

Matson, Inc.  
Form 10-Q  
November 08, 2016  
Table of Contents

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 September 30, 2016

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 001-34187

Matson, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: Matson, Inc. - Form 10-Q

Hawaii (State or other jurisdiction of incorporation or organization)	99-0032630 (I.R.S. Employer Identification No.)
1411 Sand Island Parkway Honolulu, HI	96819
(Address of principal executive offices)	(Zip Code)

(808) 848-1211

(Registrant's telephone number, including area code)

Not Applicable

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

Large accelerated filer

Accelerated filer

Edgar Filing: Matson, Inc. - Form 10-Q

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 September 30, 2016: 42,840,461

---

Table of Contents

MATSON, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
<u>Part I—FINANCIAL INFORMATION</u>	1
<u>Item 1.</u> <u>Financial Statements (Unaudited) Condensed Consolidated Statements of Income and Comprehensive Income Condensed Consolidated Balance Sheets Condensed Consolidated Statements of Cash Flows Notes to Condensed Consolidated Financial Statements</u>	1
	1
	2
	3
	4
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
<u>Item 4.</u> <u>Controls and Procedures</u>	24
<u>Part II—OTHER INFORMATION</u>	25

<u>Item 1.</u>	<u>Legal</u>	
	<u>Proceedings</u>	25
<u>Item 1A.</u>	<u>Risk Factors</u>	25
<u>Item 2.</u>	<u>Unregistered</u>	
	<u>Sales of Equity</u>	
	<u>Securities and</u>	
	<u>Use of Proceeds</u>	25
<u>Item 3.</u>	<u>Defaults Upon</u>	
	<u>Senior</u>	
	<u>Securities</u>	26
<u>Item 4.</u>	<u>Mine Safety</u>	
	<u>Disclosures</u>	26
<u>Item 5.</u>	<u>Other</u>	
	<u>Information</u>	26
<u>Item 6.</u>	<u>Exhibits</u>	26
	<u>Signatures</u>	27

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## MATSON, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income and Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenue:				
Ocean Transportation	\$ 398.0	\$ 444.8	\$ 1,135.0	\$ 1,097.0
Logistics	102.4	99.5	287.3	293.1
Total Operating Revenue	500.4	544.3	1,422.3	1,390.1
Costs and Expenses:				
Operating costs	411.4	424.8	1,177.7	1,107.5
Equity in income of related party Terminal Joint Venture	(3.6)	(4.5)	(9.2)	(13.1)
Selling, general and administrative	46.4	52.2	136.9	145.3
Total Costs and Expenses	454.2	472.5	1,305.4	1,239.7
Operating Income	46.2	71.8	116.9	150.4
Interest expense	(6.0)	(4.7)	(17.4)	(13.6)
Income before Income Taxes	40.2	67.1	99.5	136.8
Income tax expense	(15.2)	(25.6)	(38.4)	(60.4)
Net Income	\$ 25.0	\$ 41.5	\$ 61.1	\$ 76.4
Other Comprehensive Income (Loss), Net of Income Taxes:				
Net Income	\$ 25.0	\$ 41.5	\$ 61.1	\$ 76.4
Other Comprehensive Income (Loss):				
Net gain (loss) in prior service cost	—	—	0.7	(0.2)
Amortization of prior service cost included in net periodic pension cost	(0.3)	(0.4)	(0.9)	(1.0)
Amortization of net loss included in net periodic pension cost	0.9	1.1	3.0	3.4
Foreign currency translation and other adjustments	0.6	0.9	0.5	1.6
Total Other Comprehensive Income	1.2	1.6	3.3	3.8
Comprehensive Income	\$ 26.2	\$ 43.1	\$ 64.4	\$ 80.2

Edgar Filing: Matson, Inc. - Form 10-Q

Basic Earnings Per-Share:	\$ 0.58	\$ 0.95	\$ 1.42	\$ 1.76
Diluted Earnings Per-Share:	\$ 0.58	\$ 0.94	\$ 1.40	\$ 1.74
Weighted Average Number of Shares Outstanding:				
Basic	42.8	43.5	43.1	43.5
Diluted	43.2	44.0	43.5	44.0
Cash Dividends Per-Share	\$ 0.19	\$ 0.18	\$ 0.55	\$ 0.52

See Notes to Condensed Consolidated Financial Statements.

1

---

Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In millions) (Unaudited)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 16.4	\$ 25.5
Accounts receivable, net	225.6	214.3
Prepaid expenses and other assets	68.4	38.1
Total current assets	310.4	277.9
Long-term Assets:		
Investment in related party Terminal Joint Venture	75.8	66.4
Property and equipment, net	908.1	860.3
Goodwill	324.1	241.6
Intangible assets, net	239.1	139.1
Capital Construction Fund - cash on deposit	110.9	—
Deferred dry-docking costs	76.6	57.6
Other long-term assets	28.1	26.9
Total assets	\$ 2,073.1	\$ 1,669.8
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of debt	\$ 26.3	\$ 22.0
Accounts payable	180.7	164.9
Payroll and vacation liabilities	23.9	23.1
Uninsured liabilities	20.0	27.1
Accrued and other liabilities	39.3	60.5
Total current liabilities	290.2	297.6
Long-term Liabilities:		
Long-term debt	786.1	407.9
Deferred income taxes	335.2	310.5
Employee benefit plans	103.4	109.3
Uninsured and other liabilities	38.5	37.7
Multi-employer withdrawal liabilities	60.5	56.2
Total long-term liabilities	1,323.7	921.6
Commitments and Contingencies (Note 2)		
Shareholders' Equity:		
Capital stock	32.1	32.6
Additional paid in capital	286.0	287.9
Accumulated other comprehensive loss	(43.6)	(46.9)
Retained earnings	184.7	177.0
Total shareholders' equity	459.2	450.6

Edgar Filing: Matson, Inc. - Form 10-Q

Total liabilities and shareholders' equity	\$ 2,073.1	\$ 1,669.8
--	------------	------------

See Notes to Condensed Consolidated Financial Statements.

2

---

Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(In millions) (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$ 61.1	\$ 76.4
Reconciling adjustments:		
Depreciation and amortization	71.8	59.1
Deferred income taxes	24.7	31.9
Share-based compensation expense	9.2	9.6
Equity in income of related party Terminal Joint Venture	(9.2)	(13.1)
Distribution from Terminal Joint Venture	—	8.8
Other	2.4	1.4
Changes in assets and liabilities:		
Accounts receivable	(0.1)	(11.6)
Deferred dry-docking payments	(43.7)	(14.0)
Deferred dry-docking amortization	27.8	16.8
Prepaid expenses and other assets	(34.6)	(15.2)
Accounts payable and accrued liabilities	10.7	(2.1)
Other liabilities	(32.6)	11.0
Net cash provided by operating activities	87.5	159.0
Cash Flows From Investing Activities:		
Capital expenditures	(67.3)	(30.3)
Capitalized vessel construction expenditures	(39.2)	—
Proceeds from disposal of property and equipment	2.2	4.7
Cash deposits into Capital Construction Fund	(123.4)	(77.9)
Withdrawals from Capital Construction Fund	12.5	93.7
Payments for membership interests in Span Alaska, net of cash acquired	(112.8)	—
Payments for Horizon's common stock, net of cash acquired, and other acquisitions	—	(29.0)
Net cash used in investing activities	(328.0)	(38.8)
Cash Flows From Financing Activities:		
Repayments of debt and capital leases	(13.7)	(13.4)
Proceeds from revolving credit facility	1,275.0	557.0
Repayments of revolving credit facility	(1,080.0)	(439.0)
Payments of financing costs	—	(0.9)
Proceeds from issuance of debt	200.0	—
Repayments of Span Alaska debt	(81.9)	—
Repayments of Horizon debt and redemption of warrants	—	(467.5)
Proceeds from issuance of capital stock	0.6	1.4

Edgar Filing: Matson, Inc. - Form 10-Q

Tax withholding related to net share settlements of restricted stock units	(6.8)	(2.9)
Dividends paid	(24.0)	(22.8)
Payments for shares repurchased	(37.8)	—
Net cash provided by (used in) financing activities	231.4	(388.1)
Net Decrease in Cash and Cash Equivalents	(9.1)	(267.9)
Cash and cash equivalents, beginning of the period	25.5	293.4
Cash and cash equivalents, end of the period	\$ 16.4	\$ 25.5
Supplemental Cash Flow Information:		
Interest paid, net of capitalized interest	\$ 15.7	\$ 13.2
Income tax paid	\$ 16.2	\$ 34.2
Non-cash Information:		
Capital expenditures included in accounts payable and accrued liabilities	\$ 12.6	\$ 6.1
Capital lease obligations	\$ —	\$ 1.7

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

MATSON, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF THE BUSINESS

Matson, Inc., a holding company incorporated in January 2012 in the State of Hawaii, and its subsidiaries (“Matson” or the “Company”), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics:

**Ocean Transportation:** Matson’s Ocean Transportation business is conducted through Matson Navigation Company, Inc. (“MatNav”), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav is an asset-based business that provides a vital lifeline of ocean freight transportation services to the domestic offshore economies of Hawaii, Alaska, and Guam, and to other island economies including Micronesia and various islands in the South Pacific. MatNav also operates a premium, expedited service from China to Long Beach, California. In addition, subsidiaries of MatNav provide container stevedoring, container equipment maintenance and other terminal services for MatNav and other ocean carriers on the Hawaiian islands of Oahu, Hawaii, Maui and Kauai, and in the Alaska locations of Anchorage, Kodiak, Dutch Harbor and Akutan. The Company's fleet of 22 owned vessels includes containerships, combination container and roll-on/roll-off ships and custom-designed barges.

The Company has a 35 percent ownership interest in SSA Terminals, LLC (“SSAT”), a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc., a subsidiary of Carrix, Inc. SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the West Coast of the United States of America (“U.S.”), including to MatNav at several of those facilities. Matson records its share of income or loss in the joint venture in operating costs in the Condensed Consolidated Statements of Income and Comprehensive Income, and within the Ocean Transportation segment due to the nature of SSAT’s operations.

**Logistics:** The Company’s logistics business is conducted through Matson Logistics, Inc. (“Matson Logistics”), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides multimodal transportation services, including domestic and international rail intermodal service (“Intermodal”); long-haul and regional highway brokerage, specialized hauling, flat-bed and project services, less-than-truckload services, and expedited freight services (collectively “Highway”); less-than-container load consolidation and freight forwarding services (collectively “Freight Forwarding”); supply chain management; and warehousing and distribution services.

On August 4, 2016, Matson Logistics completed the purchase of 100 percent of the membership interests of Span Intermediate, LLC (“Span Alaska”), a Freight Forwarding business (see Note 3, Business Combinations).

## 2. GENERAL AND SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The Condensed Consolidated Financial Statements are unaudited. The consolidated financial statements include the accounts of Matson, Inc. and all wholly-owned subsidiaries, after elimination of significant intercompany revenues, and costs and expenses. Significant investments in businesses, partnerships, and limited liability companies in which the Company does not have a controlling financial interest, but has the ability to exercise significant influence, are accounted for under the equity method. A controlling financial interest is one in which the Company has a majority voting interest or one in which the Company is the primary beneficiary of a variable interest entity.

Due to the nature of the Company’s operations and the Company’s acquisition of Horizon Lines, Inc. (“Horizon”) on May 29, 2015, and Span Alaska on August 4, 2016, the results for interim periods are not necessarily indicative of results to be expected for the year. 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 periods, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The 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, 2015, filed with the Securities and Exchange Commission (“SEC”) on February 26, 2016.

Table of Contents

The Condensed Consolidated Statements of Income and Comprehensive Income include the operations of Horizon from May 29, 2015, and Span Alaska from August 4, 2016.

Fiscal Period: The period end for Matson, Inc. covered by this report is September 30, 2016. The period end for MatNav and its subsidiaries covered by this report occurred on the last Friday in September, or September 23, 2016.

Significant Accounting Policies: The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015.

Property and Equipment: Property and equipment was \$908.1 million and \$860.3 million at September 30, 2016 and December 31, 2015, and is recorded net of accumulated depreciation of \$1,183.8 million and \$1,128.6 million, respectively. Property and equipment includes vessel construction expenditures of \$67.3 million and \$29.2 million, and capitalized interest of \$1.9 million and \$0.8 million at September 30, 2016 and December 31, 2015, respectively.

Goodwill: Changes in the Company's goodwill for the three and nine months ended September 30, 2016 and 2015 consist of the following (in millions):

	Goodwill		Total
	Ocean	Logistics	
Balance at December 31, 2015	\$ 215.0	\$ 26.6	\$ 241.6
Additions	—	—	—
Balance at March 31, 2016	215.0	26.6	241.6
Additions	3.5	—	3.5
Balance at June 30, 2016	218.5	26.6	245.1
Additions	—	79.0	79.0
Balance at September 30, 2016	\$ 218.5	\$ 105.6	\$ 324.1

	Goodwill		Total
	Ocean	Logistics	
Balance at December 31, 2014	\$ 0.8	\$ 26.6	\$ 27.4
Additions	—	—	—
Balance at March 31, 2015	0.8	26.6	27.4
Additions	219.7	—	219.7
Balance at June 30, 2015	220.5	26.6	247.1
Additions	1.2	—	1.2
Balance at September 30, 2015	\$ 221.7	\$ 26.6	\$ 248.3

Edgar Filing: Matson, Inc. - Form 10-Q

Additions to Ocean Transportation goodwill for the three and nine months ended September 30, 2016 and 2015, relate to the Horizon acquisition, and additions to Logistics goodwill for the three and nine months ended September 30, 2016, relate to the Span Alaska acquisition (see Note 3, Business Combinations).

Intangible Assets, Net: Intangible assets were \$239.1 million and \$139.1 million at September 30, 2016 and December 31, 2015, and were recorded net of accumulated amortization of \$18.5 million and \$12.3 million, respectively.

Table of Contents

Capital Construction Fund: The Company's Capital Construction Fund ("CCF") is described in Note 7 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015. As of September 30, 2016 and December 31, 2015, the Company had \$110.9 million and nominal amounts on deposit in the CCF, respectively. These amounts are held in a money market account and classified as long-term assets in the Company's Condensed Consolidated Balance Sheets, as the Company intends to use qualified cash withdrawals to fund long-term investment in the construction of new vessels.

During the three months ended September 30, 2016, the Company made cash deposits of \$110.8 million into the CCF. During the nine months ended September 30, 2016, the Company made cash deposits of \$123.4 million into the CCF. Additionally, \$12.5 million of qualified cash withdrawal was made from the CCF during the nine months ended September 30, 2016. On October 21, 2016, the Company withdrew \$32.5 million from the CCF and paid a scheduled progress payment associated with the construction of the new vessels.

As of September 30, 2016 and December 31, 2015, \$165.1 million and \$176.6 million, respectively, of eligible accounts receivable were assigned to the CCF. Due to the nature of the assignment of eligible accounts receivable into the CCF, such assigned amounts are classified as part of accounts receivable in the Condensed Consolidated Balance Sheets.

Accumulated Other Comprehensive Loss: Changes in accumulated other comprehensive loss by component, net of tax, for the three and nine months ended September 30, 2016 and 2015 are as follows (in millions):

		Post	Non- Qualified	Foreign Currency	Interest	Accumulated Other Comprehensive Income (Loss)
	Pensions	Retirement	Plans	Transaction	Hedge	
Balance at December 31, 2015	\$ (41.7)	\$ (4.7)	\$ (0.9)	\$ 1.0	\$ (0.6)	\$ (46.9)
Net gain in prior service costs	—	0.7	—	—	—	0.7
Amortization of prior service cost	(0.4)	—	—	—	—	(0.4)
Amortization of net loss	0.8	0.2	0.1	—	—	1.1
Foreign currency translation adjustment	—	—	—	(0.1)	—	(0.1)
Balance at March 31, 2016	(41.3)	(3.8)	(0.8)	0.9	(0.6)	(45.6)
Amortization of prior service cost	(0.3)	—	0.1	—	—	(0.2)
Amortization of net loss	0.8	0.2	—	—	—	1.0
Balance at June 30, 2016	(40.8)	(3.6)	(0.7)	0.9	(0.6)	(44.8)
Amortization of prior service cost	(0.3)	—	—	—	—	(0.3)
Amortization of net loss	0.8	0.2	(0.1)	—	—	0.9
	—	—	—	0.6	—	0.6

Edgar Filing: Matson, Inc. - Form 10-Q

Foreign currency translation  
adjustment

Balance at September 30, 2016	\$ (40.3)	\$ (3.4)	\$ (0.8)	\$ 1.5	\$ (0.6)	\$ (43.6)
		Post	Non- Qualified	Foreign Currency	Interest	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2014	\$ (45.0)	Retirement	Plans	Transaction	Hedge	\$ (53.3)
Net loss in prior service costs	(0.2)	\$ (7.2)	\$ (0.7)	\$ 0.3	\$ (0.7)	(0.2)
Amortization of prior service cost	(0.4)	—	—	—	—	(0.4)
Amortization of net loss	1.0	0.4	—	—	—	1.4
Foreign currency translation adjustment	—	—	—	0.1	—	0.1
Balance at March 31, 2015	(44.6)	(6.8)	(0.7)	0.4	(0.7)	(52.4)
Amortization of prior service cost	(0.2)	0.1	(0.1)	—	—	(0.2)
Amortization of net loss	0.9	0.2	(0.2)	—	—	0.9
Foreign currency translation adjustment	—	—	—	0.6	—	0.6
Balance at June 30, 2015	(43.9)	(6.5)	(1.0)	1.0	(0.7)	(51.1)
Amortization of prior service cost	(0.4)	—	—	—	—	(0.4)
Amortization of net loss	1.0	0.1	—	—	—	1.1
Foreign currency translation adjustment	—	—	—	0.8	—	0.8
Other	—	—	—	—	0.1	0.1
Balance at September 30, 2015	\$ (43.3)	\$ (6.4)	\$ (1.0)	\$ 1.8	\$ (0.6)	\$ (49.5)

Table of Contents

Contingencies: Environmental Matters: In September 2013, molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company. The Company cooperated with federal and state agencies involved in responding to and investigating the incident. The Hawaii Department of Health reported on September 20, 2013 that dissolved oxygen and pH levels in the harbor and nearby Keehi Lagoon had returned to normal target levels and that there was no longer discoloration of the water in those same areas attributable to the molasses release. Keehi Lagoon was reopened to the public on September 21, 2013.

The Company previously resolved all federal criminal claims, and all criminal, civil and administrative claims that the State of Hawaii may have had arising from the molasses release. On October 13, 2016, the United States Department of Justice delivered a letter to Company counsel stating that it is prepared to file a civil penalty action under the Clean Water Act but would be willing to discuss a potential resolution of those claims prior to filing an action. The Company believes it has defenses against those claims.

In addition to the molasses release discussed above, the Company's ocean transportation business has certain other risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

Other Matters: The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company's financial condition, results of operations, or cash flows.

Subsequent Event: On October 27, 2016, the Company entered into a private placement commitment letter under which it expects to issue \$75 million of 11-year senior unsecured notes (the "11-year Notes") within 90 days, subject to entering into definitive documentation and satisfying other customary closing conditions. The 11-year Notes are expected to have a weighted average life of approximately 8 years, a fixed interest rate of 3.37 percent, and financial and other covenants that are substantially the same as the covenants in the Company's existing outstanding senior unsecured notes. Proceeds of the 11-year Notes are expected to be used to pay down the Company's revolving credit facility and for general corporate purposes.

New Accounting Pronouncements: Leases: In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires lessees to record most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments, and a right-of-use asset for the underlying leased asset for the period of the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company is in the process of evaluating this guidance.

Share-Based Awards: In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. Early adoption is permitted. The Company is in the process of evaluating this guidance.

### 3. BUSINESS COMBINATION

Span Alaska Acquisition: On August 4, 2016 (the "Effective Date"), Matson Logistics completed the purchase of 100 percent of the membership interests of Span Alaska pursuant to the terms of the Membership Interest Purchase Agreement, dated July 18, 2016. At the Effective Date, Span Alaska became a wholly-owned subsidiary of Matson Logistics. Span Alaska is an asset-light logistics company providing freight forwarding services primarily to the Alaska market. Span Alaska consolidates freight in Auburn, Washington, for shipment to Alaska and distribution through a network of terminals in Anchorage, Fairbanks, Wasilla, Kenai, Juneau and Kodiak. Span Alaska's operations are recorded within the Logistics segment of the Company.

Table of Contents

Total consideration paid by the Company on the Effective Date for the membership interests in Span Alaska including the repayment of Span Alaska's debt and accrued interest, is as follows:

(in millions)	Total Consideration
Membership interests in Span Alaska	\$ 117.2
Span Alaska's debt (including accrued interest)	81.9
Total	\$ 199.1

The Span Alaska acquisition was accounted for as a business combination in accordance with ASC 805. The assets acquired and liabilities assumed in the Span Alaska acquisition were recorded based on fair value estimates as of the Effective Date, with the remaining unallocated purchase price recorded as goodwill. Such fair value estimates require significant judgement, and include estimates used in the valuation of property and equipment, and intangible assets. The Company's fair value estimates are subject to revision pending the Company's final fair value analysis and purchase price calculations. Final estimates of fair value may be significantly different from those reflected in the Company's Condensed Consolidated Financial Statements as of September 30, 2016.

The following table summarizes the preliminary fair values assigned to Span Alaska's assets acquired and liabilities assumed at the Effective Date:

Purchase Price Allocation (in millions)	Total
Cash and cash equivalents	\$ 4.4
Accounts receivable	11.1
Other current and long-term assets	1.0
Property and equipment	8.1
Intangibles – Customer relationships	79.0
Intangibles – Trade name	27.3
Accounts payable	(3.3)
Accruals and other current liabilities	(6.3)
Capital lease obligations	(1.2)
Span Alaska's debt	(81.9)
Total identifiable assets less liabilities	38.2
Total consideration for membership interests in Span Alaska	(117.2)
Goodwill	\$ 79.0

Property and equipment: Property and equipment of \$8.1 million includes the fair value of terminal and transportation equipment (trucks, forklifts, trailers, containers and other warehouse equipment), leasehold improvements and other office equipment.

Intangibles - The customer relationships and trade name intangible assets were recorded using preliminary information obtained from valuation specialists engaged by the Company to assist management with estimating the fair value of these intangible assets.

Customer relationships: Intangibles of \$79.0 million related to customer relationships which are being amortized over 20 years. In determining the amortization period, the Company considered the historical trends of Span Alaska's customers and related attrition rates. The Company also considered potential future attrition risks, existing competition, the costs associated with establishing a Freight Forwarding business including the need to develop a broad base of customer relationships over a period of time. Furthermore, the Company considered existing relationships with ocean transportation service providers in Alaska, and the potential impact on competition. As a result, the Company believes that Span Alaska's customers are considered less vulnerable to attrition.

Trade name: Intangibles of \$27.3 million related to the Span Alaska trade name, which was determined to have an indefinite life. Span Alaska has operated for a period in excess of 38 years, and its trade name is widely known in Alaska for high quality and reliable Freight Forwarding services. The Span Alaska operations will continue to be operated under the Span Alaska trade name, independent of Matson's ocean transportation operation in Alaska.

Span Alaska's debt: The Company repaid all of Span Alaska's debt including accrued interest of \$81.9 million, as of the Effective Date.

Table of Contents

Goodwill: The Company recorded goodwill of \$79.0 million from the Span Acquisition, which represents the excess of the fair value of consideration paid by the Company over the fair value of the underlying identifiable assets acquired and liabilities assumed. In accordance with Accounting Standards Codification (ASC) 805, Business Combination (“ASC 805”), goodwill will not be amortized, but instead will be tested for impairment at least annually, or whenever events or circumstances have occurred that may indicate a possible impairment.

Goodwill arises as a result of several factors: (i) The Span Alaska acquisition significantly expands Matson’s Logistics’ platform and Matson’s long-term commitment into the Alaska market; (ii) Span Alaska is a leading freight forwarding business and continues to be led by an experienced management team and assembled workforce with knowledge of the Alaska industry and of its customers; and (iii) the additional growth potential of Span Alaska.

The Company's Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2016 include operating revenue of \$8.5 million (after elimination of intercompany revenue), and operating income of \$1.3 million, respectively, from Span Alaska’s operations. One-time acquisition related costs of approximately \$2.9 million incurred as a result of the Span Alaska acquisition, is included in selling, general and administrative costs in the Consolidated Statements of Income and Comprehensive Income.

Horizon Acquisition: On May 29, 2015, Matson completed its acquisition of Horizon whereby MatNav acquired Horizon’s Alaska operations and assumed all of Horizon’s non-Hawaii assets and liabilities (the “Horizon Acquisition”). Immediately before the completion of the Horizon Acquisition, Horizon sold certain of its subsidiaries to the Pasha Group (the “Pasha Transaction”) that: (i) conducted Horizon’s Hawaii operations (including owning the assets used to conduct such Hawaii operations and being responsible for the liabilities related thereto), and (ii) employed the Horizon employees who conducted its Hawaii operations. Horizon also completed the termination of its Puerto Rico operations during the first quarter of 2015. The Alaska operations are recorded within the Ocean Transportation segment of the Company.

Total consideration for the Horizon Acquisition was \$495.4 million based on the fair value of common shares of \$29.4 million, warrants of \$37.1 million, and Horizon’s debt including accrued interest and breakage fees of \$428.9 million. Immediately following the close of the Horizon Acquisition, the Company repaid the assumed debt and redeemed all of Horizon’s outstanding warrants.

The Horizon Acquisition was accounted for as a business combination in accordance with ASC 805. Assets acquired and liabilities assumed were recorded at estimated fair value at May 29, 2015, with the remaining unallocated purchase price of \$217.7 million recorded as goodwill. As of June 30, 2016, the purchase price accounting for the Horizon Acquisition was considered final.

The Company's Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2016 include operating revenue of \$74.0 million and \$208.2 million, and operating income of \$11.3 million and \$21.6 million, respectively, from Horizon's operations. One-time acquisition related costs incurred post December 31, 2015 were not material.

Table of Contents

Pro Forma Financial Information (Unaudited): The following unaudited pro forma financial information presents the combined operating results of the Company, and those of Horizon (excluding its Hawaii operations) and Span Alaska, as if the Horizon and Span Alaska acquisitions had been completed at the beginning of each period presented below. The unaudited pro forma financial information includes the accounting effects of the business combination, including the amortization of intangible assets, depreciation of property and equipment, and interest expense. Unaudited pro forma operating revenue is presented after elimination of intercompany revenue.

The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the result of operations that would have been achieved if the Horizon and Span Alaska acquisitions had taken place at the beginning of the periods presented, nor should it be taken as an indication of our future consolidated results of operations.

(in millions, except per-share amount)	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2016	2015	2016	2015
Pro Forma Combined:				
Operating revenue	\$ 507.0	\$ 559.1	\$ 1,457.5	\$ 1,569.5
Net income	\$ 28.2	\$ 38.3	\$ 67.7	\$ 68.9
Basic Earnings Per-Share:	\$ 0.66	\$ 0.88	\$ 1.57	\$ 1.58
Diluted Earnings Per-Share:	\$ 0.66	\$ 0.87	\$ 1.56	\$ 1.57
Weighted-Average Number of Shares Outstanding:				
Basic	42.8	43.5	43.1	43.5
Diluted	43.2	44.0	43.5	44.0

## 4. DEBT

At September 30, 2016 and December 31, 2015, the Company's debt consisted of the following (in millions):

	September 30, 2016	December 31, 2015
Term Loans:		
5.79 %, payable through 2020	\$ 28.0	\$ 31.5

Edgar Filing: Matson, Inc. - Form 10-Q

3.66 %, payable through 2023	63.8	68.4
4.16 %, payable through 2027	55.0	55.0
4.31 %, payable through 2032	37.5	37.5
3.14 %, payable through 2031	200.0	—
4.35 %, payable through 2044	100.0	100.0
3.92 %, payable through 2045	75.0	75.0
Title XI Bonds:		
5.34 %, payable through 2028	26.4	28.6
5.27 %, payable through 2029	28.6	30.8
Revolving credit facility	195.0	—
Capital leases	3.1	3.1
Total Debt	812.4	429.9
Less: Current portion	(26.3)	(22.0)
Total Long-term Debt	\$ 786.1	\$ 407.9

The Company's debt is described in Note 8 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015.

Term Loans: On September 14, 2016, the Company entered into an amended and restated private placement note purchase agreement (the "2016 Note Purchase Agreement"), pursuant to which Matson issued \$200.0 million in 15-year final maturity senior unsecured notes (the "Series D Notes"). The Series D Notes have a weighted average life of

Table of Contents

approximately 8.5 years and bear interest at a rate of 3.14 percent, payable semi-annually. Proceeds from the Series D Notes were used to pay down the Company's revolving credit facility and for general corporate purposes.

The Series D Notes will begin to amortize in March 2019, with semi-annual principal payments of \$6.0 million in 2019. During the years 2020 to 2023, the semi-annual principal payments will be \$9.2 million. Starting in March 2024, and in each year thereafter through maturity in September 2031, the semi-annual principal payments will be \$7.15 million.

The 2016 Note Purchase Agreement amends and restates Matson's Second Amended and Restated Note Agreement dated as of June 4, 2012, as amended prior to the date hereof, under which, in addition to the Series D Notes, an aggregate principal amount of approximately \$184.3 million in Matson's existing Series B and C senior unsecured notes is outstanding as of the date hereof. The 2016 Note Purchase Agreement also includes an uncommitted shelf facility pursuant to which Matson may, subject to the conditions and limitations specified in the 2016 Note Purchase Agreement, issue additional notes.

Matson's obligations under the existing senior notes and the Series D Notes are guaranteed by Matson's principal operating subsidiary MatNav and by certain other subsidiaries.

Principal covenants contained in the 2016 Note Purchase Agreement include, but are not limited to, the requirements that Matson:

- a) Not permit the ratio of debt to consolidated EBITDA to exceed 3.25 to 1.00 for each fiscal four quarter period, except under certain pre-defined circumstances;
- b) Not permit the ratio of consolidated EBITDA to interest expense as of the end of any fiscal four quarter period to be less than 3.50 to 1.00; and
- c) Not permit the aggregate principal amount of Priority Debt at any time to exceed 20% (subject to reduction to 17.5% upon the earlier of December 31, 2017 and upon the occurrence of certain events) of Consolidated Tangible Assets; and not permit the aggregate principal amount of Priority Debt that is not Title XI Priority Debt at any time to exceed 10% of Consolidated Tangible Assets (all as defined in the 2016 Note Purchase Agreement).

Furthermore, the 2016 Note Purchase Agreement generally will restrict the incurrence of liens except for permitted liens, which include, without limitation, liens securing Title XI Debt (as defined in the 2016 Note Purchase Agreement) up to certain thresholds. Additionally, prepayment of amounts borrowed under the 2016 Note Purchase Agreement may be made in whole or in part at par plus a yield maintenance premium, as defined in the 2016 Note Purchase Agreement.

The Company was in compliance with these covenants as of September 30, 2016.

**Revolving Credit Facility:** Borrowings under the revolving credit facility are classified as long-term debt in the Condensed Consolidated Balance Sheet, as principal payments are not required until maturity date of July 30, 2020. As of September 30, 2016, the Company had \$193.8 million of remaining availability under the revolving credit facility. The interest rate on borrowings under the revolving credit facility approximated 1.69 percent during the three months ended September 30, 2016.

5. PENSION AND OTHER POST-RETIREMENT PLANS

The Company sponsors qualified defined benefit pension and other post-retirement plans (collectively, the “Plans”). The following table provides the components of net periodic benefit cost (benefit) for the Plans for the nine months ended September 30, 2016 and 2015 (in millions):

Components of Net Periodic Benefit Cost:	Pension Benefits		Other Post-retirement Benefits	
	September 30, 2016	2015	September 30, 2016	2015
Service cost	\$ 3.0	\$ 2.6	\$ 1.1	\$ 1.2
Interest cost	7.3	7.1	2.0	1.9
Expected return on plan assets	(10.0)	(10.4)	—	—
Amortization of net loss	4.1	4.8	0.9	1.8
Amortization of prior service cost	(1.7)	(1.7)	—	—
Net periodic benefit cost	\$ 2.7	\$ 2.4	\$ 4.0	\$ 4.9

During the nine months ended September 30, 2016, the Company contributed \$7.5 million to its defined benefit pension plans. No further contribution is expected to be paid in 2016.

Table of Contents

## 6. SHARE-BASED COMPENSATION

During the three and nine months ended September 30, 2016, the Company granted approximately 15,500 and 325,000 of time-based and performance-based shares to certain of its employees at a \$36.95 and \$37.64 weighted-average grant date fair value, respectively.

Total stock-based compensation cost recognized in the Condensed Consolidated Statements of Income and Comprehensive Income as a component of selling, general and administrative expenses was \$3.0 million and \$2.0 million for the three months ended September 30, 2016 and 2015, respectively, and \$9.2 million and \$9.6 million for the nine months ended September 30, 2016 and 2015, respectively. Total unrecognized compensation cost related to unvested share-based compensation arrangements was \$14.9 million at September 30, 2016, and is expected to be recognized over a weighted-average period of 1.9 years. Total unrecognized compensation cost may be adjusted for any unearned performance shares or forfeited shares.

## 7. EARNINGS PER-SHARE

The number of shares used to compute basic and diluted earnings per-share for the three and nine months ended September 30, 2016 and 2015, is as follows (in millions, except per-share amounts):

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Net Income	Weighted- Average Common Shares	Per Common Share Amount	Net Income	Weighted- Average Common Shares	Per Common Share Amount
Basic:	\$ 25.0	42.8	\$ 0.58	\$ 61.1	43.1	\$ 1.42
Effect of Dilutive Securities:		0.4	—		0.4	(0.02)
Diluted:	\$ 25.0	43.2	\$ 0.58	\$ 61.1	43.5	\$ 1.40

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Weighted- Average Common Shares	Per Common Share Amount	Weighted- Average Common Shares	Per Common Share Amount

Edgar Filing: Matson, Inc. - Form 10-Q

	Net Income	Average Common Shares	Common Share Amount	Net Income	Average Common Shares	Common Share Amount
Basic:	\$ 41.5	43.5	\$ 0.95	\$ 76.4	43.5	\$ 1.76
Effect of Dilutive Securities:		0.5	(0.01)		0.5	(0.02)
Diluted:	\$ 41.5	44.0	\$ 0.94	\$ 76.4	44.0	\$ 1.74

Basic earnings per-share is determined by dividing net income by the weighted-average common shares outstanding during the period. The calculation of diluted earnings per-share includes the dilutive effect of unexercised non-qualified stock options and non-vested restricted stock units.

The computation of weighted-average dilutive shares outstanding excludes certain non-qualified stock options to purchase shares of common stock where 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. The number of such shares excluded was nominal.

Table of Contents

## 8. FAIR VALUE MEASUREMENTS

The Company values its financial instruments based on the fair value hierarchy of valuation techniques for fair value measurements. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. If the technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy, the lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The Company uses Level 1 inputs for the fair values of its cash equivalents, and Level 2 inputs for its accounts receivable, variable rate debt and fixed rate debt. The fair values of cash and cash equivalents, accounts receivable and variable rate debt approximate their carrying values due to the nature of the instruments. The fair value of the Company's fixed rate debt is calculated based upon interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

The carrying value and fair value of the Company's financial instruments as of September 30, 2016 and December 31, 2015 are as follows (in millions):

	Total		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs
	Carrying Value	Total	(Level 1)	(Level 2)	(Level 3)
	September 30, 2016	Fair Value	Measurements at September 30, 2016		
Cash and cash equivalents	\$ 16.4	\$ 16.4	\$ 16.4	\$ —	\$ —
Accounts receivable, net	225.6	225.6	—	225.6	—
Variable rate debt	195.0	195.0	—	195.0	—
Fixed rate debt	617.4	653.6	—	653.6	—

	December 31, 2015	Fair Value Measurements at December 31, 2015			
Cash and cash equivalents	\$ 25.5	\$ 25.5	\$ 25.5	\$ —	\$ —
Accounts receivable, net	214.3	214.3	—	214.3	—
Fixed rate debt	429.9	443.8	—	443.8	—

## 9. REPORTABLE SEGMENTS

Reportable segments are components of an enterprise that engage in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company's chief operating decision maker is its Chief Executive Officer.

The Company consists of two reportable segments, Ocean Transportation and Logistics, which are further described in Note 1. Reportable segments are measured based on operating profit, exclusive of interest expense, general corporate expenses, and income taxes. In arrangements where the customer purchases ocean transportation and logistics services, the revenues are allocated to each reportable segment based upon the contractual amounts for each type of service.

The Company's Ocean Transportation segment provides ocean transportation services to the Logistics segment. Accordingly, intersegment revenue of \$6.7 million and \$10.3 million for the three months and nine months ended September 30, 2016, respectively, and \$3.4 million and \$8.9 million for the three months and nine months ended September 30, 2015, respectively, have been eliminated from the Logistics segment in the table below.

The Company's Terminal Joint Venture segment has been aggregated into the Company's Ocean Transportation segment due to the operations of the Terminal Joint Venture being an integral part of the Company's Ocean Transportation business and has similar economic characteristics.

Table of Contents

Reportable segment results for the three and nine months ended September 30, 2016 and 2015 were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenue:				
Ocean Transportation	\$ 398.0	\$ 444.8	\$ 1,135.0	\$ 1,097.0
Logistics	102.4	99.5	287.3	293.1
Total Operating Revenue	\$ 500.4	\$ 544.3	\$ 1,422.3	\$ 1,390.1
Operating Income:				
Ocean Transportation	\$ 42.7	\$ 68.9	\$ 109.6	\$ 144.2
Logistics	3.5	2.9	7.3	6.2
Total Operating Income	46.2	71.8	116.9	150.4
Interest expense, net	(6.0)	(4.7)	(17.4)	(13.6)
Income before Income Taxes	40.2	67.1	99.5	136.8
Income taxes	(15.2)	(25.6)	(38.4)	(60.4)
Net Income	\$ 25.0	\$ 41.5	\$ 61.1	\$ 76.4

Table of Contents

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

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and related notes, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

Except for historical information, the statements made in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the safe-harbor provisions of the Private Security 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.

This report, and other statements that the Company may make, may contain forward-looking statements with respect to the Company's future financial or business performance, strategies or expectations. Forward-looking statements are typically identified by words or phrases such as "trend," "potential," "opportunity," "pipeline," "believe," "comfortable," "expect," "anticipate," "current," "intention," "estimate," "position," "assume," "outlook," "continue," "remain," "maintain," "sustain," "similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may" or similar expressions.

The Company cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time, including, but not limited to, the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of Matson's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016, and the factors that are described in Part II, Item 1A under the caption of "Risk Factors" of Matson's Form 10-Q for the quarterly period ended June 30, 2016, filed with the SEC on August 3, 2016. Forward-looking statements speak only as of the date they are made, and the Company assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

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 Annual Report filed on Form 10-K for the year ended December 31, 2015, and the Company's reports filed on Forms 10-Q and 8-K, and other publicly available information.

## BUSINESS OUTLOOK

The Company's 2016 outlook includes the effects of the acquisition of Span Alaska in the fourth quarter 2016.

**Ocean Transportation:** The Company's third quarter 2016 Hawaii container volume declined year-over-year, primarily due to the absence of volume gains associated with a competitor's service reconfiguration and service issues in the third quarter 2015, and a slower than expected growth environment. Despite the lull in market volumes during the third quarter 2016, the Company continues to believe that the Hawaii economy is healthy and expects construction activity to support market growth in the future. For the fourth quarter 2016, the Company expects its Hawaii container volume to be lower than the fourth quarter 2015, which benefited from volume gains associated with a competitor's service reconfiguration and related issues.

Table of Contents

In China, the Company's container volume in the third quarter 2016 was slightly lower year-over-year, as continued market softness in the first two months of the quarter was partially offset by increased demand for the Company's expedited service offering related to the market dislocation that followed Hanjin Shipping's bankruptcy filing on September 1, 2016. The Company realized a sizeable rate premium in the third quarter 2016, but as expected, average freight rates were significantly lower than the third quarter 2015. In the fourth quarter 2016, the Company expects higher container volume as its expedited service offering remains highly differentiated amid a challenged international container shipping market that continues to be plagued by chronic over-capacity.

In Guam, as expected, the Company's container volume in the third quarter 2016 was modestly lower on a year-over-year basis, the result of competitive losses to a bi-weekly U.S. flagged containership service that commenced in January 2016. In the fourth quarter 2016, the Company expects to experience continued modest competitive volume losses.

In Alaska, the Company's container volume for the third quarter 2016 was lower than expected, declining more than 10 percent year-over-year as northbound freight volume was challenged by energy sector related macroeconomic headwinds and southbound volume was impacted by an unexpectedly lower seafood harvest in 2016. For the fourth quarter 2016, the Company expects the ongoing muted economic activity in Alaska to result in container volume that approximates the level achieved in the fourth quarter 2015.

For the full year 2016, the Company's terminal joint venture, SSAT, is expected to contribute profits lower than the \$16.5 million contributed in 2015, primarily due to the absence of factors related to the clearing of international cargo backlog in the first half 2015 that resulted from the U.S. West Coast labor disruptions.

As a result, the Company expects fourth quarter 2016 Ocean Transportation operating income to be approximately 15 percent lower than the fourth quarter 2015 level of \$43.6 million.

Logistics: On August 4, 2016, Matson Logistics completed its previously announced acquisition of Span Alaska, a market leading provider of less-than container load freight consolidation and forwarding services to Alaska, for total consideration of \$199.1 million (the "Span Alaska Acquisition"). As a result, the Company expects its Logistics segment operating income for the full year 2016 to be approximately \$11 million.

Interest Expense: The Company expects its interest expense in 2016 to be approximately \$24 million, including interest related to the issuance of \$200 million of 15-year senior unsecured notes on September 14, 2016, bearing interest at 3.14 percent.

Income Tax Expense: The Company expects its effective tax rate for the full year 2016 to be approximately 39 percent.

Capital Spending and Vessel Dry-docking: On August 25, 2016, MatNav and General Dynamics NASSCO (“NASSCO”) entered into a definitive agreement pursuant to which NASSCO will construct two new combination container and roll-on/roll-off vessels for the Company’s Hawaii fleet at a contract price of \$511 million for both vessels, with deliveries scheduled for the end of 2019 and mid-year 2020. In the first nine months of 2016, the Company made capital expenditure payments of \$67.3 million, capitalized vessel construction expenditures of \$39.2 million, and dry-docking payments of \$43.7 million. For the full year 2016, the Company expects to make capital expenditure payments of approximately \$90 million, capitalized vessel construction expenditures of approximately \$96 million, and dry-docking payments of approximately \$57 million. For the full year 2016, the Company expects depreciation and amortization to total approximately \$136 million compared to \$105.8 million in 2015, inclusive of dry-docking amortization of approximately \$38 million expected in 2016 and \$23.1 million in 2015.

Table of Contents

## CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Results: Three months ended September 30, 2016 compared with 2015:

(dollars in millions, except per-share amounts)	Three Months Ended September 30,		Change	
	2016	2015		%
Operating revenue	\$ 500.4	\$ 544.3	(8.1)	%
Operating costs and expenses	(454.2)	(472.5)	(3.9)	%
Operating income	46.2	71.8	(35.7)	%
Interest expense	(6.0)	(4.7)	27.7	%
Income before income taxes	40.2	67.1	(40.1)	%
Income tax expense	(15.2)	(25.6)	(40.6)	%
Net income	\$ 25.0	\$ 41.5	(39.8)	%
Basic earnings per-share	\$ 0.58	\$ 0.95	(38.9)	%
Diluted earnings per-share	\$ 0.58	\$ 0.94	(38.3)	%

Consolidated results of operations include the logistics operating results of Span Alaska from the date of the Span Alaska acquisition on August 4, 2016. Changes in operating revenue, and operating costs and expenses are further described below in the Analysis of Operating Revenue and Income by Segment.

Consolidated operating revenue for the third quarter 2016 decreased \$43.9 million, or 8.1 percent, compared to the third quarter 2015. This decrease was due to \$46.8 million lower revenue from Ocean Transportation, offset by \$2.9 million higher revenue from Logistics.

Operating costs and expenses for the third quarter 2016 decreased \$18.3 million, or 3.9 percent, compared to the third quarter 2015. The decrease was due to a \$20.6 million decrease in operating costs and expenses from Ocean Transportation, offset by a \$2.3 million increase in operating costs and expenses from Logistics.

Interest expense increased \$1.3 million to \$6.0 million for the third quarter 2016 compared to \$4.7 million in third quarter 2015, due to non-cash interest accretion of the fair value of the Puerto Rico multi-employer liability, and increased revolver and long-term borrowings during the three months ended September 30, 2016.

Income tax expense was \$15.2 million, or 37.8 percent of income before income taxes, for the third quarter 2016, compared to \$25.6 million, or 38.2 percent of income before income taxes, for the third quarter 2015. The income tax

rate for 2015 was negatively impacted by non-deductible expenses as a result of the Horizon Acquisition in 2015.

Consolidated Results: Nine months ended September 30, 2016 compared with 2015:

(dollars in millions, except per-share amounts)	Nine Months Ended September 30,		
	2016	2015	Change
Operating revenue	\$ 1,422.3	\$ 1,390.1	2.3 %
Operating costs and expenses	(1,305.4)	(1,239.7)	5.3 %
Operating income	116.9	150.4	(22.3) %
Interest expense	(17.4)	(13.6)	27.9 %
Income before income taxes	99.5	136.8	(27.3) %
Income tax expense	(38.4)	(60.4)	(36.4) %
Net income	\$ 61.1	\$ 76.4	(20.0) %
Basic earnings per-share	\$ 1.42	\$ 1.76	(19.3) %
Diluted earnings per-share	\$ 1.40	\$ 1.74	(19.5) %

Consolidated results of operations include ocean transportation operating results of Alaska and logistics operating results of Span Alaska from the date of the Horizon Acquisition on May 29, 2015, and the Span Alaska acquisition on August 4, 2016, respectively. Changes in operating revenue, and operating costs and expenses are further described below in the Analysis of Operating Revenue and Income by Segment.

Table of Contents

Consolidated operating revenue for the nine months ended September 30, 2016 increased \$32.2 million, or 2.3 percent, compared to the nine months ended September 30, 2015. This increase was due to \$38.0 million higher revenue from Ocean Transportation, offset by \$5.8 million lower revenue from Logistics.

Operating costs and expenses for the nine months ended September 30, 2016 increased \$65.7 million, or 5.3 percent, compared to the nine months ended September 30, 2015. The increase was due to a \$72.6 million increase, offset by a \$6.9 million decrease in operating costs and expenses from Ocean Transportation and Logistics segments, respectively.

Interest expense increased \$3.8 million to \$17.4 million for the nine months ended September 30, 2016 compared to \$13.6 million in nine months ended September 30, 2015, due to non-cash interest accretion of the fair value of the Puerto Rico multi-employer liability, and increased revolver and long-term borrowings during the nine months ended September 30, 2016.

Income tax expense was \$38.4 million, or 38.6 percent of income before income taxes, for the nine months ended September 30, 2016, compared to \$60.4 million, or 44.2 percent of income before income taxes, for the nine months ended September 30, 2015. The income tax rate for 2015 was negatively impacted by a non-cash adjustment to deferred tax assets, and by changes in the value of deferred taxes and non-deductible expenses as a result of the Horizon Acquisition.

## ANALYSIS OF OPERATING REVENUE AND INCOME BY SEGMENT

Ocean Transportation Operating Results: Three months ended September 30, 2016 compared with 2015:

(dollars in millions)	Three Months Ended September 30,			
	2016	2015	Change	
Ocean Transportation revenue	\$ 398.0	\$ 444.8	(10.5)	%
Operating costs and expenses	355.3	375.9	(5.5)	%
Operating income	\$ 42.7	\$ 68.9	(38.0)	%
Operating income margin	10.7 %	15.5 %		
Volume (Forty-foot equivalent units (FEU) except for automobiles) (1)				
Hawaii containers	40,500	44,000	(8.0)	%
Hawaii automobiles	17,700	17,800	(0.6)	%
Alaska containers	18,300	20,500	(10.7)	%

Edgar Filing: Matson, Inc. - Form 10-Q

China containers	16,300	16,800	(3.0)	%
Guam containers	6,200	6,500	(4.6)	%
Micronesia/South Pacific Containers	2,700	2,400	12.5	%

---

(1) Approximate volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages in transit at the end of each reporting period.

Ocean Transportation revenue decreased \$46.8 million, or 10.5 percent, during the third quarter 2016 compared with the third quarter 2015. This decrease was primarily due to lower fuel surcharge revenue, lower freight rates in the Company's China service, and lower container volume in Hawaii, Alaska and Guam, partially offset by higher freight rates in Hawaii and Guam.

On a year-over-year FEU basis, Hawaii container volume decreased by 8.0 percent primarily due the absence of volume gains attributed to a competitor's service reconfiguration and vessel mechanical failure in the prior year; Alaska volume decreased by 10.7 percent due to ongoing macroeconomic headwinds related to energy prices and a lower seafood harvest; China volume was 3.0 percent lower due to continued market softness; and Guam volume was 4.6 percent lower due to competitive losses associated with the launch of a competitor's bi-weekly U.S. flagged containership service in January 2016.

Ocean Transportation operating income decreased \$26.2 million, or 38.0 percent, during the third quarter 2016 compared with the third quarter 2015. The decrease was primarily due to lower freight rates in China, and lower container volume in Hawaii and Alaska. Partially offsetting these unfavorable year-over-year comparisons were the absence of selling, general and administrative expenses related to the Horizon Acquisition, and higher freight rates in Hawaii and Guam.

Table of Contents

The Company's SSAT terminal joint venture investment contributed \$3.6 million during the third quarter 2016, compared to \$4.5 million in the third quarter 2015. The \$0.9 million year-over-year decrease was primarily due to an increase in SSAT's allowance for doubtful accounts receivable, partially offset by improved lift volume.

Ocean Transportation Operating Results: Nine months ended September 30, 2016 compared with 2015:

(dollars in millions)	Nine Months Ended September 30,			
	2016	2015	Change	
Ocean Transportation revenue (1)	\$ 1,135.0	\$ 1,097.0	3.5	%
Operating costs and expenses (1)	1,025.4	952.8	7.6	%
Operating income (1)	\$ 109.6	\$ 144.2	(24.0)	%
Operating income margin (1)	9.7	% 13.1		%
Volume (Forty-foot equivalent units (FEU) except for automobiles) (2)				
Hawaii containers	118,700	116,100	2.2	%
Hawaii automobiles	56,200	51,500	9.1	%
Alaska containers (1)	52,500	26,000	101.9	%
China containers	43,400	48,400	(10.3)	%
Guam containers	18,300	18,700	(2.1)	%
Micronesia/South Pacific Containers	6,900	6,300	9.5	%

(1) Includes Alaska operations from the date of Horizon Acquisition on May 29, 2015.

(2) Approximate volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages in transit at the end of each reporting period.

Ocean Transportation revenue increased \$38.0 million, or 3.5 percent, during the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. This increase was primarily due to the inclusion of revenue from the Company's acquired Alaska service for the full nine-month period and higher container volume and yield in Hawaii, partially offset by lower freight rates and container volume in the Company's China service and lower fuel surcharge revenue.

On a year-over-year FEU basis, Hawaii container volume increased by 2.2 percent due to competitive gains associated with a competitors' service reconfiguration in 2015 and modest market growth; Alaska volume increased due to the inclusion of a full nine-month period in 2016; China volume was 10.3 percent lower due to market softness and the absence of the high demand experienced in the first half of 2015 related to the U.S. West Coast labor disruptions; and Guam volume was 2.1 percent lower primarily due to competitive losses associated with the launch of a competitor's bi-weekly U.S. flagged containership service in January 2016.

Ocean Transportation operating income decreased \$34.6 million, or 24.0 percent, during the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. The decrease was primarily due to lower freight rates and volume in the China service, higher vessel operating expenses related to the deployment of additional vessels in the Hawaii trade in the first half of 2016, and higher terminal handling expenses. Partially offsetting these unfavorable items were the absence of selling, general and administrative expenses related to the Horizon Acquisition and costs related to the Molasses Settlement, and container volume and yield improvements in Hawaii.

The Company's SSAT terminal joint venture investment contributed \$9.2 million during the nine months ended September 30, 2016, compared to \$13.1 million in the nine months ended September 30, 2015. On a year-over-year basis, SSAT's lift volume improved during the first nine months of 2016; however, the positive impact of lift volume was more than offset by the absence of the benefits related to the clearing of international cargo volume after the U.S. West Coast labor disruptions in the first half 2015 and by an increase in SSAT's allowance for doubtful accounts receivable.

Table of Contents

Logistics Operating Results: Three months ended September 30, 2016 compared with 2015:

(dollars in millions)	Three Months Ended September 30,			
	2016	2015	Change	
Logistics Revenue (1)	\$ 102.4	\$ 99.5	2.9	%
Operating costs and expenses (1)	98.9	96.6	2.4	%
Operating income (1)	\$ 3.5	\$ 2.9	20.7	%
Operating income margin (1)	3.4	%	2.9	%

(1) Logistics operating results include Span Alaska operating results from the date of acquisition on August 4, 2016.

Logistics revenue increased \$2.9 million, or 2.9 percent, during the third quarter 2016 compared with the third quarter 2015. This increase was primarily due to the inclusion of freight forwarding revenue from the Span Alaska Acquisition effective August 4, 2016, partially offset by lower fuel surcharge revenue and lower volume.

Logistics operating income increased \$0.6 million during the third quarter 2016 compared with the third quarter 2015. The increase was primarily due to the inclusion of freight forwarding operating results effective August 4, 2016 attributable to the Span Alaska Acquisition, partially offset by lower intermodal yield.

Logistics Operating Results: Nine months ended September 30, 2016 compared with 2015:

(dollars in millions)	Nine Months Ended September 30,			
	2016	2015	Change	
Logistics Revenue (1)	\$ 287.3	\$ 293.1	(2.0)	%
Operating costs and expenses (1)	280.0	286.9	(2.4)	%
Operating income (1)	\$ 7.3	\$ 6.2	17.7	%
Operating income margin (1)	2.5	%	2.1	%

(1) Logistics operating results include Span Alaska operating results from the date of acquisition on August 4, 2016.

Logistics revenue decreased \$5.8 million, or 2.0 percent, during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was primarily the result of lower fuel surcharge revenue, largely offset by the inclusion of freight forwarding revenue from the Span Alaska Acquisition.

Logistics operating income increased by \$1.1 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to the inclusion of freight forwarding operating results from the Span Alaska Acquisition, higher intermodal volume, and higher highway yield, partially offset by lower intermodal yield.

## LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity: Sources of liquidity available to the Company at September 30, 2016, compared to December 31, 2015 are as follows:

Sources of Liquidity (in millions)	September 30, 2016	December 31, 2015	Change
Cash and cash equivalents	\$ 16.4	\$ 25.5	\$ (9.1)
Accounts receivable, net (1)	225.6	214.3	11.3
Capital Construction Fund - cash on deposit (2)	110.9	—	110.9

- (1) As of September 30, 2016 and December 31, 2015, \$165.1 million and \$176.6 million, respectively, of eligible accounts receivable were assigned to the CCF (see Note 2 of the Condensed Consolidated Financial Statements).
- (2) On October 21, 2016, the Company withdrew \$32.5 million from the CCF and paid a scheduled progress payment associated with the construction of the new vessels.

Table of Contents

Revolving Credit Facility: As of September 30, 2016, the Company had \$193.8 million of availability under the revolving credit facility, with a maturity date of July 30, 2020. The Company's revolving credit facility is described in Note 8 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015.

Changes in Cash and Cash Equivalents: Significant changes in the Company's cash and cash equivalents for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, were as follows:

Cash Flow Information (in millions)	Nine Months Ended		Change 2016-2015
	September 30, 2016	2015	
Net cash provided by operating activities (1)	\$ 87.5	\$ 159.0	\$ (71.5)
Net cash used in investing activities (2)	(328.0)	(38.8)	(289.2)
Net cash provided by (used in) financing activities (3)	231.4	(388.1)	619.5
Net decrease in cash and cash equivalents	(9.1)	(267.9)	258.8
Cash and cash equivalents, beginning of the period	25.5	293.4	(267.9)
Cash and cash equivalents, end of the period	\$ 16.4	\$ 25.5	\$ (9.1)

(1) Change in net cash provided by operating activities:

Changes in net cash provided by operating activities for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 are due to the following:

(dollars in millions)	Change 2016-2015
Decrease in net income from operations	\$ (15.3)
Increase in adjustments for non-cash related charges, net	21.0
Decrease in distributions received from related party Terminal Joint Venture	(8.8)
Increase in deferred dry-docking payments	(29.7)
Change in accounts receivable	11.5
Change in prepaid expenses and other assets	(19.4)
Change in accounts payable and accrued liabilities	12.8
Change in other liabilities	(43.6)
Total	\$ (71.5)

Decrease in distributions from related party Terminal Joint Venture was due to no distributions received during the nine months ended September, 2016, compared to \$8.8 million of distributions received during the nine months ended September 30, 2015. Increase in deferred dry-docking payments was due to an increased number of vessels in

dry-docking during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Changes in accounts receivable are due to the timing of billings and collections, and changes in prepaid expenses and other assets are due to the timing of income tax and other advanced payments during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Changes in accounts payable and accrued liabilities, and other liabilities are due to increased liabilities associated with the Horizon Acquisition, and the timing of other liability payments during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Table of Contents

## (2) Change in net cash used in investing activities:

Changes in net cash used in investing activities for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 are due to the following:

(dollars in millions)	Change 2016-2015
Increase in capital expenditures	\$ (37.0)
Increase in capitalized vessel construction expenditures	(39.2)
Increase in cash deposits into CCF	(45.5)
Decrease in cash withdrawals from CCF	(81.2)
Payments for membership interests in Span Alaska, net of cash acquired	(112.8)
Payments for the Horizon and other acquisitions, net of cash acquired	29.0
Decrease in proceeds from disposal of property and equipment	(2.5)
Total	\$ (289.2)

Capital expenditures (excluding capitalized vessel construction expenditures) increased from \$30.3 million in the nine months ended September 30, 2015 to \$67.3 million in the nine months ended September 30, 2016. The increase was due primarily to the acquisition of new containers and terminal equipment, capital expenditures on vessels including the installation of scrubbers on vessels acquired as part of the Horizon Acquisition, and other capital expenditure. Capitalized vessel construction expenditures were \$39.2 million for the nine months ended September 30, 2016 primarily related to scheduled vessel construction contract payments. There were no payments during the nine months ended September 30, 2015. Changes in deposits into the CCF, and withdrawals from the CCF during the nine months ended September 30, 2016, are due to expected future qualified withdrawals from the CCF related to vessel construction expenditures.

During the nine months ended September 30, 2016, the Company paid \$112.8 million related to the acquisition of Span Alaska compared to \$29.0 million paid during the nine months ended September 30, 2015 related to the Horizon Acquisition and other acquisitions (see Note 3, Business Combinations, of the Condensed Consolidated Financial Statements).

## (3) Change in net cash provided by (used in) financing activities:

Changes in net cash provided by financing activities for the nine months ended September 30, 2016 compared to nine months ended September 30, 2015 are due to the following:

(dollars in millions)	Change 2016-2015
Payments of Horizon debt and redemption of warrants, net	\$ 467.5
Payments of Span Alaska debt	(81.9)
Increase in proceeds received from issuance of debt	200.0
Decrease in repayments of debt and capital leases	(0.3)
Change in borrowings under revolving credit facility, net	77.9
Stock repurchase payments	(37.8)
Decrease in other payments, net	(5.9)
Total	\$ 619.5

During the nine months ended September 30, 2015, the Company repaid all of Horizon's outstanding debt and redeemed the warrants related to the Horizon Acquisition, for total payments of \$467.5 million. During the nine months ended September 30, 2016, the Company repaid \$81.9 million of borrowings related to the Span Acquisition. During the nine months ended September 30, 2016, the Company borrowed \$200.0 million in long-term debt. During the nine months ended September 30, 2016, the Company increased its net borrowings under its revolving credit facility to \$195.0 million at September 30, 2016 from \$118.0 million at September 30, 2015, primarily to fund increased dry-docking and capital expenditures, share repurchases, and cash deposits into the CCF. During nine months ended September 30, 2016, the Company paid \$37.8 million in share repurchases. There were no share repurchases during the nine months ended September 30, 2015.

Table of Contents

Working Capital: The Company had working capital of \$20.2 million at September 30, 2016, compared to \$19.7 million deficiency at December 31, 2015.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

There were no material changes during this quarter to the Company's contractual obligations, commitments, contingencies and off-balance sheet arrangements that are described in Item 7 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015, which is incorporated herein by reference, except as described below.

At September 30, 2016, the Company had the following additional estimated contractual obligations:

Contractual Obligations (in millions)	Payment Due By Period				Total
	2016	2017-2018	2019-2020	Thereafter	
Construction of vessels (1)	\$ —	\$ 241.2	\$ 244.3	\$ —	\$ 485.5
Other capital expenditures (2)	14.1	17.2	—	—	31.3
Term loans - Series D Notes (3)	—	—	30.4	169.6	200.0
Revolving credit facility (4)	—	—	195.0	—	195.0
Capital lease obligations (5)	0.2	0.8	0.1	—	1.1
Estimated interest on debt (6)	0.9	19.3	17.2	29.1	66.5
Operating lease and other obligations (7)	1.1	18.1	13.9	7.4	40.5
<b>Total</b>	<b>\$ 16.3</b>	<b>\$ 296.6</b>	<b>\$ 500.9</b>	<b>\$ 206.1</b>	<b>\$ 1,019.9</b>

- (1) Construction of vessels represents a new contractual agreement entered into on August 25, 2016 for the construction of two Kanaloa Class vessels.
- (2) Other capital expenditures relate to dry-docking related obligations and other capital obligations.
- (3) Series D Notes represent new long-term borrowings funded on September 14, 2016.
- (4) Revolving credit facility repayment date is based upon July 30, 2020, as principle payments are not required under this credit facility until maturity date.
- (5) Capital lease obligations represent outstanding principal repayments assumed in the Span Alaska acquisition.
- (6) Estimated interest on debt is determined based on: (i) fixed interest rate and payment terms of the Series D Notes; (ii) estimated variable interest on the revolving credit facility; and (iii) implicit interest on capital leases.
- (7) Operating lease and other obligations relate to office and terminal facilities, equipment and other leases under non-cancellable, long-term lease agreements assumed in the Span Alaska acquisition, and other vessel and leased facility obligations.

## CRITICAL ACCOUNTING ESTIMATES

There have been no changes during this quarter to the Company's critical accounting estimates as discussed in Item 7 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2015.

#### OTHER MATTERS

The Company's third quarter 2016 cash dividend of \$0.19 per-share was paid on September 1, 2016 to shareholders of record as of August 4, 2016. On October 27, 2016, the Company's Board of Directors declared a cash dividend of \$0.19 per-share payable on December 1, 2016 to shareholders of record as of the close of business on November 10, 2016.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk position from the information provided under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our 2015 Annual Report filed on Form 10-K for the year ended December 31, 2015.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of 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 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 September 30, 2016, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the nine months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Environmental Matters: In September 2013, molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company. The Company cooperated with federal and state agencies involved in responding to and investigating the incident. The Hawaii Department of Health reported on September 20, 2013 that dissolved oxygen and pH levels in the harbor and nearby Keehi Lagoon had returned to normal target levels and that there was no longer discoloration of the water in those same areas attributable to the molasses release. Keehi Lagoon was reopened to the public on September 21, 2013.

The Company previously resolved all federal criminal claims, and all criminal, civil and administrative claims that the State of Hawaii may have had arising from the molasses release. On October 13, 2016, the United States Department of Justice delivered a letter to Company counsel stating that it is prepared to file a civil penalty action under the Clean Water Act but would be willing to discuss a potential resolution of those claims prior to filing an action. The Company believes it has defenses against those claims.

In addition to the molasses release discussed above, the Company's ocean transportation business has certain other risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

Other Matters: The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company's financial condition, results of operations, or cash flows.

ITEM 1A. RISK FACTORS

There were no material changes to the Company's risk factors that are described in Part I, Item 1A under the caption of "Risk Factors" of Matson's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016, and the risk factors that are described in Part II, Item 1A under the caption of "Risk Factors" of Matson's Form 10-Q for the quarterly period ended June 30, 2016 filed with the SEC on August 3, 2016.

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

## (c) Purchases of Equity Securities by the Issuer and Affiliated Purchases.

The following is a summary of Matson shares that were repurchased under the Company's share repurchase program during the three months ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid Per-Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Be Purchased Under the Plans or Programs
July 1 — 31, 2016	116,711	\$ 34.55	116,711	1,894,688
August 1 — 31, 2016	18,000	36.69	18,000	1,876,688
September 1 — 30, 2016	2,600	39.01	2,600	1,874,088
Total	137,311	\$ 34.91	137,311	

(1) On November 4, 2015, the Company announced that Matson's Board of Directors had approved a share repurchase program of up to 3.0 million shares of common stock through November 2, 2018. Shares will be repurchased in the open market from time to time, and may be made pursuant to a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 2.1 Membership Interest Purchase Agreement, dated as of July 18, 2016, by and between Matson Logistics, Inc. and Span Holdings, LLC (incorporated by reference to Exhibit 2.1 of Matson's Form 8-K dated July 18, 2016).
- 10.1 Contract for Construction of Two Vessels, dated as of August 25, 2016, by and between Matson Navigation Company, Inc. and National Steel and Shipbuilding Company (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission).
- 10.2 Purchaser's Corporate Guaranty Agreement, by Matson, Inc., dated as of August 25, 2016.
- 10.3 Contractor's Corporate Guaranty Agreement, by General Dynamics Corporation, dated as of August 25, 2016.
- 10.4 Third Amended and Restated Note Purchase and Private Shelf Agreement among Matson, Inc. and the purchasers party thereto, dated as of September 14, 2016 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated September 14, 2016).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
- 31.2

Edgar Filing: Matson, Inc. - Form 10-Q

Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

26

---

Table of Contents

SIGNATURES

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

MATSON, INC.  
(Registrant)

Date: November 8, 2016 /s/ Joel M. Wine  
Joel M. Wine  
Senior Vice President and  
Chief Financial Officer

Date: November 8, 2016 /s/ Dale B. Hendler  
Dale B. Hendler  
Vice President and Controller,  
(Principal Accounting Officer)