

ALEXANDER & BALDWIN INC
Form 10-Q
August 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-00565

ALEXANDER & BALDWIN, INC.
(Exact name of registrant as specified in its charter)

Hawaii
(State or other jurisdiction of
incorporation or organization)

99-0032630
(I.R.S. Employer
Identification No.)

P. O. Box 3440, Honolulu, Hawaii
822 Bishop Street, Honolulu, Hawaii
(Address of principal executive offices)

96801
96813
(Zip Code)

(808) 525-6611
(Registrant's telephone number, including area code)

N/A
(Former name, former address, and former
fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

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

Yes No

Number of shares of common stock outstanding as of June 30, 2011: 41,693,456

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(In millions, except per share amounts) (Unaudited)

| | Three Months | | Six Months Ended | |
|---|---------------------------|------------------|------------------|------------------|
| | Ended June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| Revenue: | | | | |
| Operating revenue | \$ 488.2 | \$ 396.8 | \$ 893.2 | \$ 739.3 |
| Costs and Expenses: | | | | |
| Costs of goods sold, services and rentals | 424.8 | 318.7 | 789.7 | 611.8 |
| Selling, general and administrative | 37.9 | 36.9 | 75.6 | 75.6 |
| Operating costs and expenses | 462.7 | 355.6 | 865.3 | 687.4 |
| Operating Income | 25.5 | 41.2 | 27.9 | 51.9 |
| Other Income and (Expense): | | | | |
| Gain on insurance settlement | -- | 0.7 | -- | 0.7 |
| Gain on sale of investment and other | 2.5 | -- | 6.2 | 0.7 |
| Equity in income (losses) of real estate affiliates | (0.4) | (0.2) | 1.6 | (0.9) |
| Interest income | 0.2 | 0.2 | 0.2 | 2.0 |
| Interest expense | (6.1) | (6.5) | (12.3) | (13.0) |
| Income Before Taxes | 21.7 | 35.4 | 23.6 | 41.4 |
| Income tax expense | 8.5 | 13.2 | 9.4 | 16.3 |
| Income From Continuing Operations | 13.2 | 22.2 | 14.2 | 25.1 |
| Income From Discontinued Operations (net of income taxes) | 5.5 | 6.7 | 9.7 | 21.1 |
| Net Income | \$ 18.7 | \$ 28.9 | \$ 23.9 | \$ 46.2 |
| Basic Earnings Per Share: | | | | |
| Continuing operations | \$ 0.32 | \$ 0.54 | \$ 0.34 | \$ 0.61 |
| Discontinued operations | 0.13 | 0.16 | 0.23 | 0.51 |
| Net income | \$ 0.45 | \$ 0.70 | \$ 0.57 | \$ 1.12 |
| Diluted Earnings Per Share: | | | | |
| Continuing operations | \$ 0.31 | \$ 0.54 | \$ 0.34 | \$ 0.61 |
| Discontinued operations | 0.13 | 0.16 | 0.23 | 0.51 |
| Net income | \$ 0.44 | \$ 0.70 | \$ 0.57 | \$ 1.12 |
| Weighted Average Number of Shares Outstanding: | | | | |
| Basic | 41.7 | 41.2 | 41.6 | 41.1 |
| Diluted | 42.2 | 41.4 | 42.0 | 41.4 |

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| | | | | |
|-------------------------------|----------|----------|---------|---------|
| Cash Dividends Paid Per Share | \$ 0.315 | \$ 0.315 | \$ 0.63 | \$ 0.63 |
|-------------------------------|----------|----------|---------|---------|

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In millions) (Unaudited)

| | June 30, 2011 | December 31, 2010 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 15 | \$ 14 |
| Accounts and notes receivable, net | 189 | 165 |
| Inventories | 46 | 35 |
| Real estate held for sale | 3 | 8 |
| Deferred income taxes | 7 | 8 |
| Section 1031 exchange proceeds | -- | 1 |
| Prepaid expenses and other assets | 38 | 33 |
| Total current assets | 298 | 264 |
| Investments in Affiliates | 341 | 329 |
| Real Estate Developments | 126 | 122 |
| Property, at cost | 2,922 | 2,901 |
| Less accumulated depreciation and amortization | 1,288 | 1,250 |
| Property – net | 1,634 | 1,651 |
| Employee Benefit Plan Assets | 3 | 3 |
| Other Assets | 154 | 126 |
| Total | \$ 2,556 | \$ 2,495 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Notes payable and current portion of long-term debt | \$ 46 | \$ 136 |
| Accounts payable | 156 | 137 |
| Payroll and vacation benefits | 19 | 20 |
| Uninsured claims | 8 | 10 |
| Accrued and other liabilities | 55 | 50 |
| Total current liabilities | 284 | 353 |
| Long-term Liabilities: | | |
| Long-term debt | 510 | 386 |
| Deferred income taxes | 435 | 431 |
| Employee benefit plans | 139 | 135 |
| Uninsured claims and other liabilities | 55 | 54 |
| Total long-term liabilities | 1,139 | 1,006 |
| Commitments and Contingencies (Note 2) | | |
| Shareholders' Equity: | | |
| Capital stock | 34 | 34 |
| Additional capital | 234 | 223 |
| Accumulated other comprehensive loss | (80) | (82) |
| Retained earnings | 956 | 972 |
| Cost of treasury stock | (11) | (11) |
| Total shareholders' equity | 1,133 | 1,136 |
| Total | \$ 2,556 | \$ 2,495 |

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In millions) (Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|---------|
| | 2011 | 2010 |
| Cash Flows from Operating Activities | \$ 17 | \$ 39 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (35) | (24) |
| Proceeds from disposal of property and other assets | 10 | 9 |
| Deposits into Capital Construction Fund | (2) | (2) |
| Withdrawals from Capital Construction Fund | 2 | 2 |
| Increase in investments | (15) | (48) |
| Reduction in investments | 8 | 12 |
| Net cash used in investing activities | (32) | (51) |
| Cash Flows from Financing Activities: | | |
| Proceeds from issuances of debt | 178 | 108 |
| Payments of debt and deferred financing costs | (147) | (50) |
| Proceeds from (payments on) line-of-credit agreements, net | 3 | (3) |
| Proceeds from issuances of capital stock and other | 9 | 3 |
| Dividends paid | (27) | (26) |
| Net cash provided by financing activities | 16 | 32 |
| Net Increase in Cash and Cash Equivalents | \$ 1 | \$ 20 |
| Other Cash Flow Information: | | |
| Interest paid | \$ (15) | \$ (13) |
| Income taxes paid | \$ (14) | \$ (21) |
| Other Non-cash Information: | | |
| Depreciation and amortization expense | \$ 53 | \$ 52 |
| Tax-deferred property sales | \$ 36 | \$ 76 |
| Tax-deferred property purchases | \$ (11) | \$ (53) |
| Common stock dividends declared but not yet paid | \$ 13 | \$ 13 |

See Notes to Condensed Consolidated Financial Statements.

Alexander & Baldwin, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Description of Business: Founded in 1870, Alexander & Baldwin, Inc. (“A&B” or the “Company”) is incorporated under the laws of the State of Hawaii. A&B operates in five segments in three industries: Transportation, Real Estate and Agribusiness. These industries are described below:

Transportation: The Transportation Industry consists of Ocean Transportation and Logistics Services segments. The Ocean Transportation segment, which is conducted through Matson Navigation Company, Inc. (“Matson”), a wholly-owned subsidiary of A&B, is an asset-based business that derives its revenue primarily through the carriage of containerized freight between various U.S. Pacific Coast, Hawaii, Guam, China and other Pacific island ports. Additionally, the Ocean Transportation segment has a 35 percent interest in an entity (SSA Terminals, LLC or “SSAT”) that provides terminal and stevedoring services at U.S. Pacific Coast facilities.

The Logistics Services segment, which is conducted through Matson Logistics, Inc. (“ML”), a wholly-owned subsidiary of Matson, is a non-asset based business that is a provider of domestic and international rail intermodal service (“Intermodal”), long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload, expedited/air freight services, and warehousing and distribution services (collectively “Highway”). Warehousing, packaging and distribution services are provided by Matson Logistics Warehousing, Inc. (“MLW”), a wholly-owned subsidiary of ML. MLW’s operations also include Pacific American Services, LLC (“PACAM”), a San Francisco Bay-area regional warehousing, packaging, and distribution company.

Real Estate: The Real Estate Industry consists of two segments, both of which have operations in Hawaii and on the U.S. Mainland. The Real Estate Sales segment generates its revenues through the development and sale of land and commercial and residential properties. The Real Estate Leasing segment owns, operates, and manages retail, office, and industrial properties. Real estate activities are conducted through A&B Properties, Inc. and various other subsidiaries and affiliates of A&B.

Agribusiness: Agribusiness, which contains one segment, produces bulk raw sugar, specialty food grade sugars, and molasses; markets and distributes specialty food-grade sugars; provides general trucking services, mobile equipment maintenance, and repair services in Hawaii; and generates and sells, to the extent not used in the Company’s Agribusiness operations, electricity. The Company also is the sole member in Hawaiian Sugar & Transportation Cooperative (“HS&TC”), a cooperative that provides raw sugar marketing and transportation services.

In March 2011, the Company finalized an agreement to lease land and sell coffee inventory and certain assets used in the coffee business to Massimo Zanetti Beverage USA, Inc. (“MZB”), including intangible assets. The coffee inventory and assets were sold for approximately \$14 million. There was no material gain or loss on the transaction. The Company retained fee simple ownership of the land, buildings, power generation, and power distribution assets, but no longer operates the coffee plantation.

(1) The Condensed Consolidated Financial Statements are unaudited. Because of the nature of the Company’s operations, the results for interim periods are not necessarily indicative of results to be expected for the year. While these condensed consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Therefore, the interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report filed on Form 10-K for the year ended December 31, 2010.

(2) Commitments, Guarantees and Contingencies: Commitments and financial arrangements (excluding lease commitments disclosed in Note 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2010) at June 30, 2011, included the following (in millions):

| | | |
|-------------------------------------|-----|-------|
| Standby letters of credit | (a) | \$ 19 |
| Performance and customs bonds | (b) | \$ 31 |
| Benefit plan withdrawal obligations | (c) | \$ 99 |

These amounts are not recorded on the Company's condensed consolidated balance sheet and it is not expected that the Company or its subsidiaries will be called upon to advance funds under these commitments.

- (a) Represents letters of credit, of which, approximately \$8 million enable the Company to qualify as a self-insurer for state and federal workers' compensation liabilities. The balance includes an \$11 million letter of credit for insurance-related matters for one of the Company's real estate projects.
- (b) Consists of approximately \$13 million in U.S. customs bonds, approximately \$17 million in bonds related to real estate construction projects in Hawaii, and approximately \$1 million related to transportation and other matters.
- (c) Represents the withdrawal liabilities as of the most recent valuation dates for multiemployer pension plans, in which Matson is a participant. Management has no present intention of withdrawing from, and does not anticipate the termination of, any of the aforementioned plans.

Indemnity Agreements: For certain real estate joint ventures, the Company may be obligated under bond indemnities to complete construction of the real estate development if the joint venture does not perform. These indemnities are designed to protect the surety in exchange for the issuance of surety bonds that cover construction activities, such as project amenities, roads, utilities, and other infrastructure. The recorded amounts of the indemnity liabilities were not material. Under the indemnities, the Company and its joint venture partners agree to indemnify the surety bond issuer from all losses and expenses arising from the failure of the joint venture to complete the specified bonded construction. The maximum potential amount of aggregate future payments is a function of the amount covered by outstanding bonds at the time of default by the joint venture, reduced by the amount of work completed to date.

Other Obligations: Certain of the businesses in which the Company holds a non-controlling interest have long-term debt obligations. In February 2010, one of the Company's joint ventures renegotiated a \$10 million loan that extended the maturity date of the loan to August 2011, with a one-year extension option. As a condition to providing the loan, the lender required that the Company and its joint venture partner guarantee certain obligations of the joint venture under a maintenance agreement. The maintenance agreement specifies that the Company and its joint venture partner shall make payments to the lender to the extent that the loan-to-value measure or debt service ratio of the property held by the joint venture is below pre-determined thresholds. The Company has determined that the fair value of its obligation under this maintenance agreement was not material, and as of June 30, 2011, the Company had not paid any amounts under the guaranty.

Other than obligations described above, investee obligations do not have recourse to the Company and the Company's "at-risk" amounts are limited to its investment.

Legal Proceedings and Other Contingencies: A&B owns 16,000 acres of watershed lands in East Maui that supply a significant portion of the irrigation water used by HC&S. A&B also held four water licenses to another 30,000 acres owned by the State of Hawaii in East Maui which, over the last ten years, have supplied approximately 58 percent of the irrigation water used by HC&S. The last of these water license agreements expired in 1986, and all four agreements were then extended as revocable permits that were renewed annually. In 2001, a request was made to the State Board of Land and Natural Resources (the "BLNR") to replace these revocable permits with a long-term water

lease. Pending the conclusion by the BLNR of this contested case hearing on the request for the long-term lease, the BLNR has renewed the existing permits on a holdover basis. If the Company is not permitted to utilize sufficient quantities of stream waters from State lands in East Maui, it could have a material adverse effect on the Company's sugar-growing operations.

In addition, on May 24, 2001, petitions were filed by a third party, requesting that the Commission on Water Resource Management of the State of Hawaii ("Water Commission") establish interim instream flow standards ("IIFS") in 27 East Maui streams that feed the Company's irrigation system. On September 25, 2008, the Water Commission took action on eight of the petitions, resulting in some quantity of water being returned to the streams rather than being utilized for irrigation purposes. In May 2010, the Water Commission took action on the remaining 19 petitions resulting in additional water being returned to the streams. A petition requesting a contested case hearing to challenge the Water Commission's decisions was filed with the Commission by the opposing third party. On October 18, 2010, the Water Commission denied the petitioner's request for a contested case hearing. On November 17, 2010, the petitioner filed an appeal of the Commission's denial to the Hawaii Intermediate Court of Appeals.

On June 25, 2004, two organizations filed with the Water Commission a petition to establish IIFS for four streams in West Maui to increase the amount of water to be returned to these streams. The West Maui irrigation system provided approximately 15 percent of the irrigation water used by HC&S over the last ten years. The Water Commission issued a decision in June 2010, which required the return of water in two of the four streams. In July 2010, the two organizations appealed the Water Commission's decision to the Hawaii Intermediate Court of Appeals.

The loss of East Maui and West Maui water as a result of the Water Commission's decisions will impose challenges to the Company's sugar growing operations. While the resulting water loss does not immediately threaten near-term sugar production, it will result in a future suppression of sugar yields and will have an impact on the Company that will only be quantifiable over time. Accordingly, the Company is unable to predict, at this time, the outcome or financial impact of the water proceedings.

On April 21, 2008, Matson was served with a grand jury subpoena from the U.S. District Court for the Middle District of Florida for documents and information relating to water carriage in connection with the Department of Justice's investigation into the pricing and other competitive practices of carriers operating in the domestic trades. Matson understands that while the investigation has been focused on the Puerto Rico trade, it also includes pricing and other competitive practices in connection with all domestic trades, including the Alaska, Hawaii and Guam trades. Matson does not operate vessels in the Puerto Rico and Alaska trades. It does operate vessels in the Hawaii and Guam trades. Matson has cooperated, and will continue to cooperate, fully with the Department of Justice. If the Department of Justice believes that any violations have occurred on the part of Matson or the Company, it could seek civil or criminal sanctions, including monetary fines. The Company is unable to predict, at this time, the outcome or financial impact, if any, of this investigation.

The Company and Matson were named as defendants in a consolidated civil lawsuit purporting to be a class action in the U.S. District Court for the Western District of Washington in Seattle. The lawsuit alleged violations of the antitrust laws and also named as a defendant Horizon Lines, Inc., another domestic shipping carrier operating in the Hawaii and Guam trades. On August 18, 2009, the court granted the defendants' motion to dismiss the complaint with leave to amend the complaint to allege claims consistent with the court's order. On May 28, 2010, the plaintiffs filed a second amended complaint. On November 30, 2010, the judge dismissed the complaint with prejudice. On December 22, 2010, the plaintiffs filed an appeal to the Ninth Circuit Court of Appeals. The Company and Matson will continue to vigorously defend themselves in this lawsuit. The Company is unable to predict, at this time, the outcome or financial impact, if any, of this lawsuit if an amended complaint is filed.

In March 2011, the Environmental Protection Agency ("EPA") published nationwide standards for controlling hazardous air pollutant emissions from industrial, commercial, institutional boilers and process heaters, which would apply to Hawaiian Commercial & Sugar Company's three boilers. The standards require that prescribed emissions be

reduced to allowable levels as detailed in the final regulations by early 2014. The Company is currently evaluating the impact of the new standards. However, the effective date of the rule has been stayed pending reconsideration of certain aspects of the rule by EPA or completion of proceedings for judicial review. Accordingly, further changes to the rule and to the compliance schedule are likely. Given the potential for changes to the rule, the Company's continuing evaluation of alternative operating models for its sugar business, and the requirement to perform a thorough analysis of the new standards, the Company is unable to predict at this time, the financial impact of the regulations.

The Company is subject to possible climate change legislation, regulation and international accords. At various times, bills related to climate change, such as limiting and reducing greenhouse gas emissions through a "cap and trade" system of allowances and credits, have been introduced in the U.S. Congress. In addition, the EPA is in the process of adopting and implementing regulations limiting greenhouse gas emissions in lieu of Congressional action. If enacted, such regulations could impose significant additional costs on the Company, including increased energy costs, higher material prices, and costly mandatory vessel and equipment modifications. The Company is unable to predict, at this time, the outcome or financial impact, if any, of future climate change related legislation.

In June 2011, the Equal Employment Opportunity Commission ("EEOC") served McBryde Resources, Inc., formerly known as Kauai Coffee Company, Inc. ("McBryde Resources") with a lawsuit, which alleges that McBryde Resources and five other farms were complicit in illegal acts by Global Horizons Inc., a company that had hired Thai workers for the farms. In July 2011, the EEOC amended the lawsuit to name Alexander & Baldwin, Inc. as a defendant. McBryde Resources and Alexander & Baldwin, Inc. will vigorously defend themselves in this lawsuit, which has been filed in the U.S. District Court for the District of Hawaii. The Company is unable to predict, at this time, the outcome or financial impact, if any, of the lawsuit.

A&B and its subsidiaries are parties to, or may be contingently liable in connection with, other legal actions arising in the normal conduct of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material adverse effect on A&B's results of operations or financial position.

(3) Earnings Per Share ("EPS"): The denominator used to compute basic and diluted earnings per share is as follows (in millions):

| | Quarter Ended | | SixMonths Ended | |
|--|---------------|------|-----------------|------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Denominator for basic EPS – weighted average shares | 41.7 | 41.2 | 41.6 | 41.1 |
| Effect of dilutive securities: | | | | |
| Employee/director stock options and restricted stock units | 0.5 | 0.2 | 0.4 | 0.3 |
| Denominator for diluted EPS – weighted average shares | 42.2 | 41.4 | 42.0 | 41.4 |

Basic earnings per share is computed based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include non-qualified stock options and restricted stock units.

The computation of weighted average dilutive shares outstanding excluded non-qualified stock options to purchase approximately 0.2 million and 1.9 million shares of common stock for the three month periods ended June 30, 2011 and 2010, respectively. The computation of weighted average dilutive shares outstanding excluded non-qualified stock options to purchase approximately 1.2 million and 1.9 million shares of common stock for the six months ended June 30, 2011 and 2010, respectively. These options were excluded because the options' exercise prices were greater than the average market price of the Company's common stock for the periods presented and, therefore, the effect would be

anti-dilutive.

(4) Share-Based Compensation: In the first half of 2011, the Company granted non-qualified stock options to purchase 285,569 shares of the Company's common stock. The weighted average grant-date fair value of each stock option granted, using the Black-Scholes-Merton option pricing model, was \$8.92 using the following weighted average assumptions: volatility of 29.1 percent, risk-free interest rate of 2.4 percent, dividend yield of 3.1 percent, and expected term of 6.0 years.

Activity in the Company's stock option plans for the first half of 2011 was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

| | 2007 Plan | Predecessor Plans 1998 Employee Plan | 1998 Directors' Plan | Total Shares | Weighted Average Exercise Price | Weighted Average Contractual Life | Aggregate Intrinsic Value |
|-----------------------------|--------------|---|----------------------------|-----------------|--|--|---------------------------------|
| Outstanding January 1, 2011 | 1,332 | 1,055 | 190 | 2,577 | \$37.10 | | |
| Granted | 286 | -- | -- | 286 | \$40.63 | | |
| Exercised | (85) | (171) | (17) | (273) | \$29.69 | | |
| Forfeited and expired | (10) | (8) | -- | (18) | \$45.95 | | |
| Outstanding, June 30, 2011 | 1,523 | 876 | 173 | 2,572 | \$38.22 | 5.7 | \$25,942 |
| Exercisable June 30, 2011 | 810 | 876 | 173 | 1,859 | \$39.88 | 4.7 | \$15,881 |

The following table summarizes restricted stock unit activity through June 30, 2011 (in thousands, except weighted-average grant-date fair value amounts):

| | 2007 Plan Restricted Stock Units | Weighted Average Grant-Date Fair Value |
|------------------------------|--|---|
| Outstanding, January 1, 2011 | 330 | \$31.15 |
| Granted | 253 | \$38.70 |
| Vested | (175) | \$32.24 |
| Canceled | (3) | \$35.51 |
| Outstanding, June 30, 2011 | 405 | \$35.37 |

A portion of the restricted stock unit awards are time-based awards that vest ratably over three years. The remaining portion of the awards represent performance-based awards that vest over three years, provided certain performance targets related to the first year of the performance period are achieved.

A summary of the compensation cost related to share-based payments is as follows (in millions):

| Quarter Ended June 30, | Six Months Ended June 30, |
|---------------------------|------------------------------|
|---------------------------|------------------------------|

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| | 2011 | 2010 | 2011 | 2010 |
|---|--------|--------|--------|--------|
| Share-based expense (net of estimated forfeitures): | | | | |
| Stock options | \$ 0.5 | \$ 0.4 | \$ 1.0 | \$ 0.8 |
| Restricted stock units | 1.2 | 1.4 | 2.7 | 2.6 |
| Total share-based expense | 1.7 | 1.8 | 3.7 | 3.4 |
| Total recognized tax benefit | (0.5) | (0.6) | (1.0) | (1.1) |
| Share-based expense (net of tax) | \$ 1.2 | \$ 1.2 | \$ 2.7 | \$ 2.3 |

(5) Accounting for and Classification of Discontinued Operations: As required by FASB ASC Subtopic 205-20, Discontinued Operations, the sales of certain income-producing assets are classified as discontinued operations if (i) the operations and cash flows of the component have been, or will be, eliminated from the ongoing operations of the Company as a result of the disposal transaction and (ii) the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction. Certain income-producing properties that are classified as “held for sale” under the requirements of FASB ASC Subtopic 205-20, are also treated as discontinued operations. Depreciation on these assets ceases upon classification as discontinued operations. Sales of land, residential units, and office condominium units are generally considered inventory and are not included in discontinued operations.

Income from discontinued operations consisted of (in millions):

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|---------------------------|--------|------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Discontinued operations (net of tax) | | | | |
| Sales of assets | \$ 5.3 | \$ 5.9 | \$ 9.3 | \$ 19.1 |
| Leasing operations | 0.2 | 0.8 | 0.4 | 2.0 |
| Total | \$ 5.5 | \$ 6.7 | \$ 9.7 | \$ 21.1 |

Discontinued operations includes the results for properties that were sold through June 30, 2011 and, if applicable, the operating results of properties still owned, but meeting the definition of “discontinued operations” under FASB ASC Subtopic 205-20. Operating results included in the Condensed Consolidated Statements of Operations and the segment results (Note 10) for the first half of 2010 have been restated to reflect property that was classified as discontinued operations subsequent to June 30, 2010.

(6) Comprehensive income for the three and six months ended June 30, 2011 and 2010 consisted of (in millions):

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|---------------------------|---------|------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 18.7 | \$ 28.9 | \$ 23.9 | \$ 46.2 |
| Amortization of unrealized pension asset loss | 0.7 | 2.6 | 2.2 | 4.4 |
| Other | 0.1 | 0.1 | 0.1 | 0.1 |
| Comprehensive income | \$ 19.5 | \$ 31.6 | \$ 26.2 | \$ 50.7 |

(7) Pension and Post-retirement Plans: The Company has defined benefit pension plans that cover substantially all non-bargaining unit and certain bargaining unit employees. The Company also has unfunded non-qualified plans that provide benefits in excess of the amounts permitted to be paid under the provisions of the tax law to participants in qualified plans. The assumptions related to discount rates, expected long-term rates of return on invested plan assets, salary increases, age, mortality and health care cost trend rates, along with other factors, are used in determining the assets, liabilities and expenses associated with pension benefits. Management reviews the assumptions annually with its independent actuaries, taking into consideration existing and future economic conditions and the Company's intentions with respect to these plans. Management believes that its assumptions and estimates for 2011 are reasonable. Different assumptions, however, could result in material changes to the assets, obligations and costs associated with benefit plans.

The components of net periodic benefit cost recorded for the second quarters of 2011 and 2010 were as follows (in millions):

| | Pension Benefits | | Post-retirement Benefits | |
|------------------------------------|------------------|--------|--------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ 2.1 | \$ 1.8 | \$ 0.3 | \$ 0.3 |
| Interest cost | 5.0 | 4.8 | 1.0 | 0.8 |
| Expected return on plan assets | (5.7) | (5.3) | -- | -- |
| Amortization of prior service cost | 0.2 | 0.1 | 0.1 | 0.1 |
| Amortization of net loss | 2.3 | 1.4 | 0.5 | -- |
| Net periodic benefit cost | \$ 3.9 | \$ 2.8 | \$ 1.9 | \$ 1.2 |

The components of net periodic benefit cost recorded for the first half of 2011 and 2010 were as follows (in millions):

| | Pension Benefits | | Post-retirement Benefits | |
|------------------------------------|------------------|--------|--------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Service cost | \$ 4.4 | \$ 3.9 | \$ 0.6 | \$ 0.5 |
| Interest cost | 10.0 | 9.7 | 1.9 | 1.6 |
| Expected return on plan assets | (11.4) | (10.3) | -- | -- |
| Amortization of prior service cost | 0.4 | 0.3 | 0.2 | 0.2 |
| Amortization of net loss | 4.4 | 4.1 | 1.0 | 0.1 |
| Net periodic benefit cost | \$ 7.8 | \$ 7.7 | \$ 3.7 | \$ 2.4 |

Based on the actuarial report dated as of January 1, 2011, net periodic benefit cost for 2011 is expected to total \$15.5 million for pension benefits and \$6.9 million for post-retirement benefits. In 2011, the Company expects cash contributions to its pension plans will total approximately \$5 million.

(8) Fair Value of Financial Instruments: The fair values of cash and cash equivalents, receivables and short-term borrowings approximate their carrying values due to the short-term nature of the instruments. The carrying amount and fair value of the Company's fixed-rate long-term debt at June 30, 2011 was \$404 million and \$433 million, respectively and \$414 million and \$438 million at December 31, 2010, respectively. The fair value of long-term debt is calculated based upon interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

(9) In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is to be applied retrospectively and is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The Company expects to adopt the standard effective January 1, 2012. The standard will change the presentation of the Company's financial statements but will not affect the calculation of net income, comprehensive income or earnings per share.

(10) Segment results for the quarter and the six months ended June 30, 2011 and 2010 were as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | |
| Transportation: | | | | |
| Ocean transportation | \$ 314.2 | \$ 257.2 | \$ 583.8 | \$ 486.7 |
| Logistics services | 103.1 | 88.6 | 194.4 | 165.7 |
| Real Estate: | | | | |
| Leasing | 25.2 | 23.2 | 51.2 | 46.8 |
| Sales | 30.7 | 22.0 | 54.1 | 82.3 |
| Less amounts reported in discontinued operations | (22.8) | (20.4) | (37.7) | (78.5) |
| Agribusiness | 44.7 | 29.8 | 60.8 | 44.0 |
| Reconciling Items | (6.9) | (3.6) | (13.4) | (7.7) |
| Total revenue | \$ 488.2 | \$ 396.8 | \$ 893.2 | \$ 739.3 |
| Operating Profit, Net Income: | | | | |
| Transportation: | | | | |
| Ocean transportation | \$ 9.4 | \$ 37.0 | \$ 2.0 | \$ 47.4 |
| Logistics services | 2.1 | 1.5 | 3.6 | 3.4 |
| Real Estate: | | | | |
| Leasing | 10.4 | 8.5 | 21.0 | 17.6 |
| Sales | 10.6 | 8.0 | 22.6 | 29.4 |
| Less amounts reported in discontinued operations | (9.0) | (10.4) | (16.0) | (33.0) |
| Agribusiness | 8.5 | 1.8 | 11.1 | 0.7 |
| Total operating profit | 32.0 | 46.4 | 44.3 | 65.5 |
| Interest Expense | (6.1) | (6.5) | (12.3) | (13.0) |
| General Corporate Expenses | (4.2) | (4.5) | (8.4) | (11.1) |
| Income From Continuing Operations Before | | | | |
| Income Taxes | 21.7 | 35.4 | 23.6 | 41.4 |
| Income Tax Expense | 8.5 | 13.2 | 9.4 | 16.3 |
| Income From Continuing Operations | 13.2 | 22.2 | 14.2 | 25.1 |
| Income From Discontinued Operations (net of income taxes) | 5.5 | 6.7 | 9.7 | 21.1 |
| Net Income | \$ 18.7 | \$ 28.9 | \$ 23.9 | \$ 46.2 |

(11) Subsequent Events:

On August 5, 2011, the Company renewed certain of its revolving credit facilities that had an aggregate commitment of \$325 million. The renewed facilities have an aggregate commitment of \$355 million, which consists of a \$230 million facility and \$125 million facility for A&B and Matson, respectively. The renewed facilities expire in August 2016. Amounts drawn under the facilities bear interest at London Interbank Offered Rate (“LIBOR”) plus a margin based on a ratio of debt to earnings before interest, taxes, depreciation and amortization pricing grid. The agreement contains certain restrictive covenants, the most significant of which requires the maintenance of minimum shareholders’ equity levels, minimum property investment values, and a maximum ratio of debt to earnings before interest, depreciation, amortization and taxes. Additionally, on August 5, 2011, in connection with the renewal of the Company’s revolving credit facilities, Matson terminated its Senior Secured Reducing Revolving Credit Facility (the “DnB Facility”) with DnB NOR, which had been entered into on June 28, 2005 and was scheduled to mature on June 28, 2015. The DnB Facility was terminated prior to its maturity because DnB NOR is a participant in the Company’s renewed credit facilities. The available capacity under the DnB Facility at termination was \$52.5 million and no amounts were outstanding under the facility prior to termination. In conjunction with the termination of the DnB Facility, DnB NOR released the mortgage on the MV Maunalei.

On August 8, 2011, the Company finalized a decision to terminate Matson’s second China string (“CLX2”), effective August 21, 2011, due to the longer-term outlook for sustained high fuel prices and increasingly volatile Transpacific rates. Three of the five vessels chartered for CLX2 will be returned in the third quarter of 2011 when their charter terms end. Matson intends to sub-charter the remaining two vessels until July 2012 when such charter obligations terminate. Excess containers available due to the termination of CLX2 will be used in other services, returned to leasing companies or sold. Matson will also close an office in China and terminate the majority of employees hired for the service. These actions are expected to be substantially completed during 2011; however, the return of leased containers is expected to occur over a period of 12 to 18 months.

In connection with the discontinuation of CLX2 operations, Matson expects to recognize after-tax losses for the service that are expected to total approximately \$20 million to \$25 million. The majority of these costs is expected to be recognized in the third quarter of 2011 and are related to the final voyages and exit activities for the CLX2 service.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries (collectively, the "Company") should be read in conjunction with the condensed consolidated financial statements and related notes thereto included in Item 1 of this Form 10-Q.

FORWARD-LOOKING STATEMENTS

The Company, from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, Securities and Exchange Commission ("SEC") filings, such as the Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet Web sites (including Web sites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's 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. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of the Company's 2010 Annual Report on Form 10-K. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a discussion of the Company's financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company's financial statements from period to period, the primary factors that accounted for those changes, and how certain accounting principles, policies and estimates affect the Company's financial statements. MD&A is provided as a supplement to the condensed consolidated financial statements and notes herein, and should be read in conjunction with the Company's 2010 Annual Report on Form 10-K as well as the Company's reports on Forms 10-Q and 8-K and other publicly available information.

MD&A is presented in the following sections:

- Business Overview
- Consolidated Results of Operations
- Analysis of Operating Revenue and Profit by Segment
- Liquidity and Capital Resources
- Business Outlook
- Other Matters

BUSINESS OVERVIEW

Alexander & Baldwin, Inc. (“A&B”), founded in 1870, is a multi-industry corporation headquartered in Honolulu that operates in five segments in three industries—Transportation, Real Estate, and Agribusiness.

Transportation: The Transportation Industry consists of Ocean Transportation and Logistics Services segments. The Ocean Transportation segment, which is conducted through Matson Navigation Company, Inc. (“Matson”), a wholly-owned subsidiary of A&B, is an asset-based business that derives its revenue primarily through the carriage of containerized freight between various U.S. Pacific Coast, Hawaii, Guam, China and other Pacific island ports. Additionally, the Ocean Transportation segment has a 35 percent interest in an entity that provides terminal and stevedoring services at U.S. Pacific Coast facilities.

The Logistics Services segment, which is conducted through Matson Logistics, Inc. (“ML”), a wholly-owned subsidiary of Matson, is a non-asset based business that is a provider of domestic and international rail intermodal service (“Intermodal”), long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload, expedited/air freight services, and warehousing and distribution services (collectively “Highway”). Warehousing, packaging and distribution services are provided by Matson Logistics Warehousing, Inc. (“MLW”), a wholly-owned subsidiary of ML. MLW’s operations also include Pacific American Services, LLC (“PACAM”), a San Francisco Bay-area regional warehousing, packaging, and distribution company.

Real Estate: The Real Estate Industry consists of two segments, both of which have operations in Hawaii and on the U.S. Mainland. The Real Estate Sales segment generates its revenues through the development and sale of land and commercial and residential properties. The Real Estate Leasing segment owns, operates, and manages retail, office, and industrial properties. Real estate activities are conducted through A&B Properties, Inc. and various other wholly-owned subsidiaries of A&B.

Agribusiness: Agribusiness, which contains one segment, produces bulk raw sugar, specialty food grade sugars, and molasses; markets and distributes specialty food-grade sugars; provides general trucking services, mobile equipment maintenance, and repair services in Hawaii; and generates and sells, to the extent not used in the Company’s Agribusiness operations, electricity. The Company also is the sole member in Hawaiian Sugar & Transportation Cooperative (“HS&TC”), a cooperative that provides raw sugar marketing and transportation services.

In March 2011, the Company finalized an agreement to lease land and sell coffee inventory and certain assets used in the coffee business to Massimo Zanetti Beverage USA, Inc. (“MZB”), including intangible assets. The coffee inventory and assets were sold for approximately \$14 million. There was no material gain or loss on the transaction. The Company retained fee simple ownership of the land, buildings, power generation, and power distribution assets, but no longer operates the coffee plantation.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated – Second quarter of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | Change |
|---|------------------------|----------|--------|
| | 2011 | 2010 | |
| Operating revenue | \$ 488.2 | \$ 396.8 | 23% |
| Operating costs and expenses | 462.7 | 355.6 | 30% |
| Operating income | 25.5 | 41.2 | -38% |
| Other income and (expense) | (3.8) | (5.8) | -34% |
| Income before taxes | 21.7 | 35.4 | -39% |
| Income tax expense | 8.5 | 13.2 | -36% |
| Discontinued operations (net of income taxes) | 5.5 | 6.7 | -18% |
| Net income | \$ 18.7 | \$ 28.9 | -35% |
| Basic earnings per share | \$ 0.45 | \$ 0.70 | -36% |
| Diluted earnings per share | \$ 0.44 | \$ 0.70 | -37% |

Consolidated operating revenue for the second quarter of 2011 increased \$91.4 million, or 23 percent, compared to the second quarter of 2010. This increase was due principally to Ocean Transportation (\$57.0 million), Agribusiness (\$14.9 million), Logistics Services (\$14.5 million), Real Estate Leasing (\$3.9 million, after subtracting leasing revenue from assets classified as discontinued operations), and Real Estate Sales (\$4.4 million, after excluding revenue from discontinued operations). The reasons for the revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Consolidated operating costs and expenses for the second quarter of 2011 increased \$107.1 million, or 30 percent, compared to the second quarter of 2010 due principally to \$95.6 million in higher operating costs for the Transportation Industry segments. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Other income and (expense) improved \$2.0 million in the second quarter of 2011, primarily due to a \$2.5 million bargain purchase gain related to a commercial property purchased from the Federal Deposit Insurance Corporation.

Income taxes for the second quarter of 2011 decreased by \$4.7 million compared to the second quarter of 2010 due to lower earnings from continuing operations. The effective tax rate for the second quarter of 2011 increased relative to the second quarter of 2010 due principally to non-recurring tax benefits in 2010 and the impact of lower income in 2011.

Consolidated – First half of 2011 compared with 2010

| (dollars in millions) | Six Months Ended June 30, | | | |
|---|---------------------------|----------|--------|--|
| | 2011 | 2010 | Change | |
| Operating revenue | \$ 893.2 | \$ 739.3 | 21% | |
| Operating costs and expenses | 865.3 | 687.4 | 26% | |
| Operating income | 27.9 | 51.9 | -46% | |
| Other income and (expense) | (4.3) | (10.5) | -59% | |
| Income before taxes | 23.6 | 41.4 | -43% | |
| Income taxes | 9.4 | 16.3 | -42% | |
| Discontinued operations (net of income taxes) | 9.7 | 21.1 | -54% | |
| Net income | \$ 23.9 | \$ 46.2 | -48% | |
| Basic earnings per share | \$ 0.57 | \$ 1.12 | -49% | |
| Diluted earnings per share | \$ 0.57 | \$ 1.12 | -49% | |

Consolidated operating revenue for the first half of 2011 increased \$153.9 million, or 21 percent, compared to the first half of 2010. This increase was due principally to Ocean Transportation (\$97.1 million), Logistics Services (\$28.7 million), Agribusiness (\$16.8 million), Real Estate Leasing (\$8.5 million, after excluding leasing revenue from assets classified as discontinued operations), and Real Estate Sales (\$8.5 million, after excluding revenue from discontinued operations). The reasons for the revenue change are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Consolidated operating costs and expenses for the first half of 2011 increased \$177.9 million, or 26 percent, compared to the first half of 2010, due principally to \$165.7 million in higher costs for the Transportation Industry Segments. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Other income and (expense) improved by \$6.2 million in the first half of 2011 compared with the first half of 2010, due primarily to a \$3.7 million gain on the sale of a joint venture investment interest in the first quarter of 2011.

Income taxes in the first half of 2011 were lower than the first half of 2010 due primarily to lower income. The higher effective tax rate in 2011 was due principally to non-deductible expenses that had a higher impact on the 2011 effective tax rate because of the lower income relative to 2010.

ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

TRANSPORTATION INDUSTRY

Ocean Transportation – Second quarter of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | Change |
|-------------------------|------------------------|----------|--------|
| | 2011 | 2010 | |
| Revenue | \$ 314.2 | \$ 257.2 | 22% |
| Operating profit | \$ 9.4 | \$ 37.0 | -75% |
| Operating profit margin | 3.0% | 14.4% | |
| Volume (Units)* | | | |
| Hawaii containers | 35,600 | 33,700 | 6% |
| Hawaii automobiles | 23,700 | 21,100 | 12% |
| China containers | 38,800 | 16,400 | 2X |
| Guam containers | 3,400 | 4,200 | -19% |

* Container volumes included for the period are based on the voyage departure date, but revenue and operating profit are adjusted to reflect the percentage of revenue and operating profit earned during the reporting period for voyages that straddle the beginning and/or end of each reporting period.

Ocean Transportation revenue increased 22 percent, or \$57.0 million, in the second quarter of 2011 compared to the second quarter of 2010. The revenue increase was principally due to higher volumes, primarily in the China and Hawaii trades, resulting in a \$41.5 million improvement, and an \$18.5 million increase in fuel surcharges due to higher fuel prices. These improvements were partially offset by lower yields and cargo mix of \$5.8 million, principally in the China and Hawaii trades.

Total Hawaii container volume increased 6 percent in the second quarter of 2011 due to a new 2011 connecting carrier agreement with a large international carrier, growth in the overall market, and other customer gains. Matson's Hawaii automobile volume for the quarter was 12 percent higher than the second quarter of 2010, due primarily to the timing of automobile rental fleet replacement activity. China container volume more than doubled due to incremental volume from Matson's second China string (CLX2) that commenced in the third quarter of 2010. Partially offsetting the CLX2 volumes were reduced volumes from the existing China (CLX1) string due to lower demand. Guam volume was lower in 2011 as compared to 2010 due to competitive pressures and weaker market conditions.

Ocean Transportation posted operating profit of \$9.4 million in the quarter, compared to an operating profit of \$37.0 million in the second quarter of 2010. The decrease in operating profit was principally due to higher fuel prices and other operating costs associated with the operation of CLX2, which was not in existence in the second quarter of 2010. Overall, vessel expenses were \$33.9 million higher on a quarter-over-quarter basis (principally higher fuel prices in CLX1 and higher CLX2 fuel consumption and vessel charter costs). Additionally, equipment costs, and to a lesser extent, administrative costs, increased \$6.4 million (principally due to the CLX2 service), and terminal handling costs increased \$4.4 million due primarily to higher rates. Operating profit was also impacted by reduced yields of \$5.8 million in the second quarter of 2011 due to competitive pricing pressure and \$1.1 million in lower SSAT earnings due to reduced container handling rates and increased operating costs. The increase in costs and lower yields were partially offset by \$24.6 million in higher overall cargo volumes.

Ocean Transportation – First half of 2011 compared with 2010

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| (dollars in millions) | Six Months Ended June 30, | | | Change |
|-------------------------|---------------------------|----------|--|--------|
| | 2011 | 2010 | | |
| Revenue | \$ 583.8 | \$ 486.7 | | 20% |
| Operating profit | \$ 2.0 | \$ 47.4 | | -96% |
| Operating profit margin | 0.3% | 9.7% | | |
| Volume (Units)* | | | | |
| Hawaii containers | 69,600 | 65,100 | | 7% |
| Hawaii automobiles | 41,600 | 42,900 | | -3% |
| China containers | 69,000 | 30,900 | | 2X |
| Guam containers | 6,700 | 7,700 | | -13% |

* Container volumes included for the period are based on the voyage departure date, but revenue and operating profit are adjusted to reflect the percentage of revenue and operating profit earned during the reporting period for voyages that straddle the beginning and/or end of the reporting period.

Ocean Transportation revenue increased 20 percent, or \$97.1 million, in the first half of 2011 compared to the first half of 2010. The revenue increase was due to higher volumes, primarily in the China and Hawaii trades, resulting in a \$78.8 million increase as compared to the first half of 2010 and an \$18.9 million increase in fuel surcharges, primarily related to higher fuel prices. Offsetting these increases were \$3.1 million in lower yields and cargo mix, principally in the China and Hawaii trades.

Total Hawaii container volume increased 7 percent in the first half of 2011 due to the same factors cited for the quarter. Matson's Hawaii automobile volume for the first half of the year was 3 percent lower than the first half of 2010, due primarily to the timing of automobile rental fleet replacement activity. China container volume more than doubled due to the same reason noted for the quarter. Guam volume was lower in 2011 as compared to 2010, due to the same reasons noted in the quarter.

Ocean Transportation posted operating profit of \$2.0 million in the first half, compared to an operating profit of \$47.4 million in the first half of 2010. The decrease in operating profit was principally due to higher overall fuel prices and other operating costs associated with the operation of the CLX2 string. Overall, vessel expenses were \$70.8 million higher as compared to 2010 (principally higher fuel prices and CLX2 fuel consumption and vessel charter costs). Additionally, equipment costs increased \$7.0 million and administrative costs increased \$2.9 million, due primarily to CLX2, and terminal handling costs increased \$6.6 million due principally to higher rates. Operating profit was also impacted by reduced yields of \$3.1 million as a result of competitive pricing pressures and \$1.4 million in lower SSAT earnings due to the same reasons cited for the quarter. The increase in costs and lower yields were partially offset by \$49.3 million in higher overall cargo volumes.

Logistics Services – Second quarter of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | |
|-------------------------|------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Intermodal revenue | \$ 63.5 | \$ 51.7 | 23% |
| Highway revenue | 39.6 | 36.9 | 7% |
| Total Revenue | \$ 103.1 | \$ 88.6 | 16% |
| Operating profit | \$ 2.1 | \$ 1.5 | 40% |
| Operating profit margin | 2.0% | 1.7% | |

Logistics Services revenue for the second quarter of 2011 increased \$14.5 million, or 16 percent, compared with the second quarter of 2010. This increase was principally due to higher Intermodal and warehouse volume and higher Intermodal and Highway rates, due primarily to higher fuel surcharges. The increase in warehousing revenue, which is included in Highway services revenue, was principally due to customer expansion at the Company's Savannah facilities. Intermodal volume grew 17 percent, driven primarily by increased inland activity to support Ocean Transportation's expanded China business.

Logistics Services operating profit for the second quarter of 2011 increased \$0.6 million, or 40 percent, compared with the second quarter of 2010. Operating profit increased principally due to higher Intermodal volume and higher volume at the Company's warehousing facilities, as previously cited.

Logistics Services – First half of 2011 compared with 2010

| (dollars in millions) | Six Months Ended June 30, | | |
|-------------------------|---------------------------|----------|--------|
| | 2011 | 2010 | Change |
| Intermodal revenue | \$ 117.4 | \$ 96.3 | 22% |
| Highway revenue | 77.0 | 69.4 | 11% |
| Total Revenue | \$ 194.4 | \$ 165.7 | 17% |
| Operating profit | \$ 3.6 | \$ 3.4 | 6% |
| Operating profit margin | 1.9% | 2.1% | |

Logistics Services revenue for the first half of 2011 increased \$28.7 million, or 17 percent, compared with the first half of 2010. This increase was principally due to higher Intermodal and warehouse volume and higher Intermodal and Highway rates, due primarily to higher fuel surcharges. Intermodal and warehouse volume grew 16 percent due to the same factor cited for the quarter.

Logistics Services operating profit for the first half of 2011 increased \$0.2 million, or 6 percent, compared with the first half of 2010. Operating profit increased principally due to higher Intermodal and warehouse volume, partially offset by the prior year's first quarter, large military project move.

REAL ESTATE INDUSTRY

Real Estate Leasing and Real Estate Sales revenue and operating profit are analyzed before subtracting amounts related to discontinued operations. This is consistent with how the Company evaluates and makes decisions regarding capital allocation, acquisitions, and dispositions for the Company's real estate businesses. A discussion of discontinued operations for the real estate business is included separately.

Effect of Property Sales Mix on Operating Results: Direct year-over-year comparison of the real estate sales results may not provide a consistent, measurable barometer of future performance because results from period to period are significantly affected by the mix and timing of property sales. Operating results, by virtue of each project's asset class, geography, and timing, are inherently episodic. Earnings from joint venture investments are not included in segment revenue, but are included in operating profit. The mix of real estate sales in any year or quarter can be diverse and can include developed residential real estate, commercial properties, developable subdivision lots, undeveloped land, and property sold under threat of condemnation. The sale of undeveloped land and vacant parcels in Hawaii generally provides higher margins than does the sale of developed and commercial property, due to the low historical-cost basis of the Company's Hawaii land. Consequently, real estate sales revenue trends, cash flows from the sales of real estate, and the amount of real estate held for sale on the balance sheets do not necessarily indicate future profitability trends for this segment. Additionally, the operating profit reported in each quarter does not necessarily follow a percentage of sales trend because the cost basis of property sold can differ significantly between transactions.

Real Estate Leasing – Second quarter of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | |
|-----------------------------------|------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Revenue | \$ 25.2 | \$ 23.2 | 9% |
| Operating profit | \$ 10.4 | \$ 8.5 | 22% |
| Operating profit margin | 41.3% | 36.6% | |
| Occupancy Rates: | | | |
| Mainland | 93% | 86% | 7% |
| Hawaii | 91% | 93% | -2% |
| Leasable Space (million sq. ft.): | | | |
| Mainland | 6.3 | 7.0 | -10% |
| Hawaii | 1.5 | 1.2 | 25% |

Real Estate Leasing revenue for the second quarter of 2011, before subtracting amounts presented as discontinued operations, was 9 percent higher than 2010, due to the revenue impacts resulting from the timing of acquisitions and dispositions and higher Mainland occupancies. Operating profit for the second quarter of 2011, before subtracting amounts presented as discontinued operations, was 22 percent higher than 2010, due to the same reasons described for the revenue increase.

In June 2011, the Company sold the Arbor Park Shopping Center in San Antonio, Texas and acquired the Union Bank Facility in Everett, Washington. At June 30, 2011, the Company had approximately \$25 million in tax-deferred proceeds that had not yet been reinvested. Properties sold under the Company's 1031 program are generally replaced within 180 days of the sale; however, revenue and operating profit for the current period, as compared to a prior period, may be lower because of the interim period that elapses between sale and reinvestment, or if the proceeds are not reinvested because a suitable replacement property that meets the Company's investment criteria cannot be found.

Leasable space decreased 386,400 square feet in the second quarter of 2011 compared with the second quarter of 2010, principally due to the following activity between July 1, 2010 and June 30, 2011:

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| Dispositions | | | Acquisitions | | |
|--------------------|-----------------------------|-----------------|--------------------|-----------------------------|-----------------|
| Date | Property | Leasable sq. ft | Date | Property | Leasable sq. ft |
| 10-10 | Ontario Distribution Center | 898,400 | 7-10 | Komohana Industrial Park | 238,300 |
| 1-11 | Apex Building | 28,100 | 10-10 | Little Cottonwood Center | 141,600 |
| 6-11 | Arbor Park Shopping Center | 139,500 | 11-10 | Rancho Temecula Town Center | 165,500 |
| | | | 11-10 | Lahaina Square | 50,200 |
| | | | 6-11 | Union Bank Facility | 84,000 |
| Total Dispositions | | 1,066,000 | Total Acquisitions | | 679,600 |

Real Estate Leasing – First half of 2011 compared with 2010

| (dollars in millions) | Six Months Ended June 30, | | |
|-------------------------|---------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Revenue | \$ 51.2 | \$ 46.8 | 9% |
| Operating profit | \$ 21.0 | \$ 17.6 | 19% |
| Operating profit margin | 41.0% | 37.6% | |
| Occupancy Rates: | | | |
| Mainland | 92% | 85% | 7% |
| Hawaii | 91% | 93% | -2% |

Real Estate Leasing revenue for the first half of 2011, before subtracting amounts presented as discontinued operations, was 9 percent higher than 2010, principally due to the timing of acquisitions and dispositions and higher Mainland occupancies.

Operating profit for the first half of 2011, before subtracting amounts presented as discontinued operations, was 19 percent higher than 2010, principally due to the same reasons cited for the quarter, but the increase was partially offset by higher depreciation and amortization.

Real Estate Sales – Second quarter and first half of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | |
|--|------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Improved property sales | \$ 22.4 | \$ 15.5 | 45% |
| Development sales | 2.9 | 1.4 | 2X |
| Unimproved/other property sales | 5.4 | 5.1 | 6% |
| Total revenue | \$ 30.7 | \$ 22.0 | 40% |
| Operating profit before joint ventures | \$ 11.1 | \$ 8.2 | 35% |
| Earnings from joint ventures | (0.5) | (0.2) | -3X |
| Total operating profit | \$ 10.6 | \$ 8.0 | 33% |

| (dollars in millions) | Six Months Ended June 30, | | |
|--|---------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Improved property sales | \$ 36.6 | \$ 70.7 | -48% |
| Development sales | 4.8 | 2.1 | 2X |
| Unimproved/other property sales and investment gain | 12.7 | 9.5 | 34% |
| Total revenue | \$ 54.1 | \$ 82.3 | -34% |
| Operating profit before joint ventures & investment gain | \$ 17.4 | \$ 30.3 | -43% |
| Earnings from joint ventures and investment gain | 5.2 | (0.9) | NM |
| Total operating profit | \$ 22.6 | \$ 29.4 | -23% |

2011 Second Quarter: Real Estate Sales revenue and operating profit, before subtracting amounts presented as discontinued operations, were \$30.7 million and \$10.6 million, respectively, and were principally composed of the sales of Arbor Park Shopping Center (a retail center in San Antonio, Texas), a vacant four-acre Maui parcel entitled for hotel development, and three units at the Company's Keola La'i condominium project on Oahu.

2011 First Half: Revenue for the first half of 2011, before subtracting amounts presented as discontinued operations, was \$54.1 million and, in addition to the sales described above, included the sales of two commercial properties on Maui and Oahu, an 86-acre vacant parcel on Maui, and a Keola La'i condominium unit on Oahu. In addition to the sales described above, operating profit of \$22.6 million for the first half of 2011 included a gain from the sale of the Company's interest in the Bridgeport Marketplace joint venture development in Valencia, California, a four-acre commercial parcel at the Company's Kukui'ula joint venture on Kauai, and two units at the Company's Ka Milo joint venture development on the island of Hawaii, partially offset by other joint venture holding costs.

2010 Second Quarter: Real Estate Sales revenue and operating profit, before subtracting amounts presented as discontinued operations, were \$22.0 million and \$8.0 million, respectively, and included the sale of Valley Freeway Corporate Park (an industrial property in Washington State), a residential unit on Oahu, and a leased fee parcel and five vacant parcel sales on Maui.

2010 First Half: Revenue for the first half of 2010, before subtracting amounts presented as discontinued operations, was \$82.3 million and, in addition to the sales described above, included the sales of the Mililani Shopping Center on Oahu, Kele Center on Maui, a 75-acre parcel to Kauai County for affordable housing, and three residential units on Oahu. Real Estate Sales operating profit for the first half of 2010 of \$29.4 million included, in addition to the sales described above, \$1.8 million from the payoff of an investment in a non-performing mortgage loan that was acquired in the fourth quarter of 2009, and five residential units on Maui and the Big Island, partially offset by other joint venture holding costs.

Real Estate Discontinued Operations – 2011 compared with 2010

The revenue and operating profit related to discontinued operations were as follows:

| (dollars in millions, before tax) | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|---------------------------|---------|------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Sales revenue | \$ 22.4 | \$ 18.1 | \$ 36.6 | \$ 73.3 |
| Leasing revenue | \$ 0.4 | \$ 2.3 | \$ 1.1 | \$ 5.2 |
| Sales operating profit | \$ 8.7 | \$ 9.2 | \$ 15.3 | \$ 29.9 |
| Leasing operating profit | \$ 0.3 | \$ 1.2 | \$ 0.7 | \$ 3.1 |

2011: The revenue and expenses related to the sales of the Arbor Park Shopping Center in San Antonio, Texas and two commercial buildings on Maui and Oahu have been classified as discontinued operations.

2010: The revenue and expenses related to the sales of the Mililani Shopping Center on Oahu, Kele Center on Maui, Valley Freeway Corporate Park in Washington State, and a leased fee parcel on Maui have been classified as discontinued operations.

The leasing revenue and operating profit noted above includes the results for properties that were sold through June 30, 2011 and, if applicable, the operating results of properties still owned, but meet the definition of “discontinued operations” under FASB ASC Subtopic 205-20. The leasing revenue and operating profit for the first half of 2011 and 2010 have been restated to reflect property that was classified as discontinued operations subsequent to June 30, 2010.

AGRIBUSINESS

Agribusiness – Second quarter of 2011 compared with 2010

| (dollars in millions) | Quarter Ended June 30, | | |
|----------------------------------|------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Revenue | \$ 44.7 | \$ 29.8 | 50% |
| Operating profit | \$ 8.5 | \$ 1.8 | 5X |
| Tons sugar produced | 67,700 | 72,500 | -7% |
| Tons sugar sold (bulk raw sugar) | 36,300 | 22,700 | 60% |

Agribusiness revenue for the second quarter of 2011 increased \$14.9 million, or 50 percent, compared to the second quarter of 2010. The increase was primarily due to \$12.8 million in higher bulk raw sugar revenue, resulting from an increase in tons sold and higher sales prices, higher molasses revenues due to higher sales volume, and higher power sales revenue, primarily resulting from higher selling prices. These increases were partially offset by lower coffee revenue resulting from the sale of the coffee operations at the end of the first quarter.

Operating profit for the second quarter of 2011 increased \$6.7 million compared to the second quarter of 2010. The increase was primarily due to a \$3.0 million improvement in raw sugar margins due to higher prices and volume, improved molasses sales margin due to higher volumes, and higher power margins principally due to higher prices.

Agribusiness – First half of 2011 compared with 2010

| (dollars in millions) | Six Months Ended June 30, | | |
|----------------------------------|---------------------------|---------|--------|
| | 2011 | 2010 | Change |
| Revenue | \$ 60.8 | \$ 44.0 | 38% |
| Operating profit | \$ 11.1 | \$ 0.7 | 16X |
| Tons sugar produced | 74,400 | 72,500 | 3% |
| Tons sugar sold (bulk raw sugar) | 36,300 | 22,700 | 60% |

Agribusiness revenue for the first half of 2011 increased \$16.8 million, or 38 percent, compared with the first half of 2010. The increase was primarily due to \$12.8 million in higher bulk raw sugar revenue, resulting from an increase in tons sold and higher sales prices, higher molasses sales revenue due to higher sales volume, revenue from the charter of the sugar vessel, and higher power revenue, primarily from higher power prices. The increase in revenues was partially offset by a decrease in coffee revenue resulting from the sale of the coffee operations in the first quarter of 2011, and lower specialty sugar sales due to lower specialty sales volumes.

Operating profit for the first half of 2011 increased \$10.4 million compared to the first half of 2010. The increase was primarily due to a \$3.2 million improvement in molasses sales margin due to higher sales volumes, improvement in raw sugar sales margins, for the same reasons cited for the quarter, \$1.5 million improvement in power margins, mainly due to higher power prices, and \$1.4 million improvement in specialty sugar sales margins, primarily due to lower production costs and higher sales prices.

Year-to-date sugar production was 3 percent higher in 2011 than in 2010, due principally to an increase in the number of acres harvested in the first half of the year.

LIQUIDITY AND CAPITAL RESOURCES

Overview: Cash flows provided by operating activities are generally the Company's primary source of liquidity. Additional sources of liquidity were provided by available cash and cash equivalent balances as well as borrowings on available credit facilities.

On August 5, 2011, the Company renewed certain of its revolving credit facilities that had an aggregate commitment of \$325 million. The renewed facilities have an aggregate commitment of \$355 million, which consists of a \$230 million facility and \$125 million facility for A&B and Matson, respectively. The renewed facilities expire in August 2016. Amounts drawn under the facilities bear interest at London Interbank Offered Rate ("LIBOR") plus a margin based on a ratio of debt to earnings before interest, taxes, depreciation and amortization pricing grid. The agreement contains certain restrictive covenants, the most significant of which requires the maintenance of minimum shareholders' equity levels, minimum property investment values, and a maximum ratio of debt to earnings before interest, depreciation, amortization and taxes. Additionally, on August 5, 2011, in connection with the renewal of the Company's revolving credit facilities, Matson terminated its Senior Secured Reducing Revolving Credit Facility (the "DnB Facility") with DnB NOR, which had been entered into on June 28, 2005 and was scheduled to mature on June 28, 2015. The DnB Facility was terminated because DnB NOR is a participant in the Company's renewed credit facilities. The available capacity under the DnB Facility at termination was \$52.5 million and no amounts were outstanding under the facility prior to termination. In conjunction with the termination of the DnB Facility, DnB NOR released the mortgage on the MV Maunalei.

Cash Flows: Cash flows from operating activities totaled \$17 million for the first half of 2011, compared with \$39 million for the first half of 2010. This decrease was due principally to lower Matson earnings, partially offset by higher Agribusiness results.

Cash flows used in investing activities totaled \$32 million for the first half of 2011, compared with \$51 million in the first half of 2010. The decrease in net cash used in investing activities was due primarily to a net \$29 million decrease in investments compared to 2010, principally related to investments in the Company's Kukui'ula joint venture, partially offset by an \$11 million increase in capital expenditures in 2011.

Capital expenditures for the first half of 2011 totaled \$35 million compared with \$24 million for the first half of 2010. Capital expenditures for the first half of 2011 included \$28 million for the purchase of transportation-related assets, \$4 million for real estate related acquisitions, development and property improvements, and \$3 million related to agricultural operations. The \$35 million reported in capital expenditures on the condensed consolidated statement of cash flows for 2011 excludes \$11 million of tax-deferred real estate purchases under Section 1031 of the IRS code since the Company did not actually take control of the cash during the exchange period. The 2010 expenditures included \$15 million for the purchase of transportation-related assets, \$5 million for real estate related acquisitions, development and property improvements, and \$4 million related to agricultural operations. The \$24 million reported in capital expenditures on the condensed consolidated statement of cash flows for 2010 excludes \$53 million of tax-deferred purchases since the Company did not actually take control of the cash during the exchange period.

Cash flows provided by financing activities were \$16 million for the first half of 2011, compared with \$32 million during the first half of 2010. The decrease in cash flows from financing activities was principally due to a \$21 million decrease in borrowings in 2011 as compared to 2010. Cash flows provided by financing activities were \$32 million for the first half of 2010, compared with cash flows used in financing activities of \$56 million during the first half of 2009. The increase in cash flows from financing activities was principally due to a net \$55 million increase in debt in 2010, compared to a net \$30 million reduction of debt in 2009.

The Company believes that funds generated from results of operations, available cash and cash equivalents, and available borrowings under credit facilities will be sufficient to finance the Company's business requirements for the next fiscal year, including working capital, capital expenditures, dividends, and potential acquisitions and stock repurchases. There can be no assurance, however, that the Company will continue to generate cash flows at or above current levels or that it will be able to maintain its ability to borrow under its available credit facilities.

Sources of Liquidity: Additional sources of liquidity for the Company, consisting of cash and cash equivalents, receivables, and sugar inventory, totaled \$231 million at June 30, 2011, an increase of \$36 million from December 31, 2010. The increase was due primarily to a \$24 million increase in receivables and a \$12 million increase in sugar inventories.

The Company also has various revolving credit and term facilities that provide additional sources of liquidity for working capital requirements or investment opportunities on a short-term as well as longer-term basis. As of June 30, 2011, available capacity under these facilities totaled \$311 million. The total debt as of June 30, 2011 was \$556 million compared to \$522 million at the end of 2010. The increase in debt during the first half of 2011 was principally due to \$35 million in capital expenditures, including investments in real estate joint ventures and real estate development projects, but was also due to lower Matson earnings.

Balance Sheet: The Company had a working capital balance of \$14 million at June 30, 2011, compared to a negative working capital balance of \$89 million at the end of 2010. The improvement in working capital is entirely due to the reclassification of the Company's outstanding revolving debt balances from current liabilities to non-current liabilities as a result of the renewal of its revolving credit facilities, which was completed on August 5, 2011, as previously described. At June 30, 2011, the Company was in compliance with all of its covenants. While there can be no assurance that the Company will remain in compliance with its covenants, the Company expects that it will remain in compliance.

Tax-Deferred Real Estate Exchanges: Sales – During the second quarter of 2011, approximately \$22 million of proceeds from the sale of a shopping center in San Antonio, Texas qualified for tax-deferral treatment under Internal Revenue Code Section 1031. During the second quarter of 2010, approximately \$20 million of proceeds from the sales of an industrial warehouse property in Kent, Washington, a leased fee parcel on Maui, and four non-core land holdings on Maui qualified for tax-deferral treatment under Internal Revenue Code Section 1031.

Purchases – During the second quarter of 2011, the Company utilized \$11 million in proceeds from tax-deferred sales to purchase the Union Bank facility in Everett, Washington. There were no purchases during the first quarter of 2011 that utilized tax-deferred funds. During the second quarter of 2010, the Company utilized \$23 million in proceeds from tax-deferred sales to purchase Lanikai Marketplace on the Big Island of Hawaii. During the first quarter of 2010, the Company utilized \$31 million in proceeds from tax-deferred sales to purchase the Meadows on the Parkway shopping center in Colorado.

The proceeds from 1031 tax-deferred sales are held in escrow pending future use to purchase new real estate assets. The proceeds from 1033 condemnations are held by the Company until the funds are redeployed. As of June 30, 2011, there were \$25 million in proceeds from tax-deferred sales that had not been reinvested.

The funds related to 1031 transactions are not included in cash flows from investing activities in the Condensed Consolidated Statement of Cash Flows but are disclosed as non-cash activities. For “reverse 1031” transactions, the Company purchases a property in anticipation of receiving funds from a future property sale. Funds used for reverse 1031 purchases are included as capital expenditures on the Condensed Consolidated Statement of Cash Flows and the related sales of property, for which the proceeds are linked, are included as property sales in the Statement.

Commitments, Contingencies and Off-balance Sheet Arrangements: A description of other commitments, contingencies, and off-balance sheet arrangements at June 30, 2011, and herein incorporated by reference, is included in Note 2 to the condensed consolidated financial statements of Item 1 in this Form 10-Q.

BUSINESS OUTLOOK

The following discussion provides an update of the Company's outlook for 2011. All of the forward-looking statements made herein are qualified by the inherent risks of the Company's operations and the markets it serves, as more fully described on pages 17-25 of the Company's 2010 Form 10-K.

The Company's overall outlook for 2011 continues to assume a slow and steady recovery of the U.S. economy, and modest growth in Hawaii, principally from a continued recovery of the visitor industry. Hawaii's economy continued to improve gradually in the first half of 2011, supported by solid year-over-year growth in visitor arrivals and expenditures, despite lower arrivals from Japanese visitors following the March earthquake and ensuing events.

Second China-Long Beach Express (CLX2): The Company achieved a number of the operating goals it had set out to attain in CLX2 since the inception of the service in September 2010, including sales volume and vessel utilization expectations. However, these successes were not sufficient to overcome the negative financial impact from high fuel prices and low container freight rates stemming from overcapacity in the Transpacific trade lane. As a result, the service incurred second quarter and year-to-date pre-tax operating losses of \$18 million and \$30 million, respectively. Our expectation is that over both the near and long term, fuel prices will generally remain high and Transpacific container rates will remain volatile. After an evaluation of all alternatives for the service, the Company concluded that CLX2's past performance and its outlook do not merit continued investment.

On August 8, 2011, the Company announced that CLX2 will be discontinued, with its last eastbound sailing to occur on August 21, 2011. The Company expects to report after-tax losses from the discontinuation of CLX2 operations of between \$20 and \$25 million, the majority of which are expected to be recorded in the third quarter of 2011. This comprises both anticipated operating losses for the third quarter and termination costs. The termination of CLX2 is not expected to impact the Company's Hawaii, Guam or CLX1 services.

Ocean Transportation: The Company continues to expect modest volume improvement in 2011 for its Hawaii trade lane. However, Guam volumes are now expected to be lower than last year due to competitive pressures, weaker market conditions, due in part to a significant decline in Japanese visitors to Guam, and the continued delay of military relocation construction. In addition, the Company expects that CLX1 performance, relative to 2010, will continue to be negatively impacted by high fuel prices and a challenging Transpacific freight environment. As a result, the Company expects that, excluding the impacts from CLX2, Ocean Transportation operating profit for the second half of 2011 will be lower than the second half of 2010. Ocean Transportation's performance continues to be highly dependent on the future performance of the national and Hawaii economies, fuel prices, Transpacific freight rates, and other factors that, in the current environment, cannot be predicted with certainty.

Logistics Services: For the second half of 2011, the Company expects modest growth in warehousing and distribution, but overall performance in the second half is expected to be relatively flat compared with 2010.

Real Estate Leasing: Expected stability in market rents and improved occupancy in the Company's Mainland portfolio are supporting an expectation for modest second half improvement in Leasing results as compared to the second half of 2010. This outlook anticipates some softening in Hawaii occupancy and rents, as Hawaii's real estate market generally lags the U.S. Mainland recovery, and higher depreciation expense due to recent acquisitions.

Real Estate Development and Sales: Real estate sales are opportunistic and episodic by nature and, therefore, difficult to predict with certainty. The Company produced good sales results in the first half of the year, although some of those sales had been anticipated in the second half of the year. The Company will be in a position to provide greater clarity on second half sales as the year progresses.

Agribusiness: The Agribusiness segment operating performance is expected to remain strong for the balance of 2011, based on a forecasted increase in sugar production and higher sugar prices that have been locked in for approximately 90 percent of the projected crop. Third and fourth quarter results are expected to be positive, though profits are expected to be lower than second quarter levels due to the exceptionally high pricing achieved for a second quarter

raw sugar delivery. Financial performance, as always, depends on successful completion of the sugar harvest, which is at its halfway point.

OTHER MATTERS

Dividends: The Company's second quarter dividend of \$0.315 per share was paid on June 2, 2011 to shareholders of record as of the close of business on May 12, 2011. On June 23, 2011, the Company's Board of Directors announced a third-quarter 2011 dividend of \$0.315 per share, payable on September 1, 2011 to shareholders of record as of the close of business on August 4, 2011.

Significant Accounting Policies: The Company's significant accounting policies are described in Note 1 of the consolidated financial statements included in Item 8 of the Company's 2010 Form 10-K.

Critical Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, upon which the Management's Discussion and Analysis is based, requires that management exercise judgment when making estimates and assumptions about future events that may affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty and actual results will, inevitably, differ from those critical accounting estimates. These differences could be material. The most significant accounting estimates inherent in the preparation of A&B's financial statements were described in Item 7 of the Company's 2010 Form 10-K.

Officer and Management Changes: The following management changes were effective between January 1, 2011 and July 30, 2011.

On February 11, 2011, the Company announced the retirement of Norbert M. Buelsing, president of A&B Properties, Inc. and the appointment of Christopher J. Benjamin, senior vice president, chief financial officer and treasurer of A&B and general manager of Hawaiian Commercial & Sugar Company (HC&S), to president of the A&B Land Group and president of A&B Properties, Inc. Mr. Benjamin's appointment to his new role will be effective on September 1, 2011.

On July 6, 2011, the Company announced the appointment of Joel Wine as senior vice president, chief financial officer and treasurer of A&B, effective September 1, 2011.

Rick Volner, Jr., senior vice president, Agricultural Operations of HC&S, was promoted to general manager of HC&S, effective April 1, 2011.

Wendy M. Ludwig was promoted to A&B vice president, tax, effective April 26, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk is incorporated herein by reference to Item 7A of the Company's Form 10-K for the fiscal year ended December 31, 2010. There has been no material change in the quantitative and qualitative disclosures about market risk since December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- (b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.
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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 2011, the Equal Employment Opportunity Commission ("EEOC") served McBryde Resources, Inc., formerly known as Kauai Coffee Company, Inc., ("McBryde Resources") with a lawsuit, which alleges that McBryde and five other farms were complicit in illegal acts by Global Horizons Inc., a company that had hired Thai workers for the farms. In July 2011, the EEOC amended the lawsuit to name Alexander & Baldwin, Inc. as a defendant. McBryde Resources and Alexander & Baldwin, Inc. will vigorously defend themselves in this lawsuit, which has been filed in the U.S. District Court for the District of Hawaii. The Company is unable to predict, at this time, the outcome or financial impact, if any, of the lawsuit.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|-------------------------------------|---------------------------------|---|---|
| Apr 1 - 30, 2011 | -- | -- | -- | -- |
| May 1 - 31, 2011 | 13,407 (1) | 48.04 | -- | -- |
| Jun 1 - 30, 2011 | 217 (1) | 46.98 | -- | -- |

(1) Represents shares accepted for the exercise of options and in satisfaction of tax withholding obligations arising upon option exercises or the vesting of non-vested common stock and restricted stock units.

ITEM 5. OTHER INFORMATION

Entry into a Material Definitive Agreement; Termination of a Material Definitive Agreement; Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On August 5, 2011, Alexander & Baldwin, Inc. (“A&B”), entered into a Credit Agreement (the “A&B Agreement”) with First Hawaiian Bank (“FHB”), Bank of America, N.A. (“BofA”), Wells Fargo Bank, National Association (“Wells Fargo”), DnB NOR Bank ASA (“DnB NOR”), U.S. Bank, N.A. (“USB”), American Savings Bank, F.S.B. (“ASB”), and Bank of Hawaii (“BOH”) (collectively, the “Lenders”), for a \$230 million revolving credit facility. Concurrently, Matson Navigation Company, Inc. (“Matson”), a wholly-owned subsidiary of A&B, entered into a Credit Agreement (the “Matson Agreement”) with the Lenders for a \$125 million revolving credit facility that is linked to the A&B Agreement.

The A&B Agreement supersedes A&B’s Credit Agreement, dated December 28, 2006, as amended, with FHB, BofA, Wells Fargo, ASB, BOH, and BNP Paribas for a \$225 million revolving credit facility. The Matson Agreement supersedes Matson’s Credit Agreement, dated December 28, 2006, as amended, with FHB, BofA, Wells Fargo, ASB, BOH, and BNP Paribas for a \$100 million revolving credit facility.

The A&B Agreement and Matson Agreement, which expire on August 5, 2016, together provide A&B and Matson with an aggregate \$355 million, 5-year unsecured commitment (“Senior Credit Facility”). During the term of the Senior Credit Facility, A&B and Matson (collectively, the “Borrowers” or the “Company”), at their option, may reallocate the \$355 million commitment available under the Senior Credit Facility between the Borrowers, provided the aggregate commitment remains at \$355 million. The Borrowers may allocate the entire commitment available under the Senior Credit Facility to A&B, or they may allocate any other amount to Matson, provided the allocation to Matson does not exceed \$150 million.

The Senior Credit Facility also provides for: (i) a \$100 million sub-limit for the issuance of standby and commercial letters of credit for the account of A&B, (ii) a \$50 million sub-limit for the issuance of standby and commercial letters of credit for Matson, and (iii) a \$50 million sub-limit for swing line loans for the Borrowers.

The Senior Credit Facility is subject to facility fees, letter of credit fees and interest on draws based on either the Company’s credit rating or the ratio of A&B’s debt to earnings before interest, taxes, depreciation, and amortization (“Debt/EBITDA”). Facility fees and letter of credit fees are computed using rates tied to a sliding scale, which range from 0.10% to 0.35% for facility fees and 0.90% to 1.75% for letter of credit fees, based on A&B’s Debt/EBITDA or credit rating. Interest rates on draws under the Senior Credit Facility are also tied to a sliding scale of rates based on A&B’s Debt/EBITDA or credit rating, plus London Interbank Offered Rate (“LIBOR”) for the applicable borrowing period. These rates range from 0.90% to 1.75% plus LIBOR, based on A&B’s Debt/EBITDA or credit rating. Alternatively, the Borrowers may select an interest rate based on a “base rate option,” as defined in the agreements.

Amounts drawn under the Senior Credit Facility currently bear interest at 1.10% plus LIBOR, provided A&B maintains a Debt/EBITDA ratio of less than 2.5 to 1.0 or maintains at least a BBB+ credit rating from Standard & Poor’s. The borrowing term for draws under the Senior Credit Facility ranges from one week to six months, at the Borrowers’ option.

Amounts drawn under the swing line bear interest at a rate agreed between the Borrowers and the Lenders at the time a draw is made and loans mature no later than ten business days from the date of the draw.

The A&B Agreement and the Matson Agreement contain various restrictive covenants. Restrictive covenants for A&B include the requirement that it maintain minimum shareholders’ equity levels, minimum property investment values, and Debt/EBITDA of no more than 3.75:1. Restrictive covenants for Matson include the requirement that it

maintain minimum shareholders' equity levels, working capital in excess of \$1, limitations on funded debt to shareholders' equity, and limitations on the creation of certain liens.

On August 5, 2011, in connection with the renewal of the Senior Credit Facility, Matson terminated its Senior Secured Reducing Revolving Credit Facility (the "DnB Facility") with DnB NOR, which had been entered into on June 28, 2005 and was scheduled to mature on June 28, 2015. The DnB Facility was terminated prior to its maturity because DnB is a participant in the Company's renewed credit facilities. The available capacity under the DnB Facility was \$52.5 million and no amounts were outstanding under the facility prior to termination. In conjunction with the termination of the DnB Facility, DnB NOR released the First Preferred Ship Mortgage on the MV Maunalei, dated June 28, 2005.

The foregoing description of the A&B Agreement and the Matson Agreement is qualified in its entirety by the terms of the A&B Agreement and the Matson Agreement, which are filed as Exhibits 10.1 and 10.2, respectively

Costs Associated with Exit or Disposal Activities

On August 8, 2011, the Company finalized a decision to terminate Matson's second China string ("CLX2), effective August 21, 2011, due to the longer-term outlook for sustained high fuel prices and increasingly volatile Transpacific rates. Three of the five vessels chartered for CLX2 will be returned in the third quarter of 2011 when their charter terms end. Matson intends to sub-charter the remaining two vessels until July 2012 when such charter obligations terminate. Excess containers available due to the termination of CLX2 will be used in other services, returned to leasing companies or sold. Matson will also close an office in China and terminate the employees hired for the service. These actions are expected to be substantially completed during 2011; however, the return of leased containers is expected to occur over a period of 12 to 18 months.

In connection with the discontinuation of CLX2 operations, Matson expects to recognize after-tax losses for the service that are expected to total approximately \$20 million to \$25 million. Approximately \$5 million to \$6 million relates to ship repositioning and charter obligations, \$7 million to \$9 million relates to container repositioning and lease obligations, and \$8 million to \$10 million relates to operating losses and other associated exit costs. The majority of these costs is expected to be recognized in the third quarter of 2011. Aggregate cash expenditures are expected to approximate the estimated aggregate losses.

ITEM 6. EXHIBITS

10.1 Credit Agreement, dated August 5, 2011, between Alexander & Baldwin, Inc. and First Hawaiian Bank, Bank of America, N.A., Wells Fargo Bank, National Association, DnB NOR Bank ASA, U.S. Bank N.A., American Savings Bank, F.S.B., and Bank of Hawaii.

10.2 Credit Agreement, dated August 5, 2011, between Matson Navigation Company, Inc. and First Hawaiian Bank, Bank of America, N.A., Wells Fargo Bank, National Association, DnB NOR Bank ASA, U.S. Bank N.A., American Savings Bank, F.S.B., and Bank of Hawaii.

31.1 Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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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.

ALEXANDER & BALDWIN, INC.
(Registrant)

Date: August 8, 2011

/s/ Christopher J. Benjamin
Christopher J. Benjamin
Senior Vice President,
Chief Financial Officer and Treasurer

Date: August 8, 2011

/s/ Paul K. Ito
Paul K. Ito
Vice President, Controller and
Assistant Treasurer

EXHIBIT INDEX

10.1 Credit Agreement, dated August 5, 2011, between Alexander & Baldwin, Inc. and First Hawaiian Bank, Bank of America, N.A., Wells Fargo Bank, National Association, DnB NOR Bank ASA, U.S. Bank N.A., American Savings Bank, F.S.B., and Bank of Hawaii.

10.2 Credit Agreement, dated August 5, 2011, between Matson Navigation Company, Inc. and First Hawaiian Bank, Bank of America, N.A., Wells Fargo Bank, National Association, DnB NOR Bank ASA, U.S. Bank N.A., American Savings Bank, F.S.B., and Bank of Hawaii.

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32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
