ALEXANDER & BALDWIN INC
Form 10-Q
May 05, 2010

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, 2010

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 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 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 o 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, 2010: 41,114,184

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, 2010	Three Months Ended March 31, 2009
Revenue:		
Operating revenue	$ 345.0	$ 315.3
Costs and Expenses:		
Costs of goods sold, services and rentals	294.0	270.1
Selling, general and administrative	38.7	46.2
Operating costs and expenses	332.7	316.3
Operating Income (Loss)	12.3	(1.0)
Other Income and (Expense):		
Equity in losses of real estate affiliates	(0.7)	--
Gain on investment	0.7	--
Interest income	1.8	0.1
Interest expense	(6.5)	(5.6)
Income (Loss) Before Taxes	7.6	(6.5)
Income tax expense (benefit)	3.5	(2.4)
Income (Loss) From Continuing Operations	4.1	(4.1)
Income From Discontinued Operations (net of income taxes)	13.2	7.1
Net Income	$ 17.3	$ 3.0
Basic Earnings (Loss) Per Share:		
Continuing operations	$ 0.10	$ (0.10)
Discontinued operations	0.32	0.17
Net income	$ 0.42	$ 0.07
Diluted Earnings (Loss) Per Share:		
Continuing operations	$ 0.10	$ (0.10)
Discontinued operations	0.32	0.17
Net income	$ 0.42	$ 0.07
Weighted Average Number of Shares Outstanding:		
Basic	41.1	41.0
Diluted	41.3	41.0
Cash Dividends Per Share	$ 0.315	$ 0.315

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 20	$ 16
Accounts and notes receivable, net	172	172
Inventories	62	43
Real estate held for sale	6	36
Deferred income taxes	6	6
Section 1031 exchange proceeds	6	1
Prepaid expenses and other assets	28	33
Total current assets	300	307
Investments in Affiliates	260	242
Real Estate Developments	89	88
Property, at cost	2,743	2,715
Less accumulated depreciation and amortization	1,200	1,179
Property – net	1,543	1,536
Employee Benefit Plan Assets	4	3
Other Assets	223	204
Total	$ 2,419	$ 2,380
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	$ 36	$ 65
Accounts payable	123	132
Payroll and vacation benefits	19	18
Uninsured claims	11	9
Accrued and other liabilities	71	73
Total current liabilities	260	297
Long-term Liabilities:		
Long-term debt	468	406
Deferred income taxes	429	428
Employee benefit plans	119	116
Uninsured claims and other liabilities	49	48
Total long-term liabilities	1,065	998
Commitments and Contingencies (Note 3)		
Shareholders' Equity:		
Capital stock	34	33
Additional capital	211	210
Accumulated other comprehensive loss	(77)	(81)
Retained earnings	937	934
Cost of treasury stock	(11)	(11)
Total shareholders' equity	1,094	1,085
Total	$ 2,419	$ 2,380

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, 2010	Three Months Ended March 31, 2009
Cash Flows from Operating Activities	$ 5	$ 8
Cash Flows from Investing Activities:		
Capital expenditures	(8)	(16)
Proceeds from disposal of property and other assets	--	29
Deposits into Capital Construction Fund	(2)	(2)
Withdrawals from Capital Construction Fund	2	2
Increase in investments	(26)	(6)
Reduction in investments	12	1
Net cash provided by (used in) investing activities	(22)	8
Cash Flows from Financing Activities:		
Proceeds from issuances of long-term debt	73	195
Payments of long-term debt	(21)	(197)
Payments of short-term debt, net	(19)	(9)
Proceeds from issuances of capital stock, including excess tax benefit	1	(1)
Dividends paid	(13)	(13)
Net cash provided by (used) in financing activities	21	(25)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 4	$ (9)
Other Cash Flow Information:		
Interest paid	$ (8)	$ (6)
Other Non-cash Information:		
Depreciation and amortization expense	$ 26	$ 26
Tax-deferred property sales	$ 57	$ 19
Tax-deferred property purchases	$ (31)	$ (50)

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 Integrated Logistics ("MIL"), 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 and distribution services are provided by Matson Global Distribution Services, Inc. ("MGDS"), a wholly-owned subsidiary of MIL. MGDS'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, molasses, green coffee and roasted coffee; markets and distributes roasted coffee, green coffee and 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 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. HS&TC was consolidated with the Company's results beginning December 1, 2009.

(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 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, 2009.

(2) In June 2009, the FASB issued guidance to revise the approach to determine when a variable interest entity ("VIE") should be consolidated. The new consolidation model for VIEs considers whether the Company has the power to direct the activities that most significantly impact the VIE's economic performance and shares in the significant risks and rewards of the entity. The guidance on VIEs requires companies to continually reassess VIEs to determine if consolidation is appropriate and provide additional disclosures. The guidance is effective for the

Company in 2010. The adoption of the standard did not have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

(3) 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, 2009) at March 31, 2010, included the following (in millions):

Standby letters of credit	(a)	$10
Performance and customs bonds	(b)	$19
Benefit plan withdrawal obligations	(c)	$89

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. Additionally, the balance also includes a $2 million letter of credit for insurance-related matters for one of the Company's real estate projects.

(b) Consists of approximately $16 million in U.S. customs bonds, approximately $1 million in bonds related to real estate construction projects in Hawaii, and approximately $2 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. The Company previously recorded liabilities for three indemnities it provided in connection with surety bonds issued to cover construction activities, such as project amenities, roads, utilities, and other infrastructure, at three of its joint ventures. The recorded amounts of the 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.

Completion Guarantees: For certain real estate joint ventures, the Company may be required to perform work to complete construction if the joint venture fails to complete construction. These guarantees are intended to assure the joint venture's lender that the project will be completed as represented to the lender. The Company previously recorded liabilities for two completion guarantees it provided in connection with joint venture development projects. The recorded amounts of these liabilities were not material. The maximum potential amount of aggregate future payments related to the Company's completion guarantees is a function of the work agreed to be completed, reduced by the amount of work completed to date at the time of default by the joint venture.

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 years has supplied approximately two-thirds 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 divert stream waters from State lands in East Maui for its use, it would 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") amend 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. While the loss of the water as a result of the Water Commission's action on the eight petitions may not significantly impair the Company's sugar-growing operations, similar losses of water on the remaining 19 streams would have a material adverse effect on the Company's sugar-growing operations. In December 2009, the Water Commission conducted deliberations on the amendment of IIFS for the remaining 19 East Maui streams, but deferred action. The Commission is expected to issue a decision by mid 2010. The Company, at this time, is unable to determine what action the Water Commission will take with respect to all 27 streams.

On June 25, 2004, two organizations filed with the Water Commission a petition to amend IIFS for four streams in West Maui to increase the amount of water to be returned to these streams. The West Maui irrigation system provides approximately one-sixth of the irrigation water used by HC&S. The Water Commission's deliberations on whether to amend the current IIFS for the West Maui streams are currently ongoing, and a decision that results in a quantity of water being returned to the streams, rather than being utilized for irrigation purposes, may have a material adverse effect on the Company's sugar-growing operations. A decision by the Water Commission is expected in mid 2010.

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 was initiated in 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. The court granted the plaintiffs leave to amend the complaint by May 10, 2010 to allege claims consistent with the court's order. If the plaintiffs file an amended complaint, 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 June 2006, Matson and its Long Beach terminal operator, SSAT LLC, completed negotiations of an amendment to the Preferential Assignment Agreement with the City of Long Beach that includes changes requested by Matson to implement its new China Service as well as environmental covenants applicable to vessels which call at Pier C. The environmental requirements are part of programs proposed by both the ports of Los Angeles and Long Beach designed to reduce airborne emissions in the port area. Under the amendment, Matson is required to install equipment on all its motor vessels to allow them to accept a shore-based electrical power source instead of using the vessel's diesel generators while in port ("cold ironing") and to phase out calls by its steamships by 2020. In December 2008, the Office of Administrative Law approved regulations put forth by the California Air Resources Board ("CARB") which mandate cold ironing of diesel powered container ships at major ports starting in 2014. The CARB regulations put the responsibility for shoreside electrical infrastructure on the terminal operator. Matson's lease agreement commits the Port of Long Beach to providing the shoreside infrastructure and construction commenced in 2009 and is expected to be completed in 2010. However, the Port of Oakland has not yet made a commitment to provide the required infrastructure at the Company's Oakland terminal and therefore, SSAT may be held responsible for this cost. SSAT submitted the required terminal plan to CARB on July 1, 2009, but the plan has not yet been approved. The cost of the required infrastructure improvements has not been estimated. The modifications to Matson's vessels to accommodate cold ironing will occur at each of their next scheduled out–of-water drydockings. Two vessels have been retrofitted through 2009 and one is scheduled for 2010. The estimated costs of the modifications are projected at $13.7 million for the eight motor vessels including design and engineering costs, and the cost for vessel stepdown transformers to accommodate the power provided at the dock. The costs of the modifications are recorded as capital assets because they provide future economic benefits.

The Company is subject to possible climate change legislation, regulation and international accords. Numerous 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. If enacted, these 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 addition to the above matters, the Company and certain subsidiaries are parties to various other legal actions and are contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which, in the opinion of management after consultation with legal counsel, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

(4) Earnings Per Share ("EPS"): The number of shares used to compute basic and diluted earnings per share is as follows (in millions):

	Quarter Ended March 31,	
	2010	2009
Denominator for basic EPS - weighted average shares	41.1	41.0
Effect of dilutive securities:		
Employee/director stock options, non-vested common stock, and restricted stock units	0.2	--
Denominator for diluted EPS - weighted average shares	41.3	41.0

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, non-vested common stock, and restricted stock units.

The computation of weighted average dilutive shares outstanding excluded non-qualified stock options to purchase 1.5 million and 2.3 million shares of common stock during the quarters ended March 31, 2010 and 2009, 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.

(5) Share-Based Compensation: On January 27, 2010, the Company granted non-qualified stock options to purchase 422,156 shares of the Company's common stock. The grant-date fair value of each stock option granted using the Black-Scholes-Merton option pricing model, was $6.60 using the following weighted average assumptions: volatility of 28.8%, risk-free interest rate of 2.7%, dividend yield of 3.8%, and expected term of 5.8 years.

Activity in the Company's stock option plans for the first quarter of 2010 was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

		Predecessor Plans					
	2007 Plan	1998 Employee Plan	1998 Directors' Plan	Total Shares	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2010	958	1,291	196	2,445	$36.80		
Granted	422	--	--	422	$33.02		
Exercised	--	(46)	(6)	(52)	$25.68		
Forfeited and expired	(2)	--	--	(2)	$46.64		
Outstanding, March 31, 2010	1,378	1,245	190	2,813	$36.43	6.0	$7,406