-core Upcountry Maui land. In the first nine months of 2005, we recognized revenues of \$20.5 million and operating profit of \$16.1 million from five real estate sales transactions. In June of 2005, we concluded the sale of approximately 25 acres of land and improvements to the Hui No`eau Visual Arts Center. We also sold approximately 240 acres of Upcountry Maui land in the first nine months of 2005.

Our equity in the losses of Kapalua Bay Holdings, LLC was \$3.6 million in the first nine months of 2006 compared to \$195,000 in the first nine months of 2005. The increased loss was the result of closure of the Kapalua Bay Hotel in April 2006 and the preparation for and commencement of sales and marketing efforts for the whole and fractional condominium units that will comprise the Residences at Kapalua Bay project.

*Real Estate Sales*

Honolua Ridge Phase II residential subdivision consists of 25 agricultural lots, which began selling in August 2005. Through the end of the first nine months of 2006, 15 lots had closed escrow, with eight lot sales closing in the first nine months of 2006. Revenues and profit from this project are being recognized on a percentage-of-completion method, under which we recognized revenues of \$19.6 million in the first nine months of 2006. Honolua Ridge Phase II was approximately 83% complete at September 30, 2006. Our balance sheet at September 30, 2006 included deferred revenues of \$6.5 million related to

Honolua Ridge Phase II, which represents cash received from the sale of the lots that have not been recognized as revenues under the percentage-of-completion method.

In the first nine months of 2005, we were selling lots in Honolua Ridge Phase I and recognized revenues of \$22.0 million on a percentage-of-completion method. Honolua Ridge Phase I was approximately 96% complete at September 30, 2005 and 24 lot sales had closed escrow through that date. All of the Honolua Ridge Phase I lots were sold and construction of the project was 100% complete by the end of 2005. In the first nine months of 2005, we recognized revenues of \$1.0 million from lot sales at Honolua Ridge Phase II, which was 14% complete at that time.

## LIQUIDITY AND CAPITAL RESOURCES

### *Debt Position*

At September 30, 2006, our total debt, including capital leases, was \$33.9 million, compared to \$11.1 million at December 31, 2005. The increase was primarily due to capital expenditures and cash used in operating activities. At September 30, 2006, the Company had unused long-term credit lines of \$14.2 million.

In September and October of 2006, we concluded \$14.5 million in additional long-term debt secured by our new fresh fruit packing equipment and approximately 20 acres of land and other real estate comprising our Kahului cannery property. \$4.5 million of such long-term debt is in the form of an equipment loan, which requires monthly interest and principal payments and is fully amortized over a 7-year term. Interest accrues under the 7-year term loan at the rate of 6.66% per annum. The remainder of such long-term debt is in the form of a \$10 million real estate loan, which requires monthly interest and principal payments and is fully amortized over a 20 year term. Interest accrues under the 20-year term loan at the rate of 6.93% per annum. Both loans require that the Company meet certain financial covenants that are similar to those for our revolving credit agreements.

### *Operating Cash Flows*

In the first nine months of 2006, consolidated net cash flows used in operating activities were \$15.8 million, compared to cash flow provided by operating activities of \$3.4 million for the first nine months of 2005. By operating segment, these cash flows were approximately as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in millions)</b>	
Agriculture	\$ (3.7 )	\$ (0.9 )
Resort	(0.9 )	(0.1 )
Community Development	(4.7 )	5.1
Interest, taxes and other	(6.5 )	(0.7 )
<b>Total</b>	<b>\$ (15.8 )</b>	<b>\$ 3.4</b>

The increase in cash used by operating activities for the Agriculture segment for the first nine months of 2006 compared to the same period in 2005 primarily reflects the increased operating loss and cash outflows for payments for pineapple inventories, partially offset by increased collection of accounts receivable. The second and third quarters of the year is generally when higher than average cash outflows occur in the pineapple operations for harvesting and processing.

Cash flows from operating activities in the Community Development segment vary significantly with the amount of new real estate product sold and the amount of construction activity for real estate inventories. In the first nine months of 2006, closing of lot sales at Honolua Ridge Phase II resulted in \$12.6 million of cash proceeds. In the first nine months of 2005, the closing of lot sales at Honolua Ridge

Phase I subdivision resulted in cash proceeds of \$16.5 million. Lot sales proceeds in 2006 and 2005 were offset by payments for the construction of the improvements and other operating costs.

The increase in cash outflows for interest, taxes and other primarily reflect income tax payments of \$6.5 million in the first nine months of 2006.

#### *Real Estate Sales Proceeds*

In the first nine months of 2006, the re-investment period expired on \$38 million of proceeds from previous sales of properties in 2005 and early 2006 and the funds were returned to us by the exchange intermediary.

#### *Future Cash Outflows*

Contributions to pension plans and to other post-retirement plans are expected to be \$2.9 million in 2006.

Cash obligations in connection with the construction of the Residences at Kapalua Bay project are expected to total approximately \$16 million in 2006. See Note 14 to Condensed Consolidated Financial Statements. We expect to be able to fund this cash requirement with cash flows provided by operating and investing activities and with debt proceeds.

Consolidated capital expenditures (property, plant and equipment) for 2006 are expected to be approximately \$48 million of which approximately \$13 million relates to the fresh fruit processing facility that will replace our existing fresh fruit packing facility, and \$7 million is for the replacement of other existing equipment and facilities. We expect to incur approximately \$6 million for deferred development costs, which will be reclassified to inventory or to fixed assets if and when the projects receive the necessary governmental entitlements and management approvals to proceed. In connection with the planning for the various projects, we will analyze the feasibility of proceeding with each project and will seek project specific non-recourse financing for some of the capital projects.

Expenditures for Honolua Ridge Phase II, which we began selling in 2005, are expected to be approximately \$13.0 million in 2006. Expenditures for subdivision infrastructure improvements to date have been funded by proceeds from pre-sales of the lots. Ten lots in Phase II remain to be sold at September 30, 2006.

#### **FORWARD-LOOKING STATEMENTS**

This and other reports filed by us, with the Securities and Exchange Commission contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They contain words such as may, will, project, might, expect, believe, anticipate, could, would, estimate, continue or pursue, or the negative or other variations thereof or comparable terminology. In particular, they include among others, statements relating to:

- the timing and success of the Residences at Kapalua Bay project;
- the closing of lot sales at the Honolua Ridge residential subdivisions;
- the timing, cost and efficiency of the planned multi-client pineapple processing facility;
- the timing and success of sale of non-core properties;
- the timing and success of the Kapalua Resort initiatives to enhance and improve the resort and the Kapalua Villas;

- expectations as to our cash commitments;
- expectations as to our cash flows from operating and investing activities;
- expectations as to the amount and terms of available credit;
- recoverability from operations of real estate development deferred costs and the net book value of our agriculture segment assets;
- shifting towards greater levels of fresh fruit production;
- the impact of government regulations on land use and real estate sales on Maui;
- the future cost of compliance with environmental laws; and
- the effect of assumption changes on net periodic pension and other benefit costs.

In addition, from time to time, we may publish forward-looking statements as to those matters or other aspects of our anticipated financial performance, business prospects, new products, marketing initiatives or similar matters.

Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. We have based these forward-looking statements on our current expectations and projections about future events.

We caution the reader that forward-looking statements involve risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the factors discussed in the sections entitled *Business*, *Risk Factors*, and *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended December 31, 2005, and the sections entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Risk Factors* in this Quarterly Report on Form 10-Q, as well as other factors described from time to time in our reports filed with the SEC.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our primary market risk exposure with regard to financial instruments is to changes in interest rates. We attempt to manage this risk by monitoring interest rates and future cash requirements, and evaluating opportunities to refinance borrowings at various maturities and interest rates. There were no material changes to our market risk exposure during the first nine months of 2006.

### **Item 4. Controls and Procedures**

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.



As required by Rule 13a-15(b) and 15d-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal quarter covered by this report. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

As of July 2006, we completed the transition of our accounting functions for all operating segments to new accounting systems. These changes impacted the Company's internal control over financial reporting for the fiscal quarter ended September 30, 2006. In the fourth quarter of 2006, we expect to complete our documentation, testing and internal control self-assessment of our new systems and processes pursuant to the Sarbanes-Oxley Act of 2002, section 404.

## PART II OTHER INFORMATION

### Item 1A. Risk Factors

Potential risks and uncertainties include, among other things, those factors discussed in the sections entitled "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2005, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q, and as set forth below in this Item 1A. Readers should carefully review those risks, as well as additional risks described in other documents we file from time to time with the Securities and Exchange Commission. We undertake no obligation to publicly release the results of any revisions to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements. The following risk factors include material changes to the risk factors previously disclosed in our Form 10-K filed for the year ended December 31, 2005, but are not a complete list of all of our risk factors.

**Recent legislation adopted by the County of Maui may increase land use entitlement costs, negatively impact land values, defer planned development projects, and materially impact operating results.**

**On November 3, 2006, the Maui County Council voted unanimously to adopt a Residential Workforce Housing Policy (the "Policy"). This measure requires developers to sell or rent 40% to 50% of the total number of units in developments of five or more units at below market rates, or pay significant fees or contribute property with equivalent value to Maui County for low income housing. Prior to the adoption of the Policy, the affordable housing component of a development typically represented 15% to 25% of total units. We believe that the new Policy could significantly impact our cost of obtaining entitlements, increase our financing costs, potentially reduce the value of our land, and delay the development of units across all market segments.**

**The Policy also sets forth certain requirements for offering affordable units, including a lottery format for selecting potential residents. We believe that this feature will open affordable projects to any party based solely on economic qualifications and chance. Ironically, the lottery requirement may serve as an additional disincentive to build affordable housing projects for local employees, teachers, public safety personnel, health care professionals and other workers that provide critical services for our community. These factors will result in a re-assessment of planned projects with significant affordable housing components designated for local residents, such as our previously-announced Pulelehua project.**

**Our financial results are highly dependent on the Company's Community Development business segment where performance depends, in part, on the entitlement environment. Changes, delays or cancellations in any of our planned projects could impact our financial results. Although the full impact of the Policy is not certain at this time, and the Policy may be subject to legal challenge or reversal, we believe that the Policy will negatively impact our ability to proceed with our previously-planned projects, and that the value of our residential zoned lands will decrease, all of which could have a material adverse effect on our ongoing operations, workforce size, and future financial results.**

**We have entered into limited guarantees under which we may be required to guarantee completion of the Kapalua Bay project or certain limited recourse obligations of Kapalua Bay, LLC.**

Kapalua Bay, LLC, a wholly owned subsidiary of Kapalua Bay Holdings, LLC, in which we own a 51% ownership interest, entered into a construction loan agreement with Lehman Brothers Holdings Inc. on July 14, 2006, pursuant to which Lehman may loan Kapalua Bay up to \$370 million. Kapalua Bay intends to construct a new project consisting of 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 us and leased to Kapalua Bay. In connection with entering into the construction loan agreement by Kapalua Bay, we, and other members of Kapalua Bay Holdings entered into a completion guaranty and a recourse guaranty.

Under the completion guaranty, members of Kapalua Bay Holdings agreed to guarantee substantial completion of the project and to reimburse Lehman for expenses incurred by Lehman toward completion of the project. Under the recourse guaranty, members of Kapalua Bay Holdings agreed to reimburse Lehman for losses incurred by Lehman due to specified actions of Kapalua Bay Holdings, including, without limitation, fraud or intentional misrepresentation, gross negligence, physical waste of project assets, and breach of certain environmental provisions of the construction loan agreement. Our guarantees do not include payment in full of the loan. If Kapalua Bay fails to complete the project or takes any of the specified actions that result in expenses to Lehman and which are covered by the guarantees that we entered into, we could incur unanticipated expenses that could materially and adversely affect our results of operations and financial condition.

**Item 5. Other Information**

Effective November 3, 2006, the Company and Duncan MacNaughton executed a Termination of Purchase and Sale Agreement covering approximately 89 acres of land. The agreement is filed herewith as Exhibit 10.1.

On November 3, 2006, the Company approved an employment separation between Thomas H. Juliano and the Company. Mr. Juliano resigned from his positions with the Company and certain affiliated entities on October 13, 2006. Terms of the separation letter include a severance payment of \$250,000, continuation of health care benefits for four months, release of claims and confidentiality provisions in favor of the Company, and other provisions set forth in the letter agreement filed herewith as Exhibit 10.2.

**Item 6. Exhibits**

The following exhibits are filed herewith:

- |      |                    |  |
|------|--------------------|--|
| (10) | Material Contracts |  |
|      | 10.1               | Termination of Purchase and Sale Agreement dated August 7, 2006 between Duncan MacNaughton and Maui Land & Pineapple Company, Inc.   |
|      | 10.2               | Separation of Employment Agreement, dated October 24, 2006 and effective as of November 3, 2006.   |
| (31) |                    | Rule 13a-14(a) Certifications  |
|      | 31.1               | Certification of Chief Executive Officer Pursuant to Rule 13a-14(d) / 15d-14(a) of the Securities Exchange Act of 1934.  |
|      | 31.2               | Certification of Chief Financial Officer Pursuant to Rule 13a-14(d) / 15d-14(a) of the Securities Exchange Act of 1934.  |
| (32) |                    | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) / 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350. |

**SIGNATURE**

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

November 8, 2006  
Date

MAUI LAND & PINEAPPLE COMPANY, INC.  
/S/ ROBERT I. WEBBER  
Robert I. Webber  
*Chief Financial Officer/Senior Vice President  
Business Development*  
(Principal Financial Officer)

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**EXHIBIT INDEX**

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32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) / 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

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