MAUI LAND & PINEAPPLE CO INC
Form 10-Q
November 06, 2007

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended SEPTEMBER 30, 2007**

**OR**

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

**Commission file number 1-6510**

# MAUI LAND & PINEAPPLE COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

**P. O. BOX 187, KAHULUI, MAUI, HAWAII 96733-6687**
(Address of principal executive offices)

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

**NONE**
(Former name, former address and former fiscal year, if changed since last report)

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

Yes ý No o

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

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

Yes o No ý

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

| **Class** | **Outstanding at November 1, 2007** |
| --- | --- |
| Common Stock, no par value | 8,147,709 shares |

**MAUI LAND & PINEAPPLE COMPANY, INC.**
**AND SUBSIDIARIES**

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | 9/30/07 | 12/31/06 |
|---|---|---|
| | (in thousands) | |
| *ASSETS* | | |
| Current Assets | | |
| Cash and cash equivalents | $ 1,619 | $ 1,143 |
| Accounts and notes receivable | 9,082 | 25,440 |
| Inventories | 11,126 | 18,024 |
| Other current assets | 2,147 | 1,813 |
| Total current assets | 23,974 | 46,420 |
| Property | 241,012 | 260,837 |
| Accumulated depreciation | (101,317) | (130,988) |
| Property net | 139,695 | 129,849 |
| Other Assets | 69,687 | 43,930 |
| Total | $ 233,356 | $ 220,199 |
| *LIABILITIES AND STOCKHOLDERS' EQUITY* | | |
| Current Liabilities | | |
| Current portion of long-term debt and capital lease obligations | $ 1,439 | $ 1,410 |
| Trade accounts payable | 11,334 | 16,145 |
| Income taxes payable | 3,982 | 346 |
| Other current liabilities | 7,369 | 9,516 |
| Total current liabilities | 24,124 | 27,417 |
| Non-Current Liabilities | | |
| Long-term debt and capital lease obligations | 31,689 | 49,716 |
| Accrued retirement benefits | 30,755 | 29,272 |
| Other non-current liabilities | 14,177 | 12,887 |
| Total non-current liabilities | 76,621 | 91,875 |
| Minority Interest in Subsidiary | 558 | 538 |
| Commitments and Contingencies (Note 15) | | |
| Stockholders' Equity | | |
| Common stock, no par value 23,000,000 and 9,000,000 shares authorized, 7,931,154 and 7,287,779 issued and outstanding | 33,269 | 15,168 |
| Additional paid-in capital | 6,477 | 4,743 |
| Retained earnings | 94,614 | 82,765 |
| Accumulated other comprehensive loss | (2,307) | (2,307) |

| | 9/30/07 | 12/31/06 |
|---|---|---|
| Stockholders' Equity | 132,053 | 100,369 |
| Total | $ 233,356 | $ 220,199 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**AND RETAINED EARNINGS**
**(UNAUDITED)**

| | Three Months Ended | |
|---|---|---|
| | **9/30/07** | **9/30/06** |
| | (in thousands except share amounts | |
| Operating Revenues | | |
| Net sales | $ 21,151 | $ 29,768 |
| Operating income | 7,343 | 10,093 |
| Total Operating Revenues | 28,494 | 39,861 |
| Operating Costs and Expenses | | |
| Cost of sales | 12,973 | 16,845 |
| Operating expenses | 8,550 | 9,973 |
| Shipping and marketing | 4,866 | 4,658 |
| General and administrative | 7,075 | 10,339 |
| Pineapple restructuring charges (Note 18) | (260) | |
| Total Operating Costs and Expenses | 33,204 | 41,815 |
| Operating Loss | (4,710) | (1,954) |
| Equity in income (losses) of affiliates | 4,920 | (2,214) |
| Interest expense | (405) | (131) |
| Interest income | 150 | 343 |
| Loss Before Income Taxes | (45) | (3,956) |
| Income Tax Expense (Benefit) | 110 | (1,463) |
| Net Loss | (155) | (2,493) |
| Retained Earnings, Beginning of Period | 94,769 | 86,715 |
| Retained Earnings, End of Period | $ 94,614 | $ 84,222 |
| Loss Per Common Share | | |
| Basic | $ (0.02) | $ (0.34) |
| Diluted | $ (0.02) | $ (0.34) |

See accompanying Notes to Condensed Consolidated Financial Statements.

**MAUI LAND & PINEAPPLE COMPANY, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**AND RETAINED EARNINGS**
**(UNAUDITED)**

| | Nine Months Ended | |
|---|---|---|
| | **9/30/07** | **9/30/06** |
| | **(in thousands except share amounts)** | |
| Operating Revenues | | |
| Net sales | $ 101,570 | $ 101,590 |
| Operating income | 26,597 | 30,804 |
| Total Operating Revenues | 128,167 | 132,394 |
| Operating Costs and Expenses | | |
| Cost of sales | 44,489 | 45,925 |
| Operating expenses | 27,642 | 29,746 |
| Shipping and marketing | 12,184 | 11,531 |
| General and administrative | 26,974 | 29,100 |
| Pineapple restructuring charges (Note 18) | 5,156 | |
| Total Operating Costs and Expenses | 116,445 | 116,302 |
| Operating Income | 11,722 | 16,092 |
| Equity in income (losses) of affiliates | 9,003 | (3,582) |
| Interest expense | (1,449) | (160) |
| Interest income | 791 | 1,155 |
| Income Before Income Taxes | 20,067 | 13,505 |
| Income Tax Expense | 8,018 | 4,823 |
| Net Income | 12,049 | 8,682 |
| Retained Earnings, Beginning of Period | 82,765 | 75,540 |
| Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48 Note 13) | (200) | |
| Retained Earnings, End of Period | $ 94,614 | $ 84,222 |
| Earnings Per Common Share | | |
| Basic | $ 1.55 | $ 1.20 |
| Diluted | $ 1.54 | $ 1.18 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended | |
|---|---|---|
| | **9/30/07** | **9/30/06** |
| | (in thousands) | |
| Net Cash Used in Operating Activities | $ (3,292) | $ (15,788) |
| Investing Activities | | |
| Purchases of property | (21,788) | (36,029) |
| Proceeds from disposal of property | 45,269 | 38,156 |
| Contributions to affiliates | (9,565) | (7,523) |
| Other | (6,953) | (7,333) |
| Net Cash Provide by (Used in) Investing Activities | 6,963 | (12,729) |
| Financing Activities | | |
| Payments of long-term debt and capital lease obligations | (85,711) | (53,263) |
| Proceeds from long-term debt | 66,150 | 76,000 |
| Stock option exercises | 1,422 | |
| Issuance of common stock | 14,944 | |
| Net Cash Provided by (Used in) Financing Activities | (3,195) | 22,737 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 476 | (5,780) |
| Cash and Cash Equivalents at Beginning of Period | 1,143 | 7,216 |
| Cash and Cash Equivalents at End of Period | $ 1,619 | $ 1,436 |

Supplemental Disclosures of Cash Flow Information  Interest (net of amounts capitalized) of $1,178,000 and $-0- was paid during the nine months ended September 30, 2007 and 2006, respectively. Income taxes of $3,862,000 and $6,534,000 were paid during the nine months ended September 30, 2007 and 2006, respectively.

Non-Cash Investing Activities  Amounts included in trade accounts payable for additions to property and other assets totaled $2,769,000 and $6,260,000 at September 30, 2007 and 2006, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

**1.**

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to fairly present the financial position, results of operations and cash flows for the interim periods ended September 30, 2007 and 2006.

**2.**

The Company's reports for interim periods utilize numerous estimates of production cost, general and administrative expenses, and other costs for the full year. Future actual amounts may differ from the estimates. Amounts in the interim reports are not necessarily indicative of results for the full year.

**3.**

Net income was equal to comprehensive income for the interim periods ended September 30, 2007 and 2006.

**4.**

The effective tax rate for 2007 and 2006 differs from the statutory federal rate primarily because of the state tax provision, state tax credits, and certain non-deductible expenses.

**5.**

Accounts and notes receivable are reflected net of allowance for doubtful accounts of $171,000 and $555,000 at September 30, 2007 and December 31, 2006, respectively.

**6.**

Inventories as of September 30, 2007 and December 31, 2006 were as follows:

| | 9/30/07 | 12/31/06 |
|---|---|---|
| | (in thousands) | |
| Pineapple products | | |
| Finished goods | $ 675 | $ 1,416 |
| Work in progress | | 299 |
| Raw materials | | 492 |
| Real estate held for sale | 3,505 | 8,449 |
| Merchandise, materials and supplies | 6,946 | 7,368 |
| Total Inventories | $ 11,126 | $ 18,024 |

The Company accounts for the costs of growing pineapple in accordance with the "annual accrual method," which has been used by Hawaii's pineapple and sugarcane growers since the 1950s. Under this method, revenues and costs are determined on the accrual basis, and pineapple production costs incurred during a year are charged to the costs of crops harvested during that year. These costs include land preparation and planting, cultivation, irrigation, crop development, harvesting and hauling to the central processing facility. They also include certain overhead costs that are directly related to the growing of pineapple. Accordingly, no costs are assigned to the growing (unharvested) crops. The annual accrual method is the most appropriate method of accounting for the costs of growing pineapple because of pineapple's crop cycle (18 to 48 months) and the uncertainties about fruit quality and the number of crops to be harvested from each planting (one to three crops). AICPA Statement of Position No. 85-3 ("SOP"), *Accounting by Agricultural Producers and Agricultural Cooperatives*, states that all direct and indirect costs of growing crops should be accumulated and growing crops should be reported at the lower of cost or market. However, SOP No. 85-3 does not apply to growers of pineapple and sugarcane in tropical regions because tropical agriculture (of which pineapple and sugarcane production in Hawaii are examples) differs greatly from agriculture in temperate regions of the mainland United States. The Company's growing (unharvested) crops generally consisted of approximately 3,500 to 4,000 acres that are expected to yield up to 48 tons per acre for the first crop harvested. The Company's growing crops are in various stages of development, and will be harvested principally in the years 2007 through 2009.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Basic | 7,929,183 | 7,258,800 | 7,759,616 | 7,256,815 |
| Diluted | 7,929,183 | 7,258,800 | 7,825,804 | 7,350,597 |

In 2007 and 2006, diluted shares included common stock equivalents, principally employee stock options and restricted stock awards. For the three months ended September 30, 2007 and 2006, potentially dilutive common shares of 56,270 and 91,160 respectively, from stock-based compensation arrangements are not included in the number of diluted common shares because to do so would have an antidilutive effect on the earning per share amounts (i.e., decrease loss per common share).

**8. Recently Issued Accounting Pronouncement**

In November 2006, the Emerging Issues Task Force of the FASB ("EITF") reached a consensus on EITF Issue No. 06-8, "Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums" ("EITF 06-8"). EITF 06-8 will require condominium sales to meet the continuing investment criterion in SFAS No. 66 in order for profit to be recognized under the percentage-of-completion method. EITF 06-8 will be effective for annual reporting periods beginning after March 15, 2007, which is the Company's 2008 fiscal year. The cumulative effect of applying EITF 06-8, if any, is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company's management is evaluating the impact that EITF 06-8 will have on the financial statements.

**9. Kapalua Bay Holdings, LLC**

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

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

The Company's equity in the income (losses) of Bay Holdings was $9.0 million and ($3.6) million for the nine months ended September 30, 2007 and 2006, respectively, and $4.9 million and ($2.2) million for the three months ended September 30, 2007 and 2006, respectively. Upon formation of Kapalua Bay in 2004, the Company's non-monetary contributions to Bay Holdings, including a 21-acre land parcel, were valued at $25 million by the members through arms-length negotiations. The land contribution was recorded by the Company in its investment carrying value in Bay Holdings at historical cost, which was nominal, and Kapalua Bay recorded the contribution at its fair market value of $25 million. In 2007, Bay Holdings began to recognize profit from binding sales contracts on the whole and fractional ownership condominiums on a percentage-of-completion method. Accordingly, in 2007, the Company began to recognize a proportionate amount of the unrealized appreciation of the fair value of the land and other non-monetary contributions to Kapalua Bay and other deferred costs related to the joint venture. This resulted in income, net of deferred costs, of $2.2 million and $926,000, respectively, for the nine months and three months ended September 30, 2007, and is included in the Company's equity in income of Bay Holdings.

In July 2006, Kapalua Bay entered into a Construction Loan Agreement (the "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. Disbursements under the Loan Agreement are contingent upon, among other things, no event of default or material adverse change occurring with respect to Kapalua Bay or the project. The loan is not revolving in nature and amounts repaid may not be subsequently advanced. All loan proceeds disbursed shall be used only for specified budgeted items for which such proceeds were advanced. Lehman is not obligated to make loan advances exceeding $85 million until sales of residential units equals or exceeds $285.0 million. As of September 30, 2007, total loan advances were $85 million and Kapalua Bay had executed approximately $257 million in binding sales commitments.

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

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

Summarized operating statement information for Bay Holdings is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **(in thousands)** | | | |
| Revenues | $ 33,106 | $ 197 | $ 77,496 | $ 6,865 |
| Expenses | 25,259 | 4,539 | 64,037 | 13,890 |
| Net Income (Loss) | $ 7,847 | $ (4,342) | $ 13,459 | $ (7,025) |

**10. Land Sale and Joint Venture Interest**

On March 28, 2007, the Company sold the land underlying the Ritz-Carlton, Kapalua hotel to a wholly-owned affiliate of the limited liability company (the "Hotel JV") that owned the hotel and was the lessee under the long-term ground lease with the Company. Approximately 49 acres were sold for $25 million in cash at closing and for a 21.4% interest in the Hotel JV, and the Company recognized a gain of $24.8 million on the sale.

In connection with the sale of the land, the long-term ground lease was terminated and a Second Amended and Restated Limited Liability Company Agreement of W2005 Kapalua/Gengate Holdings L.L.C. (the "Hotel JV Agreement") was executed. Pursuant to the Hotel JV Agreement, the members of and the percentage interests in the Hotel JV are:

(i) Whitehall Street Global Real Estate Limited Partnership 2005, a Delaware limited partnership ("Whitehall Street"); 40.4234%;

(ii) Whitehall Street Global Employee Fund 2005, a Delaware limited partnership ("Whitehall Employee Fund"); 10.648%;

(iii) Gengate Kapalua Holdings GP, LLC, a Delaware limited liability company ("GHGP"); 0%;

(iv) Gengate Kapalua Holdings, LLC, a Delaware limited liability company ("GKH"); 27.5%;

(v) MLP RCK LLC, a Hawaii limited liability company ("MLPC"), whose sole member is the Company; 21.4286%.

Whitehall Street, Whitehall Employee Fund and GKH are designated as the Managing Members of the Hotel JV. Major decisions, as such term is defined in the Hotel JV Agreement, require the consent of Whitehall Street or Whitehall Employee Fund, and either GKH or MLPC. Profits and losses of the Hotel JV will be allocated in proportion to the members' ownership interests, which approximate the estimated cash distributions to the members. The Company has the ability to exercise significant influence, but not control, over operating and financial policies of the Hotel JV and will account for its investment in the Hotel JV using the equity method. The Hotel JV is not a variable interest entity as defined by Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities*.

The Company's carrying value of its interest in the Hotel JV is $0 and, accordingly, the Company is not recording its share of the equity in losses in the Hotel JV because they are not guaranteeing the obligations of the Hotel JV nor is the Company required to fund future obligations or losses of the Hotel JV.

Concurrent with the Hotel JV Agreement, the Hotel JV entered into certain loan agreements with Lehman Brothers Holding Inc. totaling $271.7 million and an amendment to an existing loan agreement of $20 million with Luxury Finance, LLC. The loans are principally for the purpose of acquiring the land from the Company, repaying existing debt, and completing a comprehensive refurbishment of the hotel. The Company is not liable for the repayment of the loans, but is liable for any loss suffered by the lenders as a result of the Company's fraudulent acts, misrepresentation or certain other triggering events, up to 10.71% of the then outstanding loan balances. The Company has recognized a liability of $93,000, representing the estimated fair value of its obligations under these provisions.

**11. Stock-Based Compensation**

The Company accounts for stock compensation arrangements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*. SFAS No. 123(R) requires all share-based payments, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. SFAS No. 123(R) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

The total compensation expense recognized for stock-based compensation was $3,468,000 and $1,731,000 for the nine months ended September 30, 2007 and 2006, respectively, and $606,000 and $522,000 for the three months ended September 30, 2007 and 2006, respectively. The total tax benefit related thereto was $1,019,000 and $606,000 for the nine months ended September 30, 2007 and 2006, respectively, and $242,000 and $183,000 for the three months ended September 30, 2007 and 2006, respectively. Recognized stock compensation was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5.5% and 6.3%, for the nine months ended September 30, 2007 and 2006, respectively. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

*Stock Options*

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

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

A summary of stock option award activity as of and for the nine months ended September 30, 2007 is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Grant-Date Fair Value | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value $(000)(1) |
|---|---|---|---|---|---|
| Outstanding at December 31, 2006 | 863,500 | $ 31.64 | | | |
| Granted | 60,000 | $ 32.00 | $ 13.40 | | |
| Exercised | (70,667) | $ 20.13 | | | |
| Forfeited or Cancelled | (65,000) | $ 29.60 | $ 15.26 | | |
| Outstanding at September 30, 2007 | 787,833 | $ 32.87 | $ 13.43 | 7.7 | $ 1,715 |
| Exercisable at September 30, 2007 | 318,937 | $ 29.53 | $ 12.49 | 6.7 | $ 1,479 |

(1) For in-the-money options

Additional stock option information for the nine months ended September 30, 2007 and 2006 follows:

| | 2007 | 2006 |
|---|---|---|
| Weighted Average Grant-Date Fair Value For Options Granted During the Period | $ 13.40 | $ 16.02 |
| Intrinsic Value of Options Exercised $(000) | $ 759 | |
| Cash Received From Option Exercises $(000) | $ 1,422 | |
| Tax Benefit From Option Exercises $(000) | $ | |
| Fair Value of Shares Vested During the Period $(000) | $ 1,510 | $ 1,124 |

For the nine months ended September 30, 2007 and 2006, the fair value of the Company's stock options awarded to employees was estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

| | 2007 | 2006 |
|---|---|---|
| Expected Life of Options in Years | 6.5 | 6.2 |
| Expected Volatility | 31.5% | 32.4% |
| Risk-free interest rate | 4.6% | 5.0% |
| Expected dividend yield | | |

As of September 30, 2007, there was $6,878,000 of total unrecognized compensation for awards granted under the stock option plans that is expected to be recognized over a weighted average period of 1.9 years.

*Restricted Stock*

In the first nine months of 2007, 39,000 shares of restricted stock were granted to certain directors and officers pursuant to the 2006 Plan. The shares will vest subject to achievement of certain performance measures. In the first nine months of 2007, 6,000 shares of restricted stock vested as directors' service requirements were met and 49,466 shares granted to certain officers vested as performance measures were achieved. The weighted average grant-date fair value of restricted stock granted during the nine months ended September 30, 2007 and 2006 was $32.32 and $35.94, per share, respectively.

A summary of the activity for restricted stock awards as of and for the nine-month period September 30, 2007 is presented below:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested balance at December 31, 2006 | 259,271 | $ 33.24 |
| Granted | 39,000 | $ 32.32 |
| Vested | (55,466) | $ 31.26 |
| Forfeited or Cancelled | (21,250) | $ 35.60 |
| Nonvested balance at September 30, 2007 | 221,555 | $ 33.17 |

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

The net periodic costs for pension and other post-retirement benefits for the three months and nine months ended September 30, 2007 and 2006 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (in thousands) | | | |
| **Pension Benefits** | | | | |
| Service cost | $ 507 | $ 587 | $ 1,376 | $ 1,389 |
| Interest cost | 823 | | | |