

MAUI LAND & PINEAPPLE CO INC
Form 10-K
February 26, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

**For the fiscal year ended December 31,
2017**

or

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

(State

09-0107542

~~IRS~~ Employer

~~Identification~~ No.)

of

incorporation

or

organization)

200 Village Road
Lahaina, Maui, Hawaii 96761
(Address of principal executive offices)
(Zip Code)

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

Securities registered pursuant to
Section 12(b) of the Act:

Common
Stock,
without
Par
Value
NYSE
(Title
(Name of exchange on which registered)
of
each
class)

Securities registered pursuant to
Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

\$135,117,734

(Aggregate market value of common stock held by non-affiliates of the company on June 30, 2017)

19,103,582

(Number of shares of common stock outstanding at February 16, 2018)

Portions of registrant's Proxy Statement for registrant's 2018 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K
(Documents incorporated by reference)

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, or annual report, filed by Maui Land & Pineapple Company, Inc. with the Securities and Exchange Commission, or SEC, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical facts contained in this annual report and can be identified by words such as “may,” “will,” “project,” “might,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “e,” “continue” or “pursue,” or the negative or other variations thereof or comparable terminology. In particular, forward-looking statements contained in this annual report relate to, among other things, our future events, future financial performance, results of operations, strategic plans and objectives, and recent accounting pronouncements. We caution you that the foregoing list may not include all of the forward-looking statements made in this annual report.

Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable as of the date of this annual report, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this annual report. Thus, you should not place undue reliance on any forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Further, any forward-looking statements speak only as of the date made and, except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this annual report.

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PART I

Item 1. BUSINESS

Overview

Maui Land & Pineapple Company, Inc. is a Hawaii corporation and the successor to a business organized in 1909. Depending upon the context, the terms “Company,” “we,” “our,” and “us,” refer to either Maui Land & Pineapple Company, Inc. alone, or to Maui Land & Pineapple Company, Inc. and its subsidiaries collectively. The Company consists of a landholding and operating parent company, its principal subsidiary, Kapalua Land Company, Ltd. and certain other subsidiaries of the Company.

We own approximately 23,000 acres of land on the island of Maui, Hawaii and develop, sell, and manage residential, resort, commercial, agricultural and industrial real estate through the following business segments:

Real Estate—Our real estate operations consist of land planning and entitlement, development and sales activities. This segment also includes the operations of Kapalua Realty Company, Ltd., a general brokerage real estate company located in the Kapalua Resort.

Leasing—Our leasing operations include residential, resort, commercial, agricultural and industrial land and property leases, licensing of the Company’s registered trademarks and trade names, and stewardship and conservation efforts.

Utilities—We own two publicly-regulated utility companies which provide potable and non-potable water and wastewater transmission services to the Kapalua Resort. In addition, we also own a network of several major non-potable water systems in West and Upcountry Maui.

- *Resort Amenities*—We manage the operations of the Kapalua Club, a private, non-equity club program providing our members special programs, access and other privileges at certain amenities at the Kapalua Resort.

Additional information and operating results pertaining to the above business segments can be found under the heading “Description of Business” in this Item 1 and in Note 9 to our financial statements set forth in Item 8 of this annual report.

Description of Business*Real Estate*

Our Real Estate segment includes all land planning, entitlement, development and sales activities of our landholdings on Maui. Our principal real estate development is the Kapalua Resort, a master-planned, destination resort and residential community located in West Maui encompassing approximately 3,000 acres. The following is a summary of our landholdings as of December 31, 2017:

	West	Upcountry	Total
	Maui	Maui	
Fully entitled urban	900	–	900
Agricultural zoned	10,800	2,100	12,900
Conservation/watershed	9,000	–	9,000
	20,700	2,100	22,800

Real Estate Planning and Entitlements – Appropriate entitlements must be obtained for land that is intended for development. Securing proper land entitlements is a process that requires obtaining county, state and federal approvals, which can take many years to complete and entails a variety of risks. The entitlement process requires that we satisfy all conditions and restrictions imposed in connection with such governmental approvals, including, among other things, construction of infrastructure improvements, payment of impact fees – for conditions such as schools, public parks and traffic mitigation – restrictions on permitted uses of the land, and provision of affordable housing. We actively work with the community, regulatory agencies, and legislative bodies at all levels of government in an effort to obtain necessary entitlements consistent with the needs of the community.

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We have approximately 1,200 acres of land in Maui that are in various stages of the development process. The following is a summary of our development projects as of December 31, 2017:

<u>Location</u>	Approximate Number of Acres	Zoned for Planned Use	Anticipated		Projected
			Completion Dates	Deferred Development Costs (millions)	Costs to Complete (millions)
Kapalua Resort	900	Yes	2019 - 2039	\$7.0	\$500-\$1,000
Hali`imaile Town	300	No	2029 - 2034	\$0.4	\$100-\$200

We are engaged in planning, permitting and entitlement activities for our development projects, and we intend to proceed with construction and sales of the following projects, among others, when internal and external factors permit:

Kapalua Resort: We began development of the Kapalua Resort in the early 1970's. Today, the Kapalua Resort is an internationally recognized world-class destination resort and residential community. We presently have entitlements to develop a variety of projects in the Kapalua Resort. Two that are currently planned include Kapalua Mauka and Kapalua Central Resort.

Kapalua Mauka is a long-term expansion project of the Kapalua Resort which is located directly upslope of the existing resort development. As presently planned, it encompasses 800 acres and includes up to 639 residential units with extensive amenities, including up to 27 additional holes of golf. State and County land use entitlements have been secured for this project.

Kapalua Central Resort is a commercial town center and residential community located in the core of the Kapalua Resort. It is comprised of 46 acres and is planned to include up to 61,000 square feet of commercial space and 188 condominium and multi-family residential units. State and County land use entitlements have been secured for this project.

Hali`imaile Town: An expansion of an existing plantation town in Upcountry Maui, this project is contemplated to be a holistic traditional community with agriculture and sustainability as core design elements. The project includes 290 acres classified as "Small Town" in the long-range County of Maui Island Plan. This classification allows the potential for residential, industrial and commercial development at a moderate density. We are in the early stages of this project's development and securing State and County land use entitlements are expected to take several years.

Projected development costs are expected to be financed by debt financing, private investment, joint ventures with other development or construction companies, or a combination of these methods.

Real Estate Sales – Our wholly-owned subsidiary, Kapalua Realty Company, Ltd., provides licensed, general brokerage services for properties in the Kapalua Resort and surrounding areas.

Revenues from our Real Estate segment totaled \$14.6 million, or approximately 60% of our total operating revenues for the year ended December 31, 2017.

The price and market for luxury and other real estate in Maui are highly cyclical and influenced significantly by interest rates, the general real estate markets in the mainland United States and specifically the West Coast, the popularity of Hawaii as a vacation destination and second-home market, the general condition of the economy in the United States and Asia, and the relationship of the dollar to foreign currencies. Our Real Estate segment faces substantial competition from other land owners and developers on the island of Maui, as well as in other parts of Hawaii and the mainland United States.

Table of Contents*Leasing*

Our Leasing segment operations include residential, resort, commercial, agricultural and industrial land and property leases, licensing of the Company's registered trademarks and trade names, and stewardship and conservation efforts.

Commercial and Industrial Leases – We are the owner and lessor of approximately 213,000 square feet of commercial, retail and light industrial properties, including restaurants, retail outlets, office buildings, warehouses and Kapalua Resort activities. The following summarizes information related to our commercial and industrial leases as of December 31, 2017:

	Total Square Footage	Average Occupancy Percentage	Lease Expiration Dates
Kapalua Resort	55,553	98%	2018 – 2048
Other West Maui	18,352	79%	2018 – 2019
Upcountry Maui	139,039	73%	2018 - 2022

Agricultural Leases – We are the lessor of 1,900 acres of diversified agriculture land leases in West and Upcountry Maui.

Trademark and Trade Name Licensing – We currently have licensing agreements for the use of our registered Kapalua and other trademarks and trade names with several different companies, mainly in conjunction with our agricultural, commercial and industrial leases.

Stewardship and Conservation – We manage the conservation of a 9,000-acre nature and watershed preserve in West Maui. A portion of our stewardship and conservation efforts is subsidized by the State of Hawaii, the County of Maui and other organizations.

Revenues from our Leasing segment totaled \$5.5 million, or approximately 23% of our total operating revenues for the year ended December 31, 2017.

Our Leasing segment operations are highly sensitive to economic conditions including tourism and consumer spending levels. Our Leasing segment operations also face substantial competition from other property owners in

Maui and Hawaii.

Utilities

Our Utilities segment includes the operations of our two Hawaii Public Utilities Commission-regulated subsidiaries, Kapalua Water Company, Ltd. and Kapalua Waste Treatment Company, Ltd. In addition, our Utilities segment includes the operations of several major non-potable irrigation water systems in West and Upcountry Maui.

Kapalua Water Company, Ltd. provides potable and non-potable water utility services to the Kapalua Resort, including its golf courses, hotels, residential subdivisions, commercial properties and landscaped common areas.

Kapalua Waste Treatment Company, Ltd. provides sewage collection and transmission services for the Kapalua Resort. Waste water treatment is processed by the County of Maui Lahaina Wastewater Reclamation Facility.

Non-Potable Irrigation Water Systems – We own and operate several non-potable wells, irrigation ditches, reservoirs and transmission systems serving the Kapalua Resort, the County of Maui, and agricultural users in West and Upcountry Maui.

Revenues from our Utilities segment totaled \$3.2 million, or approximately 13% of our total operating revenues for the year ended December 31, 2017.

Our Utilities segment operations are primarily affected by the amount of rainfall and the level of development and volume of visitors in the Kapalua Resort. Our water and sewage system infrastructure requires periodic and ongoing maintenance, which in some cases can involve significant capital expenditures. Due to the regulated nature surrounding water sources and transmission infrastructure on Maui, our Utilities segment does not face any substantial competition.

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Resort Amenities

Our Resort Amenities segment includes the operations of the Kapalua Club, a private, non-equity club providing its members special programs, access and other privileges at certain of the amenities at the Kapalua Resort including a 30,000 square foot full-service spa and a private pool-side dining beach club.

Revenues from our Resort Amenities segment totaled \$1.1 million, or approximately 5% of our total operating revenues for the year ended December 31, 2017.

The viability of the Kapalua Club is principally dependent on the overall appeal and success of the Kapalua Resort. The resort faces competition from other resort destination communities on Maui and other parts of Hawaii.

Employees

As of December 31, 2017, we had 15 full-time employees, none of whom are members of a collective bargaining group.

Available Information

Our internet address is www.mauiland.com. Information about the Company is also available on www.kapalua.com. Reference in this annual report to these website addresses does not constitute incorporation by reference of the information contained on the websites. We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also make available through our website all filings of our executive officers and directors on Forms 3, 4 and 5 pursuant to Section 16 of the Exchange Act. Our filings may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. RISK FACTORS

The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the SEC.

Risks Related to our Business

Unstable macroeconomic market conditions could materially and adversely affect our operating results.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions poses a risk to our business as consumers, tourists and real estate investors postpone or reduce spending in response to tighter credit markets, energy costs, negative financial news, reduced consumer confidence, and/or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Other factors that could influence demand include increases in fuel costs, conditions in the residential real estate and mortgage markets, interest rates, labor costs, access to credit on reasonable terms, geopolitical issues, and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial condition and operating results.

In addition, in the event that current equity or credit market conditions deteriorate, or if our expenses increase unexpectedly, it may become necessary for us to raise additional capital in the form of a debt or equity financing, or a combination of the two. A downturn in industry, market or economic conditions could make debt or equity financing more difficult, more costly, and, in the case of an equity financing, more dilutive to our existing stockholders. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our ability to execute our current business strategy, as well as our financial performance and stock price.

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Real estate investments are subject to numerous risks and we are negatively impacted by downturns in the real estate market.

We are subject to the risks that generally relate to investments in real property because we develop and sell real property, primarily for residential use. The market for real estate on Maui and in Hawaii generally tends to be highly cyclical and is typically affected by numerous changes in local, national and worldwide conditions, especially economic conditions, many of which are beyond our control, including the following:

• periods of economic uncertainty and weakness in Hawaii and in the United States generally;

• uncertainties and changes in U.S. social, political, regulatory and economic conditions or laws and policies resulting from changes in the U.S. presidential administration and concerns surrounding ongoing developments in the European Union, the Middle East and Asia;

• high unemployment rates and low consumer confidence;

• the general availability of mortgage financing, including the effect of more stringent lending standards for mortgages and perceived or actual changes in interest rates;

• energy costs, including fuel costs, which could impact the cost and desirability of traveling to Hawaii;

• local, state and federal government regulation, including eminent domain laws, which may result in a taking for less compensation than what we believe our property is worth;

• the popularity of Maui in particular and Hawaii in general as a vacation destination or second home market;

• the relationship of the dollar to foreign currencies;

• tax law changes, including limits on, or the elimination of, the deductibility of certain mortgage interest expenses, the application of the alternative minimum tax, real property taxes and employee relocation expenses; and/or

• acts of God, such as tsunamis, hurricanes, earthquakes and other natural disasters.

Changes in any of the foregoing could have a material adverse effect on our business by causing a more significant general decline in the market for residential or luxury real estate, which, in turn, could adversely affect our development plans, revenues and profitability. During low periods of demand, real estate may remain on hand for much longer than expected or be sold at lower than expected returns, or even at a loss, which could impair our liquidity and ability to proceed with development projects and negatively affect our operating results. Sustained adverse changes to our development plans could result in impairment charges or write-offs of deferred development costs, which could have a material adverse impact on our financial condition and results of operations. In addition, in the current economic environment, equity real estate investments may be difficult to sell quickly and we may not be able to adjust our portfolio of properties quickly in response to economic or other conditions.

Because we are located in Hawaii and therefore apart from the mainland United States, our financial results are more sensitive to certain economic factors, such as spending on tourism and increased fuel and travel costs, which may adversely impact and materially affect our business, financial condition and results of operations.

Our businesses are dependent on attracting visitors to the Kapalua Resort, to Maui, and to the State of Hawaii as a whole. Economic factors that affect the number of visitors, their length of stay or expenditure levels will affect our financial performance. Factors such as the continuing worldwide economic uncertainty and weakness, the level of unemployment in Hawaii and the mainland United States, natural disasters, substantial increases in the cost of energy, including fuel costs, and events in the airline industry that may reduce passenger capacity or increase traveling costs could reduce the number of visitors to the Kapalua Resort and negatively affect a potential buyer's demand for our future property developments, each of which could have a material adverse impact on our business, financial condition and results of operations. In addition, the threat, or perceived threat, of heightened terrorist activity in the United States or other geopolitical events, or the spread of contagious diseases could negatively affect a potential visitor's choice of vacation destination or second home location and as a result, have a material adverse impact on our business, financial condition and results of operations.

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We have previously been involved in joint ventures and may be subject to risks associated with future joint venture relationships.

We have previously been involved in partnerships, joint ventures and other joint business relationships, and may initiate future joint venture projects. A joint venture involves certain risks such as:

• our actual or potential lack of voting control over the joint venture;

• our ability to maintain good relationships with our joint venture partners;

• a venture partner at any time may have economic or business interests that are inconsistent with ours, especially in light of economic uncertainty and weakness;