MAUI LAND & PINEAPPLE CO INC
Form 8-K
February 24, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 23, 2015**

MAUI LAND & PINEAPPLE COMPANY, INC.

(Exact name of registrant as specified in its charter)

Hawaii	**001-06510**	**99-0107542**
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

200 Village Road, Lahaina, Maui, Hawaii 96761

(Address of principal executive offices) (Zip Code)

(808) 877-3351

(Registrant's telephone number, including area code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On February 23, 2015, the Company issued a press release, which sets forth the results of its operations for the year ended December 31, 2014. A copy of the press release is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Such information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit Number	Description
99.1	Maui Land & Pineapple Company, Inc. Press Release dated February 23, 2015.

SIGNATURES

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

		MAUI LAND & PINEAPPLE COMPANY, INC.
Date:	February 24, 2015	By: /s/ TIM T. ESAKI Tim T. Esaki Chief Financial Officer

EXHIBIT INDEX

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2000 2001 2000 -------- -------- -------- -------- SALES From external customers Retail $ 37,482 $ 38,199 $ 20,216 $ 17,893 Growing and Wholesale 5,391 7,963 2,374 3,000 -------- -------- -------- -------- Totals 42,873 46,162 22,590 20,893 -------- -------- -------- -------- From other operating segments Retail -- -- -- -- Growing and Wholesale 2,166 2,484 1,288 1,239 -------- -------- -------- -------- Totals 2,166 2,484 1,288 1,239 -------- -------- -------- -------- Less: wholesale sales (5,287) (7,886) (2,339) (2,953) Less: elimination of intersegment sales (2,166) (2,484) (1,288) (1,239)

-------- -------- -------- -------- Total consolidated net sales $ 37,586 $ 38,276 $ 20,251 $ 17,940 ======== ======== ======== ======== INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES Retail $ 4,126 $ 4,571 $ 4,863 $ 4,090 Growing and Wholesale (1,044) 78 (491) 1,051 -------- -------- -------- -------- Totals 3,082 4,649 4,372 5,141 -------- -------- -------- -------- Loss (income) from discontinued wholesale operations (before income taxes) 1,018 (124) 953 (853) -------- -------- -------- -------- Total consolidated income from continuing operations before income taxes $ 4,100 $ 4,525 $ 5,325 $ 4,288 ======== ======== ======== ======== 8 9 CALLOWAY'S NURSERY, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS June 30, 2001 June 30, 2000 ------------- ------------- TOTAL ASSETS Retail $ 22,053 $ 22,139 Growing and wholesale 11,192 19,327 Less: assets of discontinued wholesale operations (2,950) (7,620) Less: elimination of profit on intersegment sales (147) (93) -------- -------- Totals $ 30,148 $ 33,753 ======== ======== 5. STOCK OPTION PLAN In February 2001 the Company's shareholders approved its 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan provides for the awarding of incentive and non-qualified stock options to employees, and is administered by the Compensation Committee of the Board of Directors, which consists entirely of independent directors. 302,000 shares of common stock have been reserved for issuance under the 2000 Plan. An aggregate of 2,267,000 shares of common stock have been reserved for issuance under all of the Company's stock option plans. 6. LONG TERM DEBT In April 2001 the Company entered into a note payable to a financial institution for $1,100,000, using $1,040,000 of the proceeds to reduce the balance of a note payable to another financial institution. The new note is collateralized by certain real estate and requires payments, including interest, of approximately $ 114,000 annually for a term of 20 years. The interest rate is 8.5% fixed. The note matures in April 2021. The note payable and applicable real estate relate to the WLD wholesale operations, which are being sold, as discussed in Note 7. 7. SUBSEQUENT EVENT -- DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE On August 7, 2001 the Company adopted a formal plan to dispose of the wholesale operations, which had been a part of its Wholesale and Growing segment. The Company plans to exit its wholesale operations by the end of November 2001. Specifically, the Company will cease in an orderly fashion production and marketing of plants and related products grown or purchased for sale to wholesale customers, including other nursery retailers and landscape contractors. The wholesale operation includes the wholesale growing operations of Turkey Creek Farms as well as the wholesale landscape distribution centers ("WLD") in Austin and Houston. At Turkey Creek Farms, the Company will exclusively grow plants for sale at its retail stores. The adopted disposal plan includes: (i) the sale of the Turkey Creek Farms wholesale inventories to unaffiliated customers, and (ii) the active marketing for sale of the WLD operations. The Company has incurred operating losses and negative cash flows in the wholesale operations for most of the last two fiscal years. The continued pressure from lower cost wholesalers has impacted the profitability and competitive position of these operations. The Company has concluded that market conditions today and for the foreseeable future are such that these operations are likely to remain uncompetitive. Additionally, incremental future investments would not generate sufficient income to recover the cost of such investments. 9 10 CALLOWAY'S NURSERY, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS The Company recorded a loss on disposal of discontinued operations of approximately $3.0 million (net of income taxes) in the quarter ended June 30, 2001 to cover the expected cash and non-cash costs of the discontinued operations. The loss includes the write down to estimated net realizable value of the investment in facilities and equipment, inventory, and accounts receivable, as well as the accrual of anticipated operating losses during the period after the date the disposal plan was adopted, through the date the disposition is completed. Prior to this decision, the Company grew plants for sale to external customers in addition to plants grown for sale in its retail stores. The Company intends to grow a greater amount of plants that are solely for sale in its retail stores. Following is a summary of the asset and liabilities of the discontinued wholesale operations as of the applicable periods (amounts in thousands): June 30, September 30, June 30, 2001 2000 2000 -------- ------------ -------- ASSETS Accounts receivable $ 887 $ 818 $1,167 Inventories 1,434 6,089 5,813 ------ ------ ------ Current assets of discontinued operations $2,321 $6,907 $6,980 ====== ====== ====== Property and equipment, net $ 629 $ 637 $ 640 ------ ------ ------ Noncurrent assets of discontinued operations $ 629 $ 637 $ 640 ====== ====== ====== LIABILITIES Accounts payable $ 615 $ 799 $ 491 Accrued expenses 957 250 92 ------ ------ ------ Current liabilities of discontinued operations $1,572 $1,049 $ 583 ====== ====== ====== As discussed in Note 6, long-term debt (including current portion) of $1,100,000 that is collateralized by the WLD real property is included in the condensed consolidated balance sheet as of June 30, 2001. That note payable was entered into in April 2001 with the proceeds being used to reduce the amount outstanding on a note payable to another financial institution. Prior to April 2001 there was no separate indebtedness related only to the WLD real property. A portion of the proceeds from the sale of the WLD real property will be used to pay off the $1,100,000 note payable referred to above. 10 11 CALLOWAY'S NURSERY, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Following is a summary of the operating results of the discontinued wholesale operations for the applicable periods (amounts in thousands): Nine Nine Three Three month month month month period period period period ended ended ended ended June 30, June 30, June 30, June 30, 2001 2000 2001 2000 -------- -------- -------- -------- Sales $ 5,287 $ 7,886 $ 2,339 $ 2,953 Cost of goods sold 4,591 5,395 2,657 1,464 ------- ------- ------- ------- Gross profit (loss) 696 2,491 (318) 1,489 Operating expenses 1,400 2,092 529 550 Occupancy expenses 266 240 84 74 Advertising expenses 6 8 2 4 Depreciation and amortization 40 27 20 8 Interest expense 2 -- -- -- ------- ------- ------- ------- Total expenses 1,714 2,367 635 636 ------- ------- ------- ------- Income (loss) from discontinued operations before income taxes (1,018) 124 (953) 853 Income taxes (benefit) (371) 45 (346) 310 ------- ------- ------- ------- Income (loss) from discontinued operations ($ 647) $ 79 ($ 607) $ 543 ======= ======= ======= ======= The Company recorded a loss on disposal of discontinued operations (net of income tax) of $3,027,000 for the nine-month and three-month periods ended June 30, 2001. The loss included the expected loss on the disposal of the Turkey Creek Farms wholesale inventory, partially offset by expected gains on the sale of other assets, and estimated income tax benefits of $1,736,000. The discontinuance of the wholesale operations has not caused the Company to be in violation of its various bank covenants. However, the Company could require a waiver of the debt coverage ratio (a ratio comparing net income plus depreciation and amortization to current portion of long-term debt) at some time during fiscal 2002. In the event this occurs, the Company will seek a waiver from its bank lender. 11 12 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RESULTS OF OPERATIONS INTRODUCTION In September 1999 we completed the Acquisition of Cornelius Nurseries, Inc. and affiliated companies (the "Cornelius Acquisition"). The results of operations for fiscal 2000 and fiscal 2001 include the Cornelius Acquisition. On August 7, 2001 the Company adopted a formal plan to dispose of the wholesale operations, which had been a part of its Wholesale and Growing segment (see Note 7 to Financial Statements). Accordingly, the following discussion of results of operations has been separated into (i) Continuing Operations and (ii) Discontinued Operations. CONTINUING OPERATIONS QUARTER ENDED JUNE 30, 2001 COMPARED WITH QUARTER ENDED JUNE 30, 2000 (Amounts in millions, except per share amounts) --- THIRD QUARTER HIGHLIGHTS (UNAUDITED) Fiscal 2001 Fiscal 2000 ----------------------------------- ----------- ----------- Consolidated net sales $20.3 $17.9 Retail segment sales 20.2 17.9 Growing segment sales 1.4 1.2 Less: internal sales $(1.3) $(1.2) Sales increase (decrease) 13% 19% Same-store sales increase (decrease) 15% (7%) Number of retail stores (end of quarter) 20 21 Gross profit margin 53% 55% Income from continuing operations before income taxes $ 5.3 $ 4.3 Income from continuing operations per share (basic) $ .53 $ .45 Cash flows from operations $ 5.7 $ 2.8 Retail store inventories $ 4.3 $ 4.1 Growing inventories $ 1.8 $ 1.4 Current ratio 1.57 1.65 Property, plant and equipment (net) $14.1 $14.3 Long-term debt (including current portion) $10.6 $10.5 12 13 CONSOLIDATED NET SALES increased 13%. Same-store sales (sixteen Calloway's stores in Dallas-Fort Worth and three Cornelius stores in Houston) increased 15%. The increase in Retail sales was primarily attributable to greater consumer demand in the Company's market areas for the April - June period (offsetting reduced demand during the January - March period). GROSS MARGIN was 53% for the fiscal 2001 quarter compared to 55% for the fiscal 2000 quarter. The reduction was primarily related to an increase in promotional pricing coordinated with increased advertising during the April - May period that helped fuel the sales increase achieved for the quarter. OPERATING EXPENSES declined 4%, from approximately $3.9 million for the fiscal 2000 quarter to approximately $3.8 million for the fiscal 2001 quarter. The decline was primarily due to lower bonus expenses. Bonuses are tied to improvements in profitability and related measures. The fiscal 2000 period had significant improvement in most of those measures for most units, while results for the fiscal 2001 period did not improve for most units. ADVERTISING EXPENSES increased 19%, from $485,000 for the fiscal 2000 quarter to $577,000 for the fiscal 2001 quarter. The timing of expenditures was adjusted to allocate more to the later part of the spring season due to poor weather conditions that had a negative impact on consumer demand during the earlier part of the spring season. OCCUPANCY EXPENSES declined 8% from $710,000 for the fiscal 2000 quarter to $656,000 for the fiscal 2001 quarter. The reduction was primarily due to lower estimated property taxes for fiscal 2001 than had been expected for the comparable period in fiscal 2000. DEPRECIATION AND AMORTIZATION EXPENSES declined 16% from $249,000 for the fiscal 2000 quarter to $208,000 for the fiscal 2001 quarter, due to some long-lived assets becoming fully depreciated during the fiscal 2001 quarter. INTEREST EXPENSE declined 14%, from $304,000 for the fiscal 2000 quarter to $260,000 for the fiscal 2001 quarter due debt refinanced with lower, fixed interest rates during fiscal 2000 and fiscal 2001. INVENTORIES increased 13%, from $5.5 million at June 30, 2000 to $6.1 million at June 30, 2001. The increase was primarily related to earlier receipt of most Christmas merchandise in fiscal 2001 than in the comparable period in fiscal 2000. Total purchases of Christmas merchandise for the year are expected to increase modestly compared to purchases of Christmas merchandise for 2000. 13 14 NINE-MONTH PERIOD ENDED JUNE 30, 2001 COMPARED WITH NINE-MONTH PERIOD ENDED JUNE 30, 2000 NINE MONTH HIGHLIGHTS (UNAUDITED) Fiscal 2001 Fiscal 2000 -------------------------------- ----------- ----------- Consolidated net sales $37.6 $38.3 Retail segment sales 37.5 38.2 Growing segment sales 2.3 2.6 Less: internal sales $(2.2) $(2.5) Sales increase (decrease) (2%) 77% Same-store sales increase (decrease) (2%) 4% Gross profit margin 51% 51% Income from continuing operations before income taxes $ 4.1 $ 4.5 Income from continuing operations per share (basic) $ .38 $ .47 Cash flows from operations $ 2.3 $ 4.7 CONSOLIDATED NET SALES declined by 2%. Same-store sales (sixteen Calloway's stores in Dallas-Fort Worth and three Cornelius stores in Houston) also declined 2%. The decline in Retail sales was primarily attributable to reduced consumer demand in the Company's market areas during the fall (October - November 2000) and winter (January - March 2001) periods, partially offset by stronger consumer demand during the spring (April - June 2001) period. GROSS MARGIN was 51% for both the fiscal 2001 and fiscal 2000 nine-month periods. OPERATING EXPENSES declined 2%, from $10.4 million for the fiscal 2000 nine-month period to approximately $10.1 million for the fiscal 2001 nine-month period. The decline was primarily due to lower bonus expenses. Bonuses are tied to improvements in profitability and related measures. The fiscal 2000 period had significant improvement in most of those measures for most units, while results for the fiscal 2001 period did not improve for most units. ADVERTISING EXPENSES increased 7% from approximately $1.2 million for the fiscal 2000 nine-month period to approximately $1.3 million for the fiscal 2001 nine-month period. The increase was primarily due to additional expenses incurred during spring 2001 to stimulate consumer demand for the Company's Retail stores. OCCUPANCY EXPENSES declined 8% from approximately $2.1 million for the fiscal 2000 nine-month period to approximately $1.9 million for the fiscal 2001 nine-month period. The reduction was primarily due to lower estimated property taxes for fiscal 2001 than had been expected for the comparable period in fiscal 2000. INTEREST EXPENSE rose 14%, from $770,000 to $878,000, primarily as a result of increased seasonal borrowings under the Company's revolving line of credit. The increased borrowings were necessary because of the reduced Sales for the first six months of fiscal 2001 compared to the first six-months of fiscal 2000. All of those seasonal borrowings were repaid during April 2001. 14 15 DISCONTINUED OPERATIONS QUARTER ENDED JUNE 30, 2001 COMPARED WITH QUARTER ENDED JUNE 30, 2000 SALES decreased 21%. The decrease in sales was primarily attributed to continued pressure from lower cost wholesalers. GROSS PROFIT declined from 50% for the fiscal 2000 quarter to (14%) for the fiscal 2001 period. The decline was caused by the substantial decline in sales for the quarter and nine-month period, which caused excessive quantities of inventory, resulting in a $1.1 million markdown to lower of cost or market at June 30, 2001. OPERATING EXPENSES declined 4%. The decline was a result of reduced expenses needed to support the reduced volume of sales. OCCUPANCY EXPENSES increased 14%. The increase was a result of an increase in property tax expenses. DEPRECIATION AND AMORTIZATION increased 150%. The increase was a result of the addition of fixtures and equipment during fiscal 2001. INVENTORY declined 76%. The decrease in inventory was due to the $1.1 million markdown referred to above, as well as the expected losses on disposal through discontinued operations of the Turkey Creek Farms inventory. NINE MONTH PERIOD ENDED JUNE 30, 2001 COMPARED WITH NINE MONTH PERIOD ENDED JUNE 30, 2000 SALES declined 33%. The decrease in sales was primarily attributed to continued pressure from lower cost wholesalers. GROSS PROFIT declined from 32% for the fiscal 2000 quarter to 13% for the fiscal 2001 period. The decline was caused by the substantial decline in sales for the quarter and nine-month period, which caused excessive quantities of inventory, resulting in a $1.1 million markdown to lower of cost or market at June 30, 2001. OPERATING EXPENSES declined 33%. The decline was a result of reduced expenses needed to support the reduced volume of sales. OCCUPANCY EXPENSES increased 11%. The increase was a result of an increase in property tax expenses. DEPRECIATION AND AMORTIZATION increased 48%. The increase was a result of the addition of fixtures and equipment during fiscal 2001. 15 16 CAPITAL RESOURCES AND LIQUIDITY CASH FLOWS FROM OPERATING ACTIVITIES The Company had Cash Provided by Operating Activities of approximately $2.3 million for the fiscal 2001 nine-month period compared to Cash Provided by Operating Activities of approximately $4.7 million for the fiscal 2000 nine-month period. The primary causes of the difference were: (i) approximately $1.4 million in estimated Federal Income Tax payments, that were accrued in fiscal 2000, were paid during fiscal 2001, and (ii) income from continuing operations declined from $2.8 million for the fiscal 2000 nine-month period to $2.5 million for the fiscal 2001 nine-month period. CASH FLOWS FROM INVESTING ACTIVITIES The Company had approximately $423,000 in Cash Used for Investing Activities for the fiscal 2001 nine-month period compared to approximately $1.7 million in Cash Used for Investing Activities for the fiscal 2000 nine-month period. Most of the $1.7 million in capital expenditures for the fiscal 2000 nine-month period was for a new store that the Company built and opened in April 2000. There was no new store construction during the fiscal 2001 nine-month period. CASH FLOWS FROM FINANCING ACTIVITIES The Company had approximately $364,000 in Cash Provided by Financing Activities for the fiscal 2001 nine-month period compared to Cash Provided by Financing Activities of approximately $591,000 for the fiscal 2000 nine-month period. During the fiscal 2001 nine-month period the Company entered into three notes payable totaling approximately $4.9 million. (i) One of the three notes was for approximately $2.6 million, and it refinanced approximately $2.5 million of a separate real estate note payable, reducing the balance from approximately $4.5 million to approximately $2.0 million, extending the maturity date, and providing a fixed interest rate instead of a variable interest rate. (ii) The second note payable was for approximately $1.1 million, and it refinanced approximately $1.0 million of the same real estate note payable described in (i) above, further reducing the balance from approximately $2.0 million to approximately $1.0 million, extending the maturity date, and providing a fixed interest rate instead of a variable interest rate. (See Note 6 to Financial Statements) (iii) The third note payable was for approximately $1.2 million, and it replaced a construction loan of approximately $0.8 million, extending the maturity date and providing a fixed interest rate instead of a variable interest rate. 16 17 We anticipate that cash flows from operations and our $5,000,000 revolving line of credit arrangement will be sufficient to meet our working capital needs. On August 7, 2001 the Company adopted a formal plan to dispose of the wholesale operations, which had been a part of its Wholesale and Growing segment (see Note 7 to Financial Statements). The discontinuance of the wholesale operations has not caused the Company to be in violation of its various bank covenants. However, the Company could require a waiver of the debt coverage ratio (a ratio comparing net income plus depreciation and amortization to current portion of long-term debt) at some time during fiscal 2002. In the event this occurs, the Company will seek a waiver from its bank lender. DISCONTINUED OPERATIONS On August 7, 2001 the Company adopted a formal plan to dispose of the wholesale operations, which had been a part of its Wholesale and Growing segment. The Company plans to exit its wholesale operations by the end of November 2001. Specifically, the Company will cease in an orderly fashion production and marketing of plants and related products grown or purchased for sale to wholesale customers, including other nursery retailers and landscape contractors. The wholesale operation includes the wholesale growing operations of Turkey Creek Farms as well as the wholesale landscape distribution centers ("WLD") in Austin and Houston. At Turkey Creek Farms, the Company will exclusively grow plants for sale at its retail stores. The adopted disposal plan includes: (i) the sale of the Turkey Creek Farms wholesale inventories to unaffiliated customers, and (ii) the active marketing for sale of the WLD operations. The Company has incurred operating losses and negative cash flows in the wholesale operations for most of the last two fiscal years. The continued pressure from lower cost wholesalers has impacted the profitability and competitive position of these operations. The Company has concluded that market conditions today and for the foreseeable future are such that these operations are likely to remain uncompetitive. Additionally, incremental future investments would not generate sufficient income to recover the cost of such investments. The Company recorded a loss on disposal of discontinued operations of approximately $3.0 million (net of income taxes) in the quarter ended June 30, 2001 to cover the expected cash and non-cash costs of the discontinued operations. The loss includes the write down to estimated net realizable value of the investment in facilities and equipment, inventory, and accounts receivable, as well as the accrual of anticipated operating losses during the period after the date the disposal plan was adopted, through the date the disposition is completed. Prior to this decision, the Company grew plants for sale to external customers in addition to plants grown for sale in its retail stores. The Company intends to grow a greater amount of plants that are solely for sale in its retail stores. 17 18 Following is a summary of the asset and liabilities of the discontinued wholesale operations as of the applicable periods (amounts in thousands): June 30, September 30, June 30, 2001 2000 2000 -------- ------------ -------- ASSETS Accounts receivable $ 887 $ 818 $1,167 Inventories 1,434 6,089 5,813 ------ ------ ------ Current assets of discontinued operations $2,321 $6,907 $6,980 ====== ====== ====== Property and equipment, net $ 629 $ 637 $ 640 ------ ------ ------ Noncurrent assets of discontinued operations

$ 629 $ 637 $ 640 ====== ====== ====== LIABILITIES Accounts payable $ 615 $ 799 $ 491 Accrued expenses 957 250 92 ------ ------ ------ Current liabilities of discontinued operations $1,572 $1,049 $ 583 ====== ====== ====== As discussed in Note 6, long-term debt (including current portion) of $1,100,000 that is collateralized by the WLD real property is included in the condensed consolidated balance sheet as of June 30, 2001. That note payable was entered into in April 2001 with the proceeds being used to reduce the amount outstanding on a note payable to another financial institution. Prior to April 2001 there was no separate indebtedness related only to the WLD real property. A portion of the proceeds from the sale of the WLD real property will be used to pay off the $1,100,000 note payable referred to above. Following is a summary of the operating results of the discontinued wholesale operations for the applicable periods (amounts in thousands): Nine Nine Three Three month month month month period period period period ended ended ended ended June 30, June 30, June 30, June 30, 2001 2000 2001 2000 ------- ------- ------- ------- Sales $ 5,287 $ 7,886 $ 2,339 $ 2,953 Cost of goods sold 4,591 5,395 2,657 1,464 ------- ------- ------- ------- Gross profit 696 2,491 (318) 1,489 Operating expenses 1,400 2,092 529 550 Occupancy expenses 266 240 84 74 Advertising expenses 6 8 2 4 Depreciation and amortization 40 27 20 8 Interest expense 2 -- -- -- ------- ------- ------- ------- Total expenses 1,714 2,367 635 636 ------- ------- ------- ------- Income (loss) from discontinued operations before income taxes (1,018) 124 (953) 853 Income taxes (benefit) (371) 45 (346) 310 ------- ------- ------- ------- Income (loss) from discontinued operations ($ 647) $ 79 ($ 607) $ 543 ======= ======= ======= ======= 18 19 The Company recorded a loss on disposal of discontinued operations (net of income tax) of $3,027,000 for the nine-month and three-month periods ended June 30, 2001. The loss included the expected loss on the disposal of the Turkey Creek Farms wholesale inventory, partially offset by expected gains on the sale of other assets, and estimated income tax benefits of $1,736,000. RECENT ACCOUNTING PRONOUNCEMENTS In July 2001 the FASB issued Statement No. 141, Business Combinations and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with indefinite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company is required to adopt the provisions of Statement 141 immediately. Statement 142 is effective January 1, 2002. Companies with fiscal years beginning after March 15, 2001 who have not yet issued financial statements for their first interim period may early adopt Statement 142. The Company is in the process of determining whether or not it will early adopt Statement 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142. Upon adoption of Statement 142 the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. 19 20 As of October 1, 2001 the Company expects to have unamortized goodwill in the amount of $740,000 that will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $108,000 for the fiscal year ended September 30, 2000 and $81,000 for the nine-month period ended June 30, 2001. Because of the extensive effort that will be needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle. ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Calloway's is exposed to certain market risks, including fluctuations in interest rates. We do not enter into transactions designed to mitigate such market risks for trading or speculative purposes. As of June 30, 2001, we had no foreign exchange contracts and/or options outstanding. We manage our interest rate risk by arranging for most long-term debt to be at fixed rates, and for debt with shorter maturities, (including our revolving line of credit) to have variable interest rates. For our variable-rate debt, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. At June 30, 2001 Calloway's had variable rate debt of approximately $2.0 million, out of total debt of $10.6 million. Holding other variables, such as debt levels, constant, a one percentage point increase in interest rates would be expected to have an estimated annual impact on income before income taxes and cash flows of approximately $20,000. 20 21 PART 2. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS. None. ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS. None. ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None. ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. None. ITEM 5. OTHER INFORMATION. None. ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K. (a) Exhibits: None. (b) Reports on Form 8-K: None. 21 22 SIGNATURES 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. Dated: August 14, 2001 CALLOWAY'S NURSERY, INC. By /s/ James C. Estill --------------------------------- James C. Estill, President and Chief Executive Officer By /s/ Daniel G. Reynolds --------------------------------- Daniel G. Reynolds, Vice President and Chief Financial Officer 22