Alexander & Baldwin, Inc.
Form 10-Q
May 08, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

o 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 001-35492

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

Hawaii	45-4849780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P. O. Box 3440, Honolulu, Hawaii	96801
822 Bishop Street, Honolulu, Hawaii	96813
(Address of principal executive offices)	(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 x No o

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

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

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

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

Number of shares of common stock outstanding as of March 31, 2015: 48,853,198

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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 Ended March 31,	
	2015	2014
Operating Revenue:		
Real estate leasing	$32.7	$31.0
Real estate development and sales	32.2	0.8
Materials and construction	56.9	50.1
Agribusiness	28.9	12.9
Total operating revenue	150.7	94.8
Operating Costs and Expenses:		
Cost of real estate leasing	19.6	19.6
Cost of real estate development and sales	21.3	(0.1)
Cost of construction contracts and materials	45.8	42.1
Costs of agribusiness revenues	26.8	9.8
Selling, general and administrative	14.6	13.4
Gain on the sale of improved property	(1.9)	—
Total operating costs and expenses	126.2	84.8
Operating Income	24.5	10.0
Other Income and (Expense):		
Income related to joint ventures	24.0	(1.6)
Reduction in KRS II carrying value	(0.1)	—
Interest income and other	0.2	0.7
Interest expense	(7.1)	(7.2)
Income From Continuing Operations Before Income Taxes	41.5	1.9
Income tax expense	15.6	0.8
Income From Continuing Operations	25.9	1.1
Income From Discontinued Operations (net of income taxes)	—	34.3
Net Income	25.9	35.4
Income attributable to noncontrolling interest	(0.6)	(0.4)
Net Income Attributable to A&B Shareholders	$25.3	$35.0
Basic Earnings Per Share:		
Continuing operations attributable to A&B shareholders	$0.52	$0.01
Discontinued operations attributable to A&B shareholders	—	0.71
Net income attributable to A&B shareholders	$0.52	$0.72
Diluted Earnings Per Share:		
Continuing operations attributable to A&B shareholders	$0.51	$0.01
Discontinued operations attributable to A&B shareholders	—	0.70
Net income attributable to A&B shareholders	$0.51	$0.71
Weighted Average Number of Shares Outstanding:		
Basic	48.8	48.7
Diluted	49.3	49.2

Amounts Attributable to A&B Shareholders:		
Income from continuing operations, net of tax	$25.3	$0.7
Discontinued operations, net of tax	—	34.3
Net income	$25.3	$35.0
Cash dividends declared per share	$0.05	$0.04

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Net Income	$25.9	$35.4
Other Comprehensive Income:		
Defined benefit pension plans:		
Amortization of prior service credit included in net periodic pension cost	(0.3)	(0.3)
Amortization of net loss included in net periodic pension cost	1.1	1.9
Income taxes related to other comprehensive income	(0.3)	(0.6)
Other Comprehensive Income	0.5	1.0
Comprehensive Income	$26.4	$36.4
Comprehensive income attributable to noncontrolling interest	(0.6)	(0.4)
Comprehensive income attributable to A&B	$25.8	$36.0

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$3.4	$2.8
Accounts and other notes receivable, net	35.4	33.1
Contracts retention	9.3	9.1
Costs and estimated earnings in excess of billings on uncompleted contracts	14.1	15.9
Inventories	85.1	81.9
Real estate held for sale	—	2.5
Deferred income taxes	8.3	8.3
Income tax receivable	2.8	6.7
Prepaid expenses and other assets	20.8	15.6
Total current assets	179.2	175.9
Investments in Affiliates	403.4	418.6
Real Estate Developments	199.1	224.0
Property – net	1,296.0	1,301.7
Intangible Assets - net	61.7	63.9
Goodwill	102.3	102.3
Other Assets	46.5	43.5
Total assets	$2,288.2	$2,329.9
LIABILITIES AND EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	$71.1	$74.5
Accounts payable	32.4	37.6
Billings in excess of costs and estimated earnings on uncompleted contracts	2.1	3.6
Accrued interest	3.3	5.7
Deferred revenue	1.7	16.5
Indemnity holdback related to Grace acquisition	9.3	9.3
Accrued and other liabilities	28.6	35.8
Total current liabilities	148.5	183.0
Long-term Liabilities:		
Long-term debt	589.7	631.5
Deferred income taxes	205.8	194.0
Accrued pension and postretirement benefits	54.7	54.8
Other non-current liabilities	50.5	51.8
Total long-term liabilities	900.7	932.1
Commitments and Contingencies (Note 3)		
Equity:		
Common stock	1,147.7	1,147.3
Accumulated other comprehensive loss	(43.9)	(44.4)
Retained earnings	123.7	101.0
Total A&B Shareholders' equity	1,227.5	1,203.9
Noncontrolling interest	11.5	10.9
Total equity	1,239.0	1,214.8
Total liabilities and equity	$2,288.2	$2,329.9

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
Cash Flows from (used in) Operating Activities:	$26.8	$(29.4)
Cash Flows from Investing Activities:		
Capital expenditures for property, plant and equipment	(8.6)	(8.5)
Proceeds from investment tax credits and grants related to Port Allen Solar Farm	—	3.5
Proceeds from disposal of property and other assets	5.1	0.4
Proceeds from disposals related to 1031 commercial property transactions	4.6	69.4
Payments for purchases of investments in affiliates	(11.1)	(5.0)
Proceeds from investments in affiliates	33.4	0.5
Change in restricted cash associated with 1031 transactions	—	(2.8)
Net cash provided by investing activities	23.4	57.5
Cash Flows from Financing Activities:		
Proceeds from issuances of long-term debt	20.0	45.0
Payments of long-term debt and deferred financing costs	(68.5)	(11.0)
Proceeds (payments) from line-of-credit agreements, net	3.3	(58.0)
Dividends paid	(3.6)	(1.9)
Proceeds from issuance (repurchase) of capital stock and other, net	(0.8)	—
Net cash used in financing activities	(49.6)	(25.9)
Cash and Cash Equivalents:		
Net increase for the period	0.6	2.2
Balance, beginning of period	2.8	3.3
Balance, end of period	$3.4	$5.5
Other Cash Flow Information:		
Interest paid	$(9.7)	$(9.8)
Income taxes paid	$—	$(3.5)
Other Non-cash Information:		
Capital expenditures included in accounts payable and accrued expenses	$4.2	$1.2

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
For the three months ended March 31, 2015 and 2014
(In millions) (Unaudited)

	March 31, 2015			March 31, 2014		
	A&B Share-holders' Equity	Non-controlling interest	Total	A&B Share-holders' Equity	Non-controlling interest	Total
Beginning balance	$ 1,203.9	$ 10.9	$ 1,214.8	$ 1,159.8	$ 8.9	$ 1,168.7
Net income	25.3	0.6	25.9	35.0	0.4	35.4
Other comprehensive income, net of tax	0.5	—	0.5	1.0	—	1.0
Dividends paid on common stock	(2.5)	—	(2.5)	(1.9)	—	(1.9)
Share-based compensation	1.2	—	1.2	1.2	—	1.2
Shares issued or repurchased, net	(1.1)	—	(1.1)	(1.3)	—	(1.3)
Excess tax benefit from share-based awards	0.2	—	0.2	1.2	—	1.2
Ending balance	$ 1,227.5	$ 11.5	$ 1,239.0	$ 1,195.0	$ 9.3	$ 1,204.3

See Notes to Condensed Consolidated Financial Statements.

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

(1) Description of Business. A&B is headquartered in Honolulu and operates four segments: Real Estate Development and Sales; Real Estate Leasing; Agribusiness; and Materials and Construction.

Real Estate Development and Sales: The Real Estate Development and Sales segment generates its revenues through the investment in and development and sale of land and commercial and residential properties in Hawaii and through the sale of properties in the Company's Leasing portfolio.

Real Estate Leasing: The Real Estate Leasing segment owns, operates and manages retail, office and industrial properties in Hawaii and on the Mainland. The Real Estate Leasing segment also leases urban land in Hawaii to third-party lessees.
Agribusiness: The Agribusiness segment produces bulk raw sugar, specialty food grade sugars and molasses; produces and sells specialty food-grade sugars; provides general trucking services, equipment maintenance and repair services; leases agricultural land to third parties; and generates and sells electricity to the extent not used in A&B's Agribusiness operations.
Materials and Construction: The Materials and Construction segment performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells basalt aggregate; produces and sells construction materials; provides and sells various construction- and traffic-control-related products.

(2) Basis of Presentation. 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 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 (GAAP) for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014 and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014, and other subsequent filings with the SEC.

Revisions of prior period financial statements: In the first quarter of 2014, the Company recorded an out-of-period 2013 adjustment to income taxes, which had the effect of increasing income tax expense and reducing net income and income from continuing operations by $1.6 million, or approximately $0.03 per diluted share. In the course of preparing the Company's financial statements for the year ended December 31, 2014, the Company identified immaterial misstatements in certain deferred tax accounts related to prior periods. In connection with the correction of these misstatements, which were reflected in the Company's 2014 Form 10-K, the Company also corrected for the 2013 out-of-period income tax adjustment by retroactively adjusting income taxes for the first quarter of 2014, which increased net income and income from continuing operations by $1.6 million, or approximately $0.03 per diluted share, from the results previously reported in the Company's Form 10-Q for the quarter ended March 31, 2014. The impact of the adjustments had no impact on pre-tax income or cash flows from operating, investing or financing activities.
Rounding: Amounts in the condensed consolidated financial statement and Notes are rounded to the nearest tenth of a million, but per-share calculations and percentages were determined based on amounts before rounding. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different.

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(3) Commitments, Guarantees and Contingencies: Commitments and financial arrangements not recorded on the Company's condensed consolidated balance sheet, excluding lease commitments that are disclosed in Note 10 of the Company’s Annual Report filed on Form 10-K for the year ended December 31, 2014, included the following (in millions) as of March 31, 2015:

Standby letters of credit	$12.0
Bonds related to real estate and construction*	$339.1

* Represents bonds related to construction and real estate activities in Hawaii, and include construction bonds issued by third party sureties (bid, performance, and payment bonds) and commercial bonds issued by third party sureties (permit, subdivision, license, and notary bonds). In the event the bonds are drawn upon, the Company would be obligated to reimburse the surety that issued the bond. None of the bonds have been drawn upon to date, and the Company believes it is unlikely that any of these bonds will be drawn upon.

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 joint venture construction activities, such as project amenities, roads, utilities, and other infrastructure, at its joint ventures. 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. The recorded amounts of the indemnity liabilities were not material individually or in the aggregate.

Other Obligations: In the first quarter of 2015, The Company's Club Villas joint venture (Kauai) amended its construction loan to increase the maximum commitment to $21 million to finance the construction of up to ten units, seven of which have been pre-sold under binding sales contracts. The Company and its joint venture partner each provided a separate limited loan guaranty of $7 million on a several basis, and a completion guaranty. The Company has determined that the fair value of its obligation under the guaranties is not material, and as of March 31, 2015, the Company had not paid or accrued any amounts under the guaranties.

Other than the obligation described above and those described in the Company's 2014 Form 10-K, obligations of the Company’s non-consolidated joint ventures 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 Hawaiian Commercial & Sugar Company (“HC&S”), a division of A&B that produces raw sugar. 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 56 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 kept the existing permits on a holdover basis. A third party filed a lawsuit on April 10, 2015 alleging that the BLNR has been renewing the revocable permits annually rather than keeping them in holdover status, and that the BLNR unlawfully failed to conduct an environmental assessment for the renewals. The lawsuit seeks a court order voiding the revocable permits and requiring preparation of an environmental assessment of the renewals. 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 streams 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 Water Commission’s denial to the Hawaii Intermediate Court of Appeals. On August 31, 2011, the Hawaii Intermediate Court of Appeals dismissed the petitioner’s appeal. On

November 29, 2011, the petitioner appealed the Hawaii Intermediate Court of Appeals' dismissal to the Hawaii Supreme Court. On January 11, 2012, the Hawaii Supreme Court vacated the Hawaii Intermediate Court of Appeals' dismissal of the petitioner's appeal and remanded the appeal back to the Intermediate Court of Appeals. On November 30, 2012, the Intermediate Court of Appeals remanded the case back to the Water Commission, ordering the Commission to grant the petitioner's request for a contested case hearing. On July 17, 2013, the Commission authorized the appointment of a hearings officer for the contested case hearing. On August 20, 2014, the Commission expanded the scope of the contested case hearing to encompass all 27 petitions for amendment of the IIFS for East Maui streams, including the eight petitions that the Commission previously acted upon in 2008. The evidentiary phase of the hearing before the Commission-appointed hearings officer was completed on April 2, 2015, and the final decision of the Commission is not expected until 2016.

Water loss that may result from the Water Commission's future decisions will impose challenges to the Company's sugar growing operations. Water loss will result in a combination of future suppression of sugar yields and negative financial impacts on the Company that will only be quantifiable over time. Accordingly, the Company is unable to predict, at this time, the total impact of the water proceedings.

On June 25, 2004, two organizations filed a petition with the Water Commission 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 14 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. On June 23, 2011, the case was transferred to the Hawaii Supreme Court. On August 15, 2012, the Hawaii Supreme Court overturned the Water Commission's decision and remanded the case to the Water Commission for further consideration in connection with the establishment of the IIFS. On April 4, 2014, the parties entered into a settlement on the amount of water to be returned to the four streams, and the Water Commission approved the settlement on April 17, 2014.

In January 2013, the Environmental Protection Agency ("EPA") finalized nationwide standards for controlling hazardous air pollutant emissions from industrial, commercial, institutional boilers and process heaters (the "Boiler MACT" rule), which apply to Hawaiian Commercial & Sugar Company's ("HC&S") three boilers at the Puunene Sugar Mill. Compliance with the Boiler MACT rule is required by January 2016. The Company anticipates that the Puunene Mill boilers will be able to meet the new emissions limits without significant modifications and that compliance costs will be less than $1 million, based on currently available information. The Company is currently developing strategies for achieving compliance with the new regulations, including identifying required upgrades to boiler and air pollution control instrumentation and developing the complex compliance monitoring approaches necessary to accommodate the facility's multi-fuel operations. There remains significant uncertainty as to the final requirements of the Boiler MACT rule, pending an EPA response to various petitions for reconsideration and ongoing litigation. Any resulting changes to the Boiler MACT rule could adversely impact the Company's compliance schedule or cost of compliance.

On June 24, 2014, the Hawaii State Department of Health ("DOH") Clean Air Branch issued a Notice and Finding of Violation and Order ("NFVO") to HC&S alleging various violations relating to the operation of HC&S's three boilers at its sugar mill. The DOH reviewed a five-year period (2009-2013) and alleged violations relating primarily to periods of excess visible emissions and operation of the wet scrubbers installed to control particulate matter emissions from the boiler stacks. All incidents were self-reported by HC&S to the DOH prior to the DOH's review, and there is no indication that these deviations resulted in any violation of health-based air quality standards. The NFVO includes an administrative penalty of $1.3 million, which HC&S has contested. The Company is unable to predict, at this time, the outcome or financial impact of the NFVO, but does not believe that the financial impact of the NFVO will be material to its financial position, cash flows or results of operations.

A&B is a party to, or may be contingently liable in connection with, other legal actions arising in the normal conduct of its businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on A&B's condensed consolidated financial statements as a whole.

(4) Earnings Per Share ("EPS"): The following table provides a reconciliation of income from continuing operations to income from continuing operations attributable to A&B (in millions):

	Quarter Ended March 31,	
	2015	2014
Income from continuing operations, net of tax	$25.9	$1.1
Noncontrolling interest	(0.6)	(0.4)
Income from continuing operations attributable to A&B shareholders, net of tax	$25.3	$0.7

The number of shares used to compute basic and diluted earnings per share is as follows (in millions):

	Quarter Ended March 31,	
	2015	2014
Denominator for basic EPS – weighted average shares	48.8	48.7
Effect of dilutive securities:		
Employee/director stock options and restricted stock units	0.5	0.5
Denominator for diluted EPS – weighted average shares	49.3	49.2

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, if any, that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include non-qualified stock options, time-based restricted stock units and performance share units. The vesting of performance share units is contingent upon the achievement of relative total shareholder return metrics. Prior to vesting, if all necessary conditions would have been satisfied by the end of the reporting period (as if the end of the reporting period were deemed to be the end of the performance measurement period), the dilutive effect of the performance share units, if any, is included in the computation of diluted EPS using the treasury stock method.

During the three month period ended March 31, 2015 and 2014, there were no anti-dilutive securities outstanding.

(5) Fair Value of Financial Instruments. The fair values of receivables and short-term borrowings approximate their carrying values due to the short-term nature of the instruments. The Company's cash and cash equivalents, consisting principally of cash on deposit, may from time to time include short-term money markets funds. The fair values of these money market funds, based on market prices (level 2), approximate their carrying values due to their short-maturities. The carrying amount and fair value of the Company's long-term debt at March 31, 2015 was $660.8 million and $681.5 million, respectively, and $706.0 million and $729.6 million at December 31, 2014, respectively. The fair value of long-term debt is calculated by discounting the future cash flows of the debt at rates based on instruments with similar risk, terms and maturities as compared to the Company's existing debt arrangements (level 2).

(6) Inventories. Sugar inventories are stated at the lower of cost (first-in, first-out basis) or market value. Materials and supplies and Materials and Construction segment inventory are stated at the lower of cost (principally average cost, first-in, first-out basis) or market value.

Inventories at March 31, 2015 and December 31, 2014 were as follows (in millions):

	March 31, 2015	December 31, 2014
Sugar inventories	$6.3	$23.3
Work in process - sugar	24.6	—
Asphalt	20.4	21.3
Processed rock, portland cement, and sand	14.6	15.7
Work in process	3.0	2.8
Retail merchandise	1.6	1.5
Parts, materials and supplies inventories	14.6	17.3
Total	$85.1	$81.9

(7) Share-Based Compensation. Under the 2012 Plan, which provides for grants of equity-based incentive compensation, 4.3 million shares of common stock were initially reserved for issuance, and as of March 31, 2015, 1,292,362 shares of the Company's common stock remained available for future issuance, which is reflective of a 2.7 million share reduction for outstanding equity awards replaced in the separation transaction from Matson, Inc. in 2012. The shares of common stock authorized to be issued under the 2012 Plan may be drawn from the shares of the Company's authorized but unissued common stock or from shares of its common stock that the Company acquires, including shares purchased on the open market or in private transactions.

Activity in the Company's stock option plans in 2015 was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

	2012 Plan	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2015	1,124.6	$18.84		
Exercised	(23.9)	$20.16		
Outstanding, March 31, 2015	1,100.7	$18.81	4.3	$26,600
Exercisable, March 31, 2015	1,100.7	$18.81	4.3	$26,600

The following table summarizes non-vested restricted stock unit activity through March 31, 2015 (in thousands, except weighted average grant-date fair value amounts):

	2012 Plan Restricted Stock Units	Weighted Average Grant-Date Fair Value
Outstanding, January 1, 2015	279.0	$33.76
Granted	109.5	$40.76
Vested	(111.6)	$32.34
Canceled	(0.3)	$39.59
Outstanding, March 31, 2015	276.6	$37.10

A portion of the restricted stock unit awards are time-based awards that vest ratably over three years. The remaining portion of the awards represents market-based awards that cliff vest after two or three years, provided that the total shareholder return of the Company's common stock over the relevant measurement period meets or exceeds pre-defined levels of relative total shareholder returns of the Standard & Poor's MidCap 400 index and the Russell 2000 index.

The fair value of the Company's time-based awards is determined using the Company's stock price on the date of grant. The fair value of the Company's market-based awards is estimated using the Company's stock price on

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the date of grant and the probability of vesting using a Monte Carlo simulation with the following weighted average assumptions:

	2015 Grants	2014 Grants
Volatility of A&B common stock	29.5%	25.4%
Average volatility of peer companies	34.2%	27.3%
Risk-free interest rate	0.7%	0.4%

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

	Quarter Ended March 31, 2015	2014
Share-based expense (net of estimated forfeitures):		
Stock options	$—	$0.2
Restricted stock units	1.2	1.0
Total share-based expense	1.2	1.2
Total recognized tax benefit	(0.3)	(0.3)
Share-based expense (net of tax)	$0.9	$0.9

(8) Discontinued Operations. In the first quarter of 2015, the Company sold a 46,500 square foot retail property in Colorado that was not classified as discontinued operations pursuant to Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). The Company sold a retail property on Maui whose revenues and expenses were classified as discontinued operations because the sale met the conditions for classification as discontinued operations for 2014.

The revenue, operating profit, income tax expense and after-tax effects of sales treated as discontinued operations were as follows (in millions):

	Quarter Ended March 31, 2015	2014
Proceeds from the sale of income-producing properties	$—	$70.1
Real estate leasing revenue	—	0.3
	$—	$70.4
Gain on sale of income-producing properties	$—	$55.9
Real estate leasing operating profit	—	0.3
Total operating profit before taxes	—	56.2
Income tax expense	—	21.9
Income from discontinued operations	$—	$34.3

(9) 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. In 2007, the Company changed the traditional defined benefit pension plan formula for new non-bargaining unit employees hired after January 1, 2008 and replaced it with a cash balance defined benefit pension plan formula. Subsequently, effective January 1, 2012, the Company froze the benefits under its traditional defined benefit plans for non-bargaining unit employees hired before January 1, 2008 and replaced the benefit with the same cash balance defined benefit pension plan formula provided to those employees hired after January 1, 2008. Retirement benefits under the cash balance pension plan formula are based on a fixed percentage of employee eligible

compensation, plus interest. The plan interest credit rate will vary from year-to-year based on the ten-year U.S. Treasury rate.

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 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 three months ended March 31, 2015 and 2014 were as follows (in millions):

	Pension Benefits		Post-retirement Benefits	
	2015	2014	2015	2014
Service cost	$0.8	$0.7	$—	$0.1
Interest cost	2.3	1.9	0.2	0.1
Expected return on plan assets	(2.7)	(2.7)	—	—
Amortization of prior service credit	(0.2)	(0.2)	—	—
Amortization of net loss	1.0	1.9	0.1	0.1
Net periodic benefit cost	$1.2	$1.6	$0.3	$0.3

(10) New Accounting Pronouncements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements.

(11) Accumulated Other Comprehensive Income. The changes in accumulated other comprehensive income by component for the three months ended March 31, 2015 were as follows (in millions, net of tax):

	Pension and Postretirement Plans Three Months Ended March 31, 2015
Beginning balance	$44.4
Amounts reclassified from accumulated other comprehensive income, net of tax	(0.5)
Ending balance	$43.9

The reclassifications of other comprehensive income components out of accumulated other comprehensive income for the three and three months ended March 31, 2015 and 2014 were as follows (in millions):

	Three Months Ended March 31,	
Details about Accumulated Other Comprehensive Income Components	2015	2014
Amortization of defined benefit pension items reclassified to net periodic pension cost:		
Net loss*	$1.1	1.9
Prior service credit*	(0.3)	(0.3)
Total before income tax	0.8	1.6
Income taxes	(0.3)	(0.6)
Other comprehensive income net of tax	$0.5	$1.0

* These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 9 for additional details).

(12) Income Taxes. The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are applied in the calculation of tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Deferred tax assets and deferred tax liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse. Adjustments may be required to deferred tax assets and deferred tax liabilities due to changes in tax laws and audit adjustments by tax authorities. To the extent adjustments are required in any given period, the adjustments would be included within the tax provision in the condensed consolidated statements of income or balance sheet.

On September 13, 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. Application of these provisions will require the Company to file a tax accounting method change with the IRS and record a cumulative adjustment.

The company is subject to taxation by the United States and various state and local jurisdictions. As of March 31, 2015, the Company's tax years 2012 and 2013 are open to examination by the tax authorities. In addition, tax years 2011 and 2012, for which the Company was included in the consolidated tax group with Matson, are open to examination by the tax authorities in the company's material jurisdictions. In addition, the 2010 tax year is also open to examination by California. The Company is not currently under examination by any tax authorities.

(13) Investment in Affiliates. At March 31, 2015, investments in affiliates consisted principally of equity investments in limited liability companies. The Company has the ability to exercise significant influence over the operating and financial policies of these investments and, accordingly, accounts for its investments using the equity method of accounting. The Company's operating results include its share of net earnings from its equity method investments. For the three months ended March 31, 2015, the financial results reported by a significant joint venture were $242.3 million for operating revenue and $32.2 million for operating income, income from continuing operations, and net income.

(14) Derivative Instruments. The Company is exposed to interest rate risk related to its floating rate debt. The Company balances its cost of debt and exposure to interest rates primarily through its mix of fixed and floating rate debt. From time to time, the Company may use interest rate swaps to manage its exposure to interest rate risk.

The Company measures its interest rate swaps at fair value. The fair values of the Company's interest rate swaps (Level 2) are determined based on discounted cash flow analysis, reflecting the terms of the contracts, and utilize observable inputs such as interest rates and yield curves.

As of March 31, 2015, the Company had a gross notional amount of $19.9 million related to interest rate swaps that were assumed in connection with 2013 acquisitions, in which the floating rates were swapped for fixed rates. The table below presents the fair value of derivative financial instruments, which are included in Other non-current liabilities in the condensed consolidated balance sheets (in millions):

	As of March 31, 2015	As of December 31, 2014
Interest rate swap liability - floating to fixed rate	$3.0	$2.9

The amount of expense the Company recorded in Interest income and other in the condensed consolidated statements of income for the change in the fair values of the interest rate swaps was not material in 2014 or 2015.

(15) Segment Results. Segment results for the three months ended March 31, 2015 and 2014 were as follows (in millions):

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Real Estate[1]:		
Leasing	$32.7	$31.2
Development and sales	36.5	71.0
Less amounts reported in discontinued operations	—	(70.4)
Materials and construction	56.9	50.1
Agribusiness	28.9	12.9
Reconciling item[2]	(4.3)	—
Total revenue	$150.7	$94.8
Operating Profit, Net Income:		
Real Estate[1]:		
Leasing	$13.2	$11.8
Development and sales	32.0	52.3
Less amounts reported in discontinued operations	—	(56.2)
Materials and construction	7.2	3.4
Agribusiness	1.9	3.0
Total operating profit	54.3	14.3
Interest expense	(7.1)	(7.2)
General corporate expenses	(5.6)	(5.2)
Reduction in KRS II carrying value	(0.1)	—
Income from continuing operations before income taxes	41.5	1.9
Income tax expense	15.6	0.8
Income from continuing operations	25.9	1.1
Income from discontinued operations (net of income taxes)	—	34.3
Net income	25.9	35.4
Income attributable to noncontrolling interest	(0.6)	(0.4)
Net income attributable to A&B	$25.3	$35.0

1 Prior year amounts recast for amounts treated as discontinued operations.

2 Represents the deduction of revenue from the sale of a 46,500 square foot retail property in Colorado that is classified as "Gain on sale of improved property" in the Condensed Consolidated Statements of Income, but reflected as revenue for segment reporting purposes.

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

The following analysis of the condensed 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 and the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission.

FORWARD-LOOKING STATEMENTS

Alexander & Baldwin, Inc. ("A&B" or 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 "Risk Factors" of the Company's 2014 Annual Report on Form 10-K and other filings with the SEC. 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.

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is a supplement to the accompanying condensed consolidated financial statements and provides additional information about A&B's business, recent developments, financial condition, liquidity and capital resources, cash flows, results of operations and how certain accounting principles, policies and estimates affect A&B's financial statements. MD&A is organized as follows:

- Business Overview: This section provides a general description of A&B's business, as well as recent developments that the Company believes are important in understanding its results of operations and financial condition or in understanding anticipated future trends.
- Consolidated Results of Operations: This section provides an analysis of A&B's consolidated results of operations for the three months ended March 31, 2015 and 2014.
- Analysis of Operating Revenue and Profit by Segment: This section provides an analysis of A&B's results of operations by business segment.
- Liquidity and Capital Resources: This section provides a discussion of A&B's financial condition and an analysis of A&B's cash flows for the three months ended March 31, 2015 and 2014, as well as a discussion of A&B's ability to fund its future commitments and ongoing operating activities through internal and external sources of capital.
- Outlook: This section provides a discussion of management's general outlook about the Hawaii economy and the Company's markets.

• Other Matters: This section provides a summary of other matters, such as officer and management changes.

BUSINESS OVERVIEW

Alexander & Baldwin, whose history in Hawaii dates back to 1870, is a corporation headquartered in Honolulu that conducts business in four operating segments—Real Estate Development and Sales; Real Estate Leasing; Agribusiness; and Materials and Construction.

Real Estate Development and Sales: The Real Estate Development and Sales segment generates its revenues through the investment in and development and sale of land and commercial and residential properties in Hawaii and through the sale of properties in the Company's Leasing portfolio.

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