ALEXANDER & BALDWIN INC
Form 10-Q
May 02, 2008

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, 2008**

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 **0-565**

ALEXANDER & BALDWIN, INC.

(Exact name of registrant as specified in its charter)

Hawaii	**99-0032630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P. O. Box 3440, Honolulu, Hawaii	**9680l**
822 Bishop Street, Honolulu, Hawaii	**96813**
(Address of principal executive offices)	(Zip Code)

(808) 525-6611

(Registrant s telephone number, including area code)

N/A

(Former name, former address, and former

fiscal year, if changed since last report)

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

Yes **x** No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 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, 2008: 41,302,543

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(In millions, except per-share amounts)

	Three Months Ended March 31, **2008**	2007
Revenue:		
Operating revenue	**$ 582.1**	$ 383.1
Costs and Expenses:		
Costs of goods sold, services and rentals	**484.4**	307.2
Selling, general and administrative	**39.6**	37.6
Operating costs and expenses	**524.0**	344.8
Operating Income	**58.1**	38.3
Other Income and (Expense):		
Gain on insurance settlement	**7.7**	--
Equity in income of real estate affiliates	**8.2**	4.4
Interest income	**0.4**	1.0
Interest expense	**(6.1)**	(4.3)
Income Before Taxes	**68.3**	39.4
Income taxes	**26.6**	15.4
Income From Continuing Operations	**41.7**	24.0
Income From Discontinued Operations (net of income taxes)	**0.4**	0.7
Net Income	**$ 42.1**	$ 24.7
Basic Earnings Per Share:		
Continuing operations	**$ 1.01**	$ 0.56
Discontinued operations	**0.01**	0.02
Net income	**$ 1.02**	$ 0.58
Diluted Earnings Per Share:		
Continuing operations	**$ 1.00**	$ 0.56
Discontinued operations	**0.01**	0.02
Net income	**$ 1.01**	$ 0.58
Weighted Average Number of Basic Shares Outstanding	**41.4**	42.5
Weighted Average Number of Diluted Shares Outstanding	**41.7**	42.9

See Notes to Condensed Consolidated Financial Statements.

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ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES

Industry Segment Data, Net Income

(In millions)

	Three Months Ended March 31, 2008	2007
Revenue:		
Transportation:		
Ocean transportation	**$ 243.0**	$ 231.6
Logistics services	**102.6**	102.9
Real Estate:		
Leasing	**28.8**	28.8
Sales	**187.4**	6.5
Less amounts reported in discontinued operations	**(0.7)**	(1.9)
Agribusiness	**22.5**	17.2
Reconciling Items	**(1.5)**	(2.0)
Total revenue	**$ 582.1**	$ 383.1
Operating Profit, Net Income:		
Transportation:		
Ocean transportation	**$ 15.9**	$ 18.8
Logistics services	**4.7**	5.6
Real Estate:		
Leasing	**13.9**	15.0
Sales	**41.4**	8.8
Less amounts reported in discontinued operations	**(0.6)**	(1.2)
Agribusiness	**4.8**	3.6
Total operating profit	**80.1**	50.6
Interest Expense	**(6.1)**	(4.3)
General Corporate Expenses	**(5.7)**	(6.9)
Income From Continuing Operations Before Income Taxes	**68.3**	39.4
Income Taxes	**26.6**	15.4
Income From Continuing Operations	**41.7**	24.0
Income From Discontinued Operations (net of income taxes)	**0.4**	0.7
Net Income	**$ 42.1**	$ 24.7

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In millions)

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 95**	$ 17
Accounts and notes receivable, net	**180**	185
Inventories	**38**	21
Real estate held for sale	**32**	150
Deferred income taxes	**11**	11
Prepaid expenses and other assets	**34**	37
Total current assets	**390**	421
Investments	**181**	184
Real Estate Developments	**80**	99
Property, at cost	**2,686**	2,634
Less accumulated depreciation and amortization	**1,068**	1,052
Property net	**1,618**	1,582
Pension Assets	**81**	80
Other Assets	**108**	113
Total	**$ 2,458**	$ 2,479
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	**$ 141**	$ 57
Accounts payable	**134**	156
Other	**98**	109
Total current liabilities	**373**	322
Long-term Liabilities:		
Long-term debt	**401**	452
Deferred income taxes	**466**	468
Liability for employee benefit plans	**50**	50
Other	**56**	57
Total long-term liabilities	**973**	1,027
Commitments and Contingencies (Note 3)		
Shareholders Equity:		
Capital stock	**34**	34
Additional capital	**195**	200
Accumulated other comprehensive loss	**(4)**	(4)
Retained earnings	**898**	911
Cost of treasury stock	**(11)**	(11)
Total shareholders equity	**1,112**	1,130
Total	**$ 2,458**	$ 2,479

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In millions)

	Three Months Ended March 31, **2008**	2007
Cash Flows from Operating Activities	**$ 160**	$ 26
Cash Flows from Investing Activities:		
Capital expenditures	**(55)**	(14)
Proceeds from disposal of property and other assets	**1**	6
Proceeds from insurance settlement related to 2005 casualty loss	**8**	--
Deposits into Capital Construction Fund	**(6)**	(10)
Withdrawals from Capital Construction Fund	**5**	8
Increase in investments	**(11)**	(4)
Reduction in investments	**4**	--
Net cash used in investing activities	**(54)**	(14)
Cash Flows from Financing Activities:		
Proceeds from issuances of long-term debt	**110**	50
Payments of long-term debt	**(62)**	(49)
Payments of short-term debt	**(15)**	--
Proceeds from issuances of capital stock, including excess tax benefit	**1**	2
Repurchase of capital stock	**(50)**	--
Dividends paid	**(12)**	(11)
Net cash used in financing activities	**(28)**	(8)
Net Increase in Cash and Cash Equivalents	**$ 78**	$ 4
Other Cash Flow Information:		
Interest paid, net of amounts capitalized	**$ (7)**	$ (4)
Income taxes refunded	**$ --**	$ 12
Other Non-cash Information:		
Depreciation and amortization expense	**$ 25**	$ 23
Tax-deferred property sales	**$ 1**	$ --
Tax-deferred property purchases	**$ (5)**	$ (12)

See Notes to Condensed Consolidated Financial Statements.

Alexander & Baldwin, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(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 accounting principles generally accepted in the United States of America 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, 2007.

(2) In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements, and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2 which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company s consolidated financial position, results of operations or cash flows. As of March 31, 2008, there were no material financial assets or liabilities recognized or measured at fair value on a recurring basis.

(3) Commitments and Contingencies: Commitments and financial arrangements that are not recorded on the Company s consolidated balance sheet at March 31, 2008, other than operating lease obligations, included the following (in millions):

Guarantee of HS&TC debt	(a)	$ --
Standby letters of credit	(b)	$ 17
Performance and customs bonds	(c)	$ 25
Benefit plan withdrawal obligations	(d)	$ 58

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

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(a) The Company is contingently liable for up to $21.5 million based on a portion of amounts outstanding under a $30 million Hawaiian Sugar & Transportation Cooperative (HS&TC) revolving credit line. This guarantee was issued before December 31, 2002 and, therefore, is not subject to the scope of FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. No amounts were borrowed under HS&TC s facility at the end of the first quarter 2008.

(b) Consists of letters of credit, totaling approximately $17 million, which enable the Company to qualify as a self-insurer for state and federal workers compensation liabilities. This balance also includes approximately $2 million of letters of credit related to certain of the Company s real estate projects.

(c) Consists of approximately $13 million related to real estate construction projects in Hawaii, approximately $11 million in U.S. customs bonds, and approximately $1 million related to transportation and other matters.

(d) Represents the withdrawal liabilities for multiemployer pension plans, in which Matson is a participant. The withdrawal liability aggregated approximately $58 million as of the most recent valuation dates. Management has no present intention of withdrawing from, and does not anticipate 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 or lender. To date, none of these indemnities have been called upon. The Company accounts for these indemnities in accordance with FIN 45. The fair values of the liabilities recorded by the Company in connection with the indemnities were not material.

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. To date, none of these guarantees have been called upon. The Company accounts for these completion guarantees in accordance with FIN 45. The fair values of the liabilities recorded by the Company in connection with the completion guarantees were not material.

Litigation: The Company and certain subsidiaries are parties to various 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 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,	
	2008	2007
Denominator for basic EPS - weighted average shares	**41.4**	42.5
Effect of dilutive securities:		
Employee/director stock options, non-vested common stock, and restricted stock units	**0.3**	0.4
Denominator for diluted EPS - weighted average shares	**41.7**	42.9

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 0.8 million and 0.2 million shares of common stock during the three months ended March 31, 2008 and 2007, respectively. These amounts 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: The Company s various stock option plans are more fully described in its most recent Form 10-K and in other filings with the Securities and Exchange Commission.

On January 30, 2008, the Company granted non-qualified stock options to purchase 479,840 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 $7.85 using the following weighted average assumptions: volatility of 19.8%, risk-free interest rate of 3.1%, dividend yield of 2.6%, and expected term of 5.8 years.

Activity in the Company s stock option plans for the first quarter of 2008 was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

Employe