MAUI LAND & PINEAPPLE CO INC
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

Commission file number 001-06510

MAUI LAND & PINEAPPLE COMPANY, INC.

(Exact name of registrant as specified in its charter)

HAWAII	**99-0107542**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

870 HALIIMAILE ROAD, MAKAWAO, MAUI, HAWAII 96768-9768

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

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 August 3, 2010**
Common Stock, no par value	18,813,668 shares

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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 STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended, 6/30/2010	6/30/2009
	(in thousands except share amounts)	
OPERATING REVENUES		
Product revenues	$ 2,602	$ 3,086
Service revenues	5,722	5,663
Total Operating Revenues	8,324	8,749
OPERATING COSTS AND EXPENSES		
Cost of product revenues	841	1,125
Cost of service revenues	7,468	9,058
Selling and marketing	393	1,152
General and administrative	1,363	6,627
Impairment charges (Note 8)		14,286
Total Operating Costs and Expenses	10,065	32,248
Operating Loss	(1,741)	(23,499)
Equity in losses of affiliates (Note 11)		(23,273)
Interest expense	(2,543)	(3,067)
Interest income	15	195
Loss from Continuing Operations Before Income Taxes	(4,269)	(49,644)
Income Tax Expense		415
Loss from Continuing Operations	(4,269)	(50,059)
Loss from Discontinued Operations (Note 7) net of income taxes of $0	(318)	(4,160)
NET LOSS	(4,587)	(54,219)

Pension Benefit Adjustment net of income taxes of $0		(807)		
COMPREHENSIVE LOSS	$	(5,394)	$	(54,219)
LOSS PER COMMON SHARE BASIC AND DILUTED				
Continuing Operations	$	(0.53)	$	(6.23)
Discontinued Operations		(0.04)		(0.52)
Net Loss	$	(0.57)	$	(6.75)

See accompanying Notes to Condensed Consolidated Financial Statements.

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MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	Six Months Ended, 6/30/2010 (in thousands except share amounts)		Six Months Ended, 6/30/2009	
OPERATING REVENUES				
Product revenues	$	7,566	$	6,791
Service revenues		11,467		12,666
Total Operating Revenues		19,033		19,457
OPERATING COSTS AND EXPENSES				
Cost of product revenues		2,048		2,572
Cost of service revenues		14,789		18,886
Selling and marketing		1,530		2,404
General and administrative		3,255		12,679
Impairment charges (Note 8)				14,286
Total Operating Costs and Expenses		21,622		50,827
Operating Loss		(2,589)		(31,370)
Equity in losses of affiliates (Note 11)				(24,403)
Interest expense		(5,886)		(4,543)
Interest income		25		378
Loss from Continuing Operations Before Income Taxes		(8,450)		(59,938)
Income Tax Expense		85		800
Loss from Continuing Operations		(8,535)		(60,738)
Income (Loss) from Discontinued Operations (Note 7) net of income taxes of $0		1,243		(6,704)
NET LOSS		(7,292)		(67,442)
Pension Benefit Adjustment net of income taxes of $0		615		
COMPREHENSIVE LOSS	$	(6,677)	$	(67,442)
EARNINGS (LOSS) PER COMMON SHARE BASIC AND DILUTED				
Continuing Operations	$	(1.06)	$	(7.57)
Discontinued Operations		0.16		(0.83)
Net Loss	$	(0.90)	$	(8.40)

See accompanying Notes to Condensed Consolidated Financial Statements.

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MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

		6/30/2010		12/31/2009
		(in thousands)		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	1,333	$	1,881
Accounts receivable, less allowance of $868 and $452 for doubtful accounts		2,356		3,684
Refundable income taxes				4,331
Inventories		3,083		3,387
Prepaid expenses and other assets		1,624		377
Assets held for sale		13,487		15,227
Total Current Assets		21,883		28,887
PROPERTY		147,693		144,903
Accumulated depreciation		(64,058)		(60,189)
Net Property		83,635		84,714
OTHER ASSETS		13,876		14,447
TOTAL	$	119,394	$	128,048
LIABILITIES & STOCKHOLDERS DEFICIENCY				
CURRENT LIABILITIES				
Current portion of long-term debt and capital lease obligations	$	63,956	$	1,817
Trade accounts payable		5,613		6,581
Payroll and employee benefits		3,571		4,947
Income taxes payable		3,916		2,626
Other accrued liabilities		13,333		12,072
Total Current Liabilities		90,389		28,043
LONG-TERM LIABILITIES				
Long-term debt and capital lease obligations		36,206		94,824
Accrued retirement benefits		24,073		28,076
Plantation Golf Course (PGC) deferred credit (Note 10)		45,409		46,338
Other noncurrent liabilities		6,585		7,708
Total Long-Term Liabilities		112,273		176,946
COMMITMENTS AND CONTINGENCIES (Note 17)				
STOCKHOLDERS DEFICIENCY				
Common stock no par value, 43,000,000 shares authorized, 8,112,266 and 8,087,334 shares issued and outstanding		35,707		35,437
Additional paid in capital		9,099		9,019
Accumulated deficit		(124,015)		(116,723)

Accumulated other comprehensive loss	(4,059)	(4,674)
Stockholders Deficiency	(83,268)	(76,941)
TOTAL	$ 119,394	$ 128,048

See accompanying Notes to Condensed Consolidated Financial Statements.

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MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY)

(UNAUDITED)

For the Six Months Ended June 30, 2010 and 2009

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2010	8,087	$ 35,437	$ 9,019	$ (116,723)	$ (4,674)	$ (76,941)
Pension benefits adjustment (Note 13)					615	615
Share-based compensation expense			428			428
Vested restricted stock issued	42	348	(348)			
Shares cancelled to pay tax liability	(17)	(78)				(78)
Net loss				(7,292)		(7,292)
Balance, June 30, 2010	8,112	$ 35,707	$ 9,099	$ (124,015)	$ (4,059)	$ (83,268)
Balance, January 1, 2009	8,021	$ 34,791	$ 8,363	$ 6,558	$ (18,024)	$ 31,688
Share-based compensation expense			969			969
Vested restricted stock issued	37	428	(428)			
Shares cancelled to pay tax liability	(11)	(95)				(95)
Net loss				(67,442)		(67,442)
Balance, June 30, 2009	8,047	$ 35,124	$ 8,904	$ (60,884)	$ (18,024)	$ (34,880)

See accompanying Notes to Condensed Consolidated Financial Statements.

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MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended 6/30/10	6/30/09
	(in thousands)	
NET CASH USED IN OPERATING ACTIVITIES	$ (2,091)	$ (15,138)
INVESTING ACTIVITIES		
Purchases of property	(2,321)	(547)
Proceeds from disposals of property	3,091	195
Other	(280)	1,575
NET CASH PROVIDED BY INVESTING ACTIVITIES	490	1,223
FINANCING ACTIVITIES		
Proceeds from long-term debt	11,000	6,600
Payments of long-term debt and capital lease obligations	(8,888)	(51,237)
Net proceeds from PGC (Note 10)		48,520
Reduction of PGC deferred credit	(929)	(952)
Debt issuance cost and other	(130)	(1,187)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,053	1,744
NET DECREASE IN CASH AND CASH EQUIVALENTS	(548)	(12,171)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,881	13,668
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,333	$ 1,497

Supplemental Disclosures of Cash Flow Information Interest (net of amounts capitalized) of $4,038,000 and $5,032,000 was paid during the six months ended June 30, 2010 and 2009, respectively. Income taxes of $5,536,000 and $291,000 were refunded during the six months ended June 30, 2010 and 2009, respectively.

Supplemental Non-Cash Investing and Financing Activities

- Property acquired under capital leases was $697,000 during the six months ended June 30, 2009.

- A capital lease obligation of $289,000 and the related asset acquired thereunder were transferred to a third party during the six months ended June 30, 2010.

- Amounts included in trade accounts payable for additions to property and for other investing activities totaled $1,638,000 and $1,124,000 at June 30, 2010 and 2009, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements.

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MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Maui Land & Pineapple Company, Inc. (together with its subsidiaries, the Company) in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information that are consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and pursuant to the instructions to Form 10-Q and Article 8 promulgated by Regulation S-X of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and notes to financial statements required by GAAP for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the Company s financial position, results of operations and cash flows for the interim periods ended June 30, 2010 and 2009. The financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended December 31, 2009.

LIQUIDITY

At June 30, 2010 the Company had $1.3 million in cash and cash equivalents. The Company incurred a loss from continuing operations of $8.5 million and had negative cash flows from operations of $2.1 million for the six months ended June 30, 2010. Reflected in the negative cash flow from operations was $5.5 million of income taxes refunded in the quarter ended March 31, 2010. The Company had an excess of current liabilities over current assets of $68.5 million and had a stockholders deficiency of $83.3 million at June 30, 2010.

At June 30, 2010 the Company had $100.2 million of total debt including capital leases. The Company has pledged a significant portion of its real estate holdings as security for borrowings under its credit facilities. In addition, both of the revolving lines of credit have financial covenants requiring among other things, a minimum of $8 million in liquidity and a limitation on new indebtedness. Failure to satisfy the minimum liquidity covenants or to otherwise default under one credit agreement could result in a default under both credit agreements as well as a default under the $40 million senior secured convertible notes, which notes were redeemed by the Company in full as of August 3, 2010. Defaults under the credit agreements could result in all outstanding borrowings becoming immediately due and payable.

The Company s cash outlook for the next twelve months and its ability to make the required debt repayments in March 2011 and to continue to meet its financial covenants is highly dependent on selling certain real estate assets in a difficult market and its ability to raise additional equity capital and to refinance its existing debt. If the Company is unable to meet its financial covenants resulting in the borrowings becoming immediately due, or is unable to restructure its credit agreements to extend the maturity date beyond March 2011, the Company would not have sufficient liquidity to repay such outstanding borrowings. In addition, the Company is subject to several commitments and contingencies that could negatively impact its future cash flows, including commitments related to its investment in Kapalua Bay Holdings, LLC (Bay Holdings), its ongoing dispute with the Ladies Professional Golf Association (LPGA), and a legal dispute with a former grower related to the Company s discontinued agricultural operations. These matters are further described in Note 17.

The aforementioned circumstances raise substantial doubt about the Company s ability to continue as a going concern. There can be no assurance that the Company will be able to successfully achieve its initiatives discussed below in order to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result should the Company be unable to continue as a going concern.

In response to these circumstances, the Company continues to undertake several financial and strategic initiatives to reduce cash commitments, to generate cash flow from a variety of sources and to further reduce its debt, including the sale of several real estate assets. The Company is actively working with its lenders to extend the maturity dates and modify other terms of its credit agreements.

In the first half of 2010, the Company concluded the sales of a 128-acre parcel and a two acre parcel that included its former administrative office building resulting in total cash proceeds (net of selling costs) of $3.3 million.

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In May, 2010, the Company s shareholders authorized an additional 20 million shares of the Company s common stock; and in June 2010, the Company initiated a rights offering for up to $40 million of its common stock with the intent to utilize the proceeds from the offering to repurchase up to all of its $40 million of outstanding senior secured convertible notes.

On July 29, 2010, the rights offering concluded and the Company received gross subscription proceeds of $40 million and issued 10,389,610 shares of common stock. As of August 3, 2010, the Company repurchased all $40 million of its outstanding senior secured convertible notes for $35.2 million (see Note 6).

2. Use of Estimates

The Company s reports for interim periods utilize numerous estimates of 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. Inventories

Inventories as of June 30, 2010 and December 31, 2009 were as follows:

	6/30/10	12/31/09
	(in thousands)	
Real estate	$ 1,721	$ 1,721
Merchandise, materials and supplies	1,362	1,666
Total Inventories	$ 3,083	$ 3,387

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic and diluted	8,093,326	8,034,162	8,086,243	8,027,346
Potentially dilutive	1,333,333	1,338,980	1,333,333	1,333,639

Basic earnings (loss) per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares from share-based compensation arrangements had been issued.

Potentially dilutive shares arise from non-qualified stock options to purchase common stock, non-vested restricted stock and common stock issuable upon assumed conversion of convertible debt. The treasury stock method is applied to determine the number of potentially dilutive shares for nonvested restricted stock and stock options assuming that the shares of nonvested restricted stock are issued for an amount based on the grant date market price of the shares and that the outstanding stock options are exercised. Convertible debt is assumed to be converted by applying the if-converted method. These amounts were excluded for all periods presented because the effect would be anti-dilutive.

5. Financing Arrangements

Long-term debt and capital lease obligations at June 30, 2010 and December 31, 2009 consisted of the following:

	6/30/2010	12/31/2009
	(in thousands)	
Revolving loans, 5.5%	$ 63,500	$ 59,900
Senior Secured Convertible Notes, 5.875%	36,022	34,324
Capital lease obligations	640	2,417
Total	100,162	96,641
Less current portion	63,956	1,817
Long-term debt and capital lease obligations	$ 36,206	$ 94,824

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In November 2007, the Company entered into a $90 million revolving line of credit secured by approximately 1,437 acres of the Company s West Maui land. All outstanding principal and accrued interest was scheduled to be due on November 13, 2009. In March 2009, the Company sold the Plantation Golf Course (PGC) for $50 million (see Note 10), which was included in the collateral securing the line of credit agreement. In consideration for release of the PGC from the collateral, $45 million of the sales proceeds were applied to partially repay outstanding borrowings and the credit limit under this facility was reduced to $45 million. In conjunction with the PGC sale, the Company amended the line of credit agreement to extend the maturity date to March 13, 2010.

In October 2009, the line of credit agreement was amended and restated. The agreement principally increases the secured revolving line of credit from $45 million to $50 million, extends the maturity date of the credit agreement from March 2010 to March 2011, and re-sets financial covenants. As amended, the agreement provides that interest on loan draws accrue interest based on the LIBOR market index or applicable LIBOR rate, plus 4.25%, subject to a minimum interest rate of 5.5%. The financial covenants include a minimum liquidity (as defined in the agreement) of $8 million and maximum total liabilities of $240 million. There are no commitment fees on the unused portion of the revolving facility and interest is due monthly. The line of credit agreement contains various representations, warranties, affirmative, negative and financial covenants and events of default customary for financings of this type.

The Company has a $25 million revolving loan that is secured by certain parcels of the Company s real property on Maui that matures in March 2011 (as amended). Commitment fees of 0.40% are payable on the unused portion of the revolving facility. The financial covenants include a minimum liquidity (as defined in the agreement) of $8 million, maximum total liabilities of $240 million, and limitations on capital expenditures. As amended, the agreement provides that interest on loan draws accrue interest based on the LIBOR market index or applicable LIBOR rate, plus 4.25%, subject to a minimum interest rate of 5.5%.

On July 28, 2008, the Company concluded a securities purchase agreement with certain institutional accredited investors and issued an aggregate of $40 million in principal amount of senior secured convertible notes (the convertible notes), bearing 5.875% interest per annum payable quarterly in cash in arrears. The convertible notes were convertible, at any time following their issuance, into shares of common stock of the Company at an initial conversion price of $33.50 per share, which is equal to an initial conversion rate of 29.8507 shares per $1,000 principal amount of the convertible notes. On the third anniversary of the closing, each holder of the convertible notes had the right to require the Company to redeem all or any portion of such convertible note at a redemption price equal to 100% of the principal amount of the convertible note being redeemed, plus accrued and unpaid interest thereon. The convertible notes were redeemed in full as of August 3, 2010 (see Note 6).

6. Rights Offering

In June 2010, the Company initiated a rights offering for up to $40 million of its common stock with the intent to utilize the proceeds from the offering to repurchase up to all of its $40 million of outstanding senior secured convertible notes. In accordance with the terms of the offering, each shareholder received one non-transferable subscription right for each share of common stock owned as of the close of business on July 7, 2010, the record date. Each subscription right entitled the shareholder to purchase approximately 1.23 shares of common stock at a subscription price of $3.85 per share. Shareholders who fully exercised all of their initial subscription rights were entitled to purchase any unsubscribed shares at the same subscription price per share, on a pro rata basis.

In conjunction with the rights offering, the Company entered into agreements with holders of its senior secured convertible notes to repurchase their notes at 88% of face value. The Company also paid to these holders a lock-up fee of 2% of face value in exchange for their agreement not to transfer their Notes for a 47-day period. In the event the Company did not raise sufficient capital through the rights offering to retire the notes or was unable to complete the rights offering in the 47-day period, the Company would forgo the 2% lock-up fee. As of June 30, 2010, the

Company had entered into agreements to repurchase $32.5 million of the notes.

The rights offering concluded on July 29, 2010 and the Company received gross subscription proceeds of $40 million and issued 10,389,610 shares of common stock. As of August 3, 2010, the Company repurchased all $40 million of its outstanding senior secured convertible notes for $35.2 million.

7. Discontinued Operations

The Company ceased all operations in its Agriculture segment as of the end of 2009. The Company s Agriculture segment operating results and the loss on sale of the assets are reported as discontinued operations and prior period operating results have been reclassified for comparability. Income from discontinued operations for the six months ended June 30,

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2010 includes a credit of $2.3 million representing the gain from settlement of the Company s post-retirement life insurance plans (Note 13). Revenues and income (loss) before income taxes for the discontinued operations were as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(in thousands)		(in thousands)	
Revenues	$	$ 4,525	$	$ 9,414
Income (Loss) from Discontinued Operations	$ (318)	$ (4,160)	$ 1,243	$ (6,704)

8. Impairment Charges

In the second quarter of 2009, the Company wrote off $14.2 million of deferred development costs. Due to changing market conditions, several project development plans were written off because the projects as designed were no longer feasible. In addition, projects that were no longer compatible with the Company s future real estate development expectations were abandoned and all related predevelopment costs were written off. Also in the second quarter of 2009, the Company recorded a charge of $1.9 million representing the adjustment of its real estate held for sale to its estimated fair value less cost to sell. The impairment related to the Company s Kahului property on which improvements for the fresh fruit processing plant were constructed and the impairment charge is recorded in discontinued operations.

9. Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance to revise the approach to determine when a variable interest entity (VIE) should be consolidated. The new consolidation model for VIEs considers whether the Company has the power to direct the activities that most significantly impact the VIE s economic performance and shares in the significant risks and rewards of the entity. The guidance requires companies to continually reassess VIEs to determine if consolidation is appropriate and provide additional disclosures. The guidance was effective for the Company beginning January 1, 2010. The adoption of this standard did not have a material effect on the Company s consolidated financial statements as the Company does not currently have any VIEs.

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The Company must provide additional disclosures regarding transfers in and out of levels 1 and 2, and activity in level 3 fair value measurements. The guidance also provides clarification regarding levels of disaggregation and disclosures about inputs and valuation techniques for both recurring and nonrecurring fair value measurements that fall in either level 2 or level 3. The additional disclosure requirements were effective for the Company beginning January 1, 2010, except for the additional disclosures regarding the roll forward of activity in Level 3 fair value measurements, which will be effective January 1, 2011.

10. Assets Held for Sale and Real Estate Sales

At June 30, 2010, assets held for sale included the Company s property in Kahului, Maui (25 acres). These assets include the site of the former corporate office and the former agriculture processing facilities. In April 2010, the Company sold the land and building that was previously its administrative offices in Kahului, Maui and recognized a gain of $1.0 million, which is included in general and administrative expenses.

In March 2010, the Company sold real estate land inventory and recognized revenues of $1.7 million and pre-tax profit of $1.5 million.

In March 2009, the Company sold the land, improvements, structures and fixtures comprising the Plantation Golf Course (PGC) for $50 million in cash. Concurrent with the closing of the sale, the Company entered into an agreement (Ground Lease) to leaseback the PGC for an initial period of two years for an annual net rental payment of $4 million, payable monthly in advance. The Ground Lease requires the Company to replace the irrigation system at the PGC at its own cost and expense, subject to a cap of $5 million. Because of the Company s continuing involvement associated with the obligation to replace the irrigation system, the sale and leaseback of the PGC has been accounted for as a financing transaction and, accordingly, the net proceeds received have been recorded as a non-current liability in the condensed consolidated balance sheets and no gain will be recognized until the irrigation system replacement project has been completed. Expected date of completion is September 2010.

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11. Investments in Affiliates

KAPALUA BAY HOLDINGS, LLC

As a result of the 2009 losses incurred by Bay Holdings, the Company s carrying value of its investment in Bay Holdings and its $3.6 million loan due from Bay Holdings were written down to zero in 2009. The Company does not expect to recover any amounts from its investment in Bay Holdings, has recorded its estimated share of its completion and recourse guarantees for its potential estimated liability and it has no further obligation to fund losses. The Company will not recognize any additional equity in the earnings (losses) of Bay Holdings until the Company s income attributable to Bay Holdings exceeds its accumulated losses. The Company had made cash contributions to Bay Holdings of $53.2 million and an uncollateralized loan of $3.6 million that accrued interest at 16%.

In June 2009, the Company recorded an impairment charge of $21.3 million to reflect what management believed to be an impairment in the carrying value of its investment in Bay Holdings. In September 2009, Bay Holdings recorded impairment charges totaling $208.8 million to reflect an impairment of the carrying value of its real estate inventories (whole and fractional condominium units) held for sale; and for the year 2009, Bay Holdings incurred total losses of $256.2 million. The impairment charges reflected higher default rates on actual whole and fractional unit closings than was anticipated once construction was completed in June 2009, and also reflect a change in forecasted sales revenue on the unsold whole and fractional units that substantially reduces expected margins for those remaining units.

Construction of the six residential buildings comprised of 146 residences was complete by year-end 2009, however, the Company s and the other members completion guaranty to the lenders will remain in place until the cost for all construction work has been settled and paid. The Company has no funding commitments relating to Bay Holdings beyond this amount.

Pursuant to previous agreements, the Company has a commitment to purchase the spa, beach club improvements and the sundry store (the Amenities) from Bay Holdings at actual construction costs of approximately $35 million. The Company is in discussions with the other members of Bay Holdings to negotiate the terms of the purchase agreement including the purchase price and payment terms, and is discussing whether the Company will even be required to purchase the Amenities.

In July 2006, Bay Holdings entered into a syndicated construction loan agreement with Lehman Brothers Holdings Inc. (Lehman) for the lesser of $370 million or 61.6% of the total projected cost of the project. Lehman s commitment under the loan agreement was approximately 78% of the total. The loan was collateralized by the project assets, including the fee simple interest in the land owned by Bay Holdings, the adjacent spa parcel owned by the Company, and all of the sales contracts. On September 15, 2008, Lehman filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court, and on February 11, 2009, Bay Holdings, Lehman, other lenders under the loan agreement, Swedbank and MH Kapalua Venture, LLC, an affiliate of Marriott, entered into an Amended and Restated Construction Loan Agreement. Pursuant to the amended loan agreement, the aggregate amount that Bay Holdings could borrow, including amounts previously funded under the amended loan agreement was approximately $354.5 million. In December 2009, Bay Holdings further amended the amended loan agreement to extend the maturity date of the principal payment of $45.7 million that was previously due in February 2010 to December 2010. Bay Holdings failure to repay amounts when due could result in all of its outstanding borrowings under the amended loan agreement becoming immediately due and payable. Bay Holdings ability to make the December 2010 debt payment as scheduled is dependent on its ability to generate sufficient cash flows from fractional and whole unit closings. Bay Holdings is currently in negotiations with the lenders to restructure the terms of the amended loan agreement to provide available funding until the project is completely sold out.

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Summarized operating information for Bay Holdings for the three months and six months ended June 30, 2010 and 2009 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in thousands)			
Revenues	$ (2,227)	$ (7,269)	$ 7,268	$ (12,688