Alexander & Baldwin, Inc.
Form 10-Q
August 03, 2017

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 June 30, 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to _________________

Commission file number 001-35492
ALEXANDER & BALDWIN, INC.
(Exact name of registrant as specified in its charter)

Hawaii	45-4849780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P. O. Box 3440, Honolulu, Hawaii	96680l
822 Bishop Street, Honolulu, Hawaii	96813
(Address of principal executive offices)	(Zip Code)

(808) 525-6611
(Registrant's telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 June 30, 2017: 49,161,432

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALEXANDER & BALDWIN, INC.
Condensed Consolidated Statements of Operations
(In millions, except per share amounts) (Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Revenue:				
Commercial Real Estate	$33.8	$34.5	$67.5	$69.3
Land Operations	12.1	5.5	23.1	11.5
Materials & Construction	52.2	42.0	100.7	92.6
Total operating revenue	98.1	82.0	191.3	173.4
Operating Costs and Expenses:				
Cost of Commercial Real Estate	18.9	20.1	37.7	40.7
Cost of Land Operations	9.0	4.6	17.4	10.9
Cost of Materials & Construction	41.7	34.5	80.8	73.9
Selling, general and administrative	15.5	11.3	30.9	27.8
REIT evaluation/conversion costs	2.2	1.9	7.0	1.9
Total operating costs and expenses	87.3	72.4	173.8	155.2
Operating Income	10.8	9.6	17.5	18.2
Other Income and (Expenses):				
Income related to joint ventures	1.9	1.3	3.2	3.4
Gain on the sale of improved property	—	8.0	3.0	8.0
Reductions in solar investments, net	(0.2)	(9.5)	(2.2)	(9.5)
Interest and other income, net	1.2	0.8	2.2	1.1
Interest expense	(6.2)	(6.8)	(12.4)	(13.7)
Total other income and (expenses)	(3.3)	(6.2)	(6.2)	(10.7)
Income from Continuing Operations Before Income Taxes	7.5	3.4	11.3	7.5
Income tax expense	(3.5)	(0.3)	(2.7)	(0.6)
Income from Continuing Operations	4.0	3.1	8.6	6.9
Income (loss) from discontinued operations, net of income taxes	0.8	(3.7)	3.2	(14.5)
Net Income (Loss)	4.8	(0.6)	11.8	(7.6)
Income attributable to noncontrolling interest	(0.5)	(0.1)	(1.2)	(0.6)
Net Income (Loss) Attributable to A&B Shareholders	$4.3	$(0.7)	$10.6	$(8.2)
Basic Earnings (Loss) Per Share of Common Stock:				
Continuing operations available to A&B shareholders	$0.08	$0.06	$0.16	$0.14
Discontinued operations available to A&B shareholders	0.02	(0.07)	0.07	(0.30)
Net income (loss) available to A&B shareholders	$0.10	$(0.01)	$0.23	$(0.16)
Diluted Earnings (Loss) Per Share of Common Stock:				
Continuing operations available to A&B shareholders	$0.07	$0.06	$0.16	$0.14
Discontinued operations available to A&B shareholders	0.02	(0.07)	0.07	(0.30)
Net income (loss) available to A&B shareholders	$0.09	$(0.01)	$0.23	$(0.16)
Weighted-Average Number of Shares Outstanding:				
Basic	49.2	49.0	49.1	49.0
Diluted	49.6	49.4	49.6	49.3

Amounts Available to A&B Shareholders (Note 4):				
Continuing operations available to A&B shareholders, net of income taxes	$3.7	$3.1	$8.1	$6.8
Discontinued operations available to A&B shareholders, net of income taxes	0.8	(3.7)	3.2	(14.5)
Net income (loss) available to A&B shareholders	$4.5	$(0.6)	$11.3	$(7.7)
Cash dividends per share	$0.07	$0.06	$0.14	$0.12

See Notes to Condensed Consolidated Financial Statements.

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income (Loss)	$4.8	$(0.6)	$11.8	$(7.6)
Other Comprehensive Income:				
Unrealized interest rate hedging loss	(0.6)	(2.8)	(0.6)	(2.8)
Reclassification adjustment for interest expense included in net income (loss)	0.1	—	0.3	—
Defined benefit pension plans:				
Amortization of prior service credit included in net periodic pension cost	(0.2)	(0.2)	(0.5)	(0.5)
Amortization of net loss included in net periodic pension cost	1.3	1.9	2.5	3.7
Income taxes related to other comprehensive income	(0.1)	0.6	(0.5)	0.1
Other comprehensive income (loss)	0.5	(0.5)	1.2	0.5
Comprehensive Income (Loss)	5.3	(1.1)	13.0	(7.1)
Comprehensive income attributable to noncontrolling interest	(0.5)	(0.1)	(1.2)	(0.6)
Comprehensive Income (Loss) Attributable to A&B Shareholders	$4.8	$(1.2)	$11.8	$(7.7)

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$11.0	$2.2
Accounts receivable, net	39.7	32.1
Contracts retention	12.5	13.1
Costs and estimated earnings in excess of billings on uncompleted contracts	15.5	16.4
Inventories	34.1	43.3
Real estate held for sale	2.0	1.0
Income tax receivable	9.8	10.6
Prepaid expenses and other assets	34.4	19.6
Total current assets	159.0	138.3
Investments in Affiliates	398.7	390.8
Real Estate Developments	184.5	179.5
Property – Net	1,235.1	1,231.6
Intangible Assets – Net	50.3	53.8
Goodwill	102.3	102.3
Other Assets	47.1	60.0
Total assets	$2,177.0	$2,156.3
LIABILITIES AND EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	$44.1	$42.4
Accounts payable	32.2	35.2
Billings in excess of costs and estimated earnings on uncompleted contracts	3.1	3.5
Accrued interest	5.1	6.3
Deferred revenue	0.1	17.6
Indemnity holdback related to Grace acquisition	9.3	9.3
HC&S cessation-related liabilities	5.2	19.1
Accrued and other liabilities	29.1	31.7
Total current liabilities	128.2	165.1
Long-term Liabilities:		
Long-term debt	530.8	472.7
Deferred income taxes	182.8	182.0
Accrued pension and post-retirement benefits	63.7	64.8
Other non-current liabilities	43.1	47.7
Total long-term liabilities	820.4	767.2
Total liabilities	948.6	932.3
Commitments and Contingencies		
Redeemable Noncontrolling Interest	10.8	10.8
Equity:		
Common stock - no par value; authorized, 150 million shares; outstanding, 49.2 million and 49.0 million shares at June 30, 2017 and December 31, 2016, respectively	1,158.9	1,157.3
Accumulated other comprehensive loss	(42.0)	(43.2)
Retained earnings	96.5	95.2

Total A&B shareholders' equity	1,213.4	1,209.3
Noncontrolling interest	4.2	3.9
Total equity	1,217.6	1,213.2
Total liabilities and equity	$2,177.0	$2,156.3

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income (loss)	$11.8	$(7.6)
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	21.0	54.9
Deferred income taxes	0.1	(19.5)
Gains on asset transactions, net of impairment losses	(12.1)	1.6
Share-based compensation expense	2.2	2.1
Investment in affiliates, net of distributions	5.8	(1.9)
Changes in operating assets and liabilities:		
Trade, contracts retention, and other receivables	(6.3)	11.0
Costs and estimated earnings in excess of billings on uncompleted contracts - net	0.6	2.9
Inventories	9.2	(10.1)
Prepaid expenses, income tax receivable and other assets	(3.7)	10.6
Accrued pension and post-retirement benefits	1.6	3.1
Accounts payable and contracts retention	(3.6)	(7.0)
Accrued and other liabilities	(36.6)	(5.3)
Real estate inventory sales (real estate developments held for sale)	2.9	—
Expenditures for real estate inventory (real estate developments held for sale)	(9.5)	(5.0)
Net cash provided by (used in) operations	(16.6)	29.8
Cash Flows from Investing Activities:		
Capital expenditures for property, plant and equipment	(23.4)	(99.8)
Capital expenditures related to 1031 commercial property transactions	—	(6.2)
Proceeds from disposal of property and other assets	9.7	1.9
Proceeds from disposals related to 1031 commercial property transactions	6.9	59.3
Payments for purchases of investments in affiliates and other investments	(23.9)	(26.4)
Proceeds from investments in affiliates and other investments	2.0	3.0
Change in restricted cash associated with 1031 transactions	5.4	16.2
Net cash used in investing activities	(23.3)	(52.0)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	83.5	132.0
Payments of long-term debt and deferred financing costs	(35.1)	(94.3)
Borrowings (payments) on line-of-credit agreement, net	11.4	(4.9)
Distribution to noncontrolling interests	(0.2)	(0.5)
Dividends paid	(6.9)	(5.9)
Proceeds from issuance (repurchase) of capital stock and other, net	(4.0)	0.9
Net cash used in financing activities	48.7	27.3
Cash and Cash Equivalents:		
Net increase in cash and cash equivalents	8.8	5.1
Balance, beginning of period	2.2	1.3
Balance, end of period	$11.0	$6.4

Other Cash Flow Information:

Interest paid, net of capitalized interest	$(8.5)	$(14.0)
Income taxes paid	(3.6)	—
Noncash Investing and Financing Activities:		
Uncollected proceeds from disposal of equipment	$2.1	$—
Capital expenditures included in accounts payable and accrued expenses	2.3	3.4

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC.
Condensed Consolidated Statements of Equity
For the six months ended June 30, 2017 and 2016
(In millions) (Unaudited)

	Total Equity						
	Common Stock		Accumulated Other Compre-hensive Loss	Retained Earnings	Non-Controlling interest	Total	Redeem-able Non-Controlling interest
	Shares	Stated Value					
Balance, January 1, 2016	48.9	$ 1,151.7	$ (45.3)	$ 117.2	$ 3.5	$ 1,227.1	$ 11.6
Net income (loss)				(8.2)	0.1	(8.1)	0.5
Other comprehensive income, net of tax			0.5			0.5	
Dividends paid on common stock ($0.12 per share)				(5.9)		(5.9)	
Distributions to noncontrolling interest						—	(0.1)
Adjustments to redemption value of redeemable noncontrolling interest				0.4		0.4	(0.4)
Share-based compensation		2.1				2.1	
Shares issued or repurchased, net	0.1	1.0		(0.1)		0.9	
Balance, June 30, 2016	49.0	$ 1,154.8	$ (44.8)	$ 103.4	$ 3.6	$ 1,217.0	$ 11.6

	Total Equity						
	Common Stock		Accumulated Other Compre-hensive Loss	Retained Earnings	Non-Controlling interest	Total	Redeem-able Non-Controlling interest
	Shares	Stated Value					
Balance, January 1, 2017	49.0	$ 1,157.3	$ (43.2)	$ 95.2	$ 3.9	$ 1,213.2	$ 10.8
Net income				10.6	0.5	11.1	0.7
Other comprehensive income, net of tax			1.2			1.2	
Dividends paid on common stock ($0.14 per share)				(6.9)		(6.9)	
Distributions to noncontrolling interest					(0.2)	(0.2)	—
Adjustments to redemption value of redeemable noncontrolling interest				0.7	—	0.7	(0.7)
Share-based compensation		2.2				2.2	
Shares issued or repurchased, net	0.2	(0.6)		(3.1)		(3.7)	
Balance, June 30, 2017	49.2	$ 1,158.9	$ (42.0)	$ 96.5	$ 4.2	$ 1,217.6	$ 10.8

See Notes to Condensed Consolidated Financial Statements.

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

1. DESCRIPTION OF BUSINESS

Business Overview

Alexander & Baldwin, Inc. ("A&B" or the "Company") is headquartered in Honolulu and operates three segments: Commercial Real Estate (formerly Leasing); Land Operations (formerly Real Estate Development and Sales and Agribusiness); and Materials & Construction.

On July 10, 2017, the Company's board of directors unanimously approved a plan for the Company to be subject to tax as a real estate investment trust (a "REIT") for U.S. federal income tax purposes commencing with the Company's taxable year ending December 31, 2017 (the "REIT Election"). Although the Company began operating in compliance with the requirements for qualification and taxation as a REIT (the "REIT requirements") for the taxable year ending December 31, 2017, the Company intends to complete a merger that will create a new holding company structure for the Company to facilitate its ongoing compliance with those requirements. Pursuant to a merger agreement entered into on July 10, 2017 among the Company, Alexander & Baldwin REIT Holdings, Inc., a Hawaii corporation and a direct, wholly owned subsidiary of the Company ("A&B REIT Holdings"), and A&B REIT Merger Corporation, a Hawaii corporation and a direct, wholly owned subsidiary of A&B REIT Holdings ("Merger Sub"), Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation. As a result of the merger, A&B REIT Holdings will replace the Company as the Hawaii-based, publicly held corporation through which the Company's operations are conducted, and promptly following the merger A&B REIT Holdings will be renamed "Alexander & Baldwin, Inc."

The merger will facilitate the Company's ongoing compliance with the REIT requirements by ensuring that certain standard REIT ownership limitations and transfer restrictions apply to the Company's capital stock. On July 14, 2017, A&B REIT Holdings filed a registration statement on Form S-4 with the Securities and Exchange Commission, which includes a preliminary proxy statement/prospectus that provides information regarding the REIT Election, the proposed merger and the special meeting at which the Company's shareholders will be given the opportunity to vote on the merger.

See "Item 1A-Risk Factors" for additional information concerning the risks related to the REIT Election and proposed merger.

Business Segments

Commercial Real Estate: The Commercial Real Estate segment owns, operates and manages retail, office and industrial properties in Hawaii and on the mainland. The Commercial Real Estate segment also leases urban land in Hawaii to third-party lessees.

Land Operations: Primary activities of the Land Operations segment include planning, zoning, financing, constructing, purchasing, managing, selling, and investing in real property; renewable energy; and diversified agribusiness activities. The Land Operations segment also provides general trucking services, equipment maintenance and repair services, and generates and sells electricity to the extent not used elsewhere in the Company's operations. In December 2016, the Company's sugar plantation on Maui, Hawaiian Commercial & Sugar Company ("HC&S") completed its final harvest and ceased operations (the "Cessation"). See Note 14, "Cessation of Sugar Operations" for further discussion regarding the Cessation and the related costs associated with such exit and disposal activities.

Materials & Construction: The Materials & Construction segment, which primarily includes the results of Grace Pacific ("Grace"), performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells rock and sand aggregate; produces and sells asphaltic concrete and ready-mix concrete; provides and sells various construction- and traffic-control-related products; and manufactures and sells precast concrete products.

2. BASIS OF PRESENTATION

The interim 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 ("GAAP") for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2016 and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K"), and other subsequent filings with the U.S. Securities and Exchange Commission.

Reclassifications: Prior year financial statement amounts are reclassified as necessary to conform to the current year presentation, including presentation of results of discontinued operations and reportable operating segments. There was no impact on net income, retained earnings or cash flows as a result of the reclassifications. See Note 17 "Discontinued Operations" and Note 18 "Segment Results" in the accompanying condensed consolidated financial statements for additional information.

Rounding: Amounts in the condensed consolidated financial statements and notes are rounded to the nearest tenth of a million, but per-share calculations and percentages were determined based on amounts before rounding. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different.

New Accounting Pronouncements:

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), ("ASU 2014-09") which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. ASU 2014-09 will supersede the revenue recognition requirements in FASB Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 provides a five-step analysis of transactions to determine when and how revenue is recognized including (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. In addition, ASU 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, deferring the effective date of this standard. As a result, ASU 2014-09 and related amendments will be effective for the Company for its fiscal year beginning January 1, 2018, including interim periods within that fiscal year. Early adoption is permitted, but not before August 1, 2017, the original effective date of ASU 2014-09.

In March, April, May, and December 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Consideration (Reporting Revenue Gross Versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic (606), Revenue from Contracts with Customers, respectively (collectively, the "Amendments"). The Amendments serve to clarify certain aspects of and have the same effective date as ASU 2014-09.

The Company is currently evaluating the impact of adopting ASU 2014-09 and the related Amendments (collectively, "Topic 606") on its consolidated financial statements and disclosures, internal controls and accounting policies. Topic 606 permits two methods of adoption: retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the "Modified Retrospective Method"). The Company will adopt Topic 606 on January 1, 2018 and intends to apply the Modified Retrospective Method of transition. The Company will continue to monitor and assess the impact of changes to Topic 606 and interpretations as they become available.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, lease arrangements

exceeding a twelve month term must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective

method, which will require adjustment to all comparative periods presented in the consolidated financial statements. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.
In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) ("ASU 2016-15"). ASU 2016-15 is an update that addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice of cash receipts and cash payments presentation and classification in the statement of cash flows. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.
In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 provides guidance regarding the definition of a business with the objective of providing guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. ASU 2017-01 should be applied prospectively and early adoption is permitted. The new guidance will result in many real estate transactions being classified as an asset acquisition and transaction costs being capitalized. The Company elected to early adopt FASB ASU No. 2017-01, Clarifying the Definition of a Business, in the second quarter of fiscal year 2017. The adoption of this standard did not have a material impact on the Company's financial position or results of operation.
In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for fiscal years or interim periods beginning after December 15, 2019. ASU 2017-04 should be applied prospectively and early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.
In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 provides that entities will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. In addition, entities will present the other components of net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. ASU 2017-07 is effective for fiscal years or interim periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 clarifies when changes to the terms or conditions of a shared-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ASU 2017-09 is effective for financial statements issued for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

3. COMMITMENTS AND CONTINGENCIES

Commitments, Guarantees and Contingencies: Commitments and financial arrangements not recorded on the Company's condensed consolidated balance sheet, excluding lease commitments that are disclosed in Note 9 of the Company's 2016 Form 10-K, included the following (in millions) as of June 30, 2017:

Standby letters of credit[a]	$11.8
Bonds[b]	$412.8

[a] Consists of standby letters of credit, issued by the Company's lenders under the Company's revolving credit facilities, and relate primarily to the Company's real estate activities. In the event the letters of credit are drawn upon, the Company would be obligated to reimburse the issuer of the letter of credit. None of the letters of credit have been drawn upon to date.

[b] Represents bonds related to construction and real estate activities in Hawaii. Approximately $390.1 million is related to construction bonds issued by third party sureties (bid, performance and payment bonds) and the remainder is related to commercial bonds issued by third party sureties (permit, subdivision, license and notary bonds). In the event the bonds are drawn upon, the Company would be obligated to reimburse the surety that issued the bond. None of the bonds has been drawn upon to date.

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

The Company is a guarantor of indebtedness for certain of its unconsolidated joint ventures' borrowings with third party lenders, relating to the repayment of construction loans and performance of construction for the underlying project. As of June 30, 2017, the Company's limited guarantees on indebtedness related to five of its unconsolidated joint ventures totaled $6.1 million. The Company has not incurred any significant historical losses related to guarantees on its joint venture indebtedness.

Other than the obligations described above and those described in the Company's 2016 Form 10-K, obligations of the Company's non-consolidated joint ventures do not have recourse to the Company and the Company's "at-risk" amounts are limited to its investment.

Legal Proceedings and Other Contingencies: A&B owns 16,000 acres of watershed lands in East Maui. A&B also held four water licenses to another 30,000 acres owned by the State of Hawaii in East Maui. The last of these water license agreements expired in 1986, and all four agreements were then extended as revocable permits that were renewed annually. In 2001, a request was made to the State Board of Land and Natural Resources (the "BLNR") to replace these revocable permits with a long-term water lease. Pending the conclusion by the BLNR of this contested case hearing on the request for the long-term lease, the BLNR has kept the existing permits on a holdover basis. Three parties filed a lawsuit on April 10, 2015 (the "4/10/15 Lawsuit") alleging that the BLNR has been renewing the revocable permits annually rather than keeping them in holdover status. The lawsuit asks the court to void the revocable permits and to declare that the renewals were illegally issued without preparation of an environmental assessment ("EA"). In December 2015, the BLNR decided to reaffirm its prior decisions to keep the permits in holdover status. This decision by the BLNR is being challenged by the three parties. In January 2016, the court ruled in the 4/10/15 Lawsuit ruled that the renewals were not subject to the EA requirement, but that the BLNR lacked legal authority to keep the revocable permits in holdover status beyond one year. The court has allowed the parties to take an immediate appeal of this ruling. In May 2016, the Hawaii State Legislature passed House Bill 2501, which specified that the BLNR has the legal authority to issue holdover revocable permits for the disposition of water rights for a period not to exceed three years. The governor signed this bill into law as Act 126 in June 2016. Pursuant to Act 126, the first annual authorization of the existing holdover permits was sought and granted by the BLNR in December

2016.

In addition, on May 24, 2001, petitions were filed by a third party, requesting that the Commission on Water Resource Management of the State of Hawaii ("Water Commission") establish interim instream flow standards ("IIFS") in 27 East Maui streams that feed the Company's irrigation system. The Water Commission initially took action on the petitions in 2008 and 2010, but the petitioners requested a contested case hearing to challenge the Water Commission's decisions on certain petitions. The Water Commission denied the contested case hearing request, but the petitioners successfully appealed the denial to the Hawaii Intermediate Court of Appeals, which ordered the Water Commission to grant the request. The Commission then

authorized the appointment of a hearings officer for the contested case hearing and expanded the scope of the contested case hearing to encompass all 27 petitions for amendment of the IIFS for East Maui streams in 23 hydrologic units. The evidentiary phase of the hearing before the Commission-appointed hearings officer was completed on April 2, 2015. On January 15, 2016, the Commission-appointed hearings officer issued his recommended decision on the petitions. The recommended decision would restore water to streams in 11 of the 23 hydrologic units. In March 2016, the hearings officer ordered a reopening of the contested case proceedings in light of the Company's January 2016 announcement to cease sugar operations at HC&S by the end of the year and to transition to a new diversified agricultural model on the former sugar lands. In April 2016, the Company announced its commitment to fully and permanently restore the priority taro streams identified by the petitioners. Re-opened evidentiary hearings occurred in the first quarter of 2017 and a decision is pending.

HC&S also used water from four streams in Central Maui ("Na Wai Eha") to irrigate its agricultural lands in Central Maui. Beginning in 2004, the Water Commission began proceedings to establish interim instream flow standards (IIFS) for the Na Wai Eha streams. Before the IIFS proceedings were concluded, the Water Commission designated Na Wai Eha as a surface water management area, meaning that all uses of water from these streams required water use permits issued by the Water Commission. Following contested case proceedings, the Water Commission established IIFS in 2010, but that decision was appealed, and the Hawaii Supreme Court remanded the case to the Water Commission for further proceedings. The parties to the IIFS contested case settled the case in 2014. Thereafter, proceedings for the issuance of water use permits commenced with over 100 applicants, including HC&S, vying for permits. While the water use permit proceedings were ongoing, A&B announced the cessation of sugar cane cultivation at the end of 2016. This announcement triggered a re-opening and reconsideration of the 2014 IIFS decision. Reconsideration of the IIFS is taking place simultaneously with consideration of the applications for water use permits.

If the Company is not permitted to use sufficient quantities of stream waters, it would have a material adverse effect on the Company's pursuit of a diversified agribusiness model in subsequent years and the value of the Company's agricultural lands.

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

4. EARNINGS PER SHARE ("EPS")

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocated to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocated to common shares by the weighted-average number of common shares outstanding for the period, as adjusted for the potential dilutive effect of non-participating share-based awards.

The following table provides a reconciliation of income from continuing operations to income from continuing operations available to A&B shareholders (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income from Continuing Operations	$4.0	$3.1	$8.6	$6.9
Less: Income attributable to noncontrolling interest	(0.5)	(0.1)	(1.2)	(0.6)
Income from continuing operations attributable to A&B shareholders, net of income taxes	3.5	3.0	7.4	6.3
Undistributed earnings allocated to redeemable noncontrolling interest	0.2	0.1	0.7	0.5
Income from continuing operations available to A&B shareholders, net of income taxes	$3.7	$3.1	$8.1	$6.8
Income (loss) from discontinued operations available to A&B shareholders, net of income taxes	0.8	(3.7)	3.2	(14.5)
Net income (loss) available to A&B shareholders	$4.5	$(0.6)	$11.3	$(7.7)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Denominator for basic EPS – weighted-average shares outstanding	49.2	49.0	49.1	49.0
Effect of dilutive securities:				
Non-participating stock options and restricted stock unit awards	0.4	0.4	0.5	0.3
Denominator for diluted EPS – weighted-average shares outstanding	49.6	49.4	49.6	49.3

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

There were 18,582 anti-dilutive securities outstanding during the quarter and six months ended June 30, 2017. During the quarter and six months ended June 30, 2016, anti-dilutive securities totaled 0.4 million shares.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of receivables and short-term borrowings approximate their carrying values due to the short-term nature of the instruments. The Company’s cash and cash equivalents, consisting principally of cash on deposit, may from time to time include short-term money market funds. The fair values of these money market funds, based on market prices (Level 2), approximate their carrying values due to their short-maturities. The carrying amount and fair value of the Company’s long-term debt at June 30, 2017 was $574.9 million and $594.5 million, respectively, and $515.1 million and $529.3 million at December 31, 2016, respectively. The fair value of long-term debt is calculated by discounting the future cash flows of the debt at rates based on instruments with similar risk, terms and maturities as compared to the Company’s existing debt arrangements (Level 2).

6. INVENTORIES

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

Inventories at June 30, 2017 and December 31, 2016 were as follows (in millions):

	June 30, 2017	December 31, 2016
Sugar inventories	$ 0.1	$ 17.5
Asphalt	14.0	7.4
Processed rock, Portland cement, and sand	12.9	12.6
Work in progress	3.5	3.0
Construction-related retail merchandise	2.0	1.7
Parts, materials and supplies inventories	1.6	1.1
Total	$ 34.1	$ 43.3

7. SHARE-BASED PAYMENT AWARDS

In January 2017, the Company granted to employees 61,733 shares of time-based restricted stock units, and 37,244 shares of market-based performance share units. The time-based restricted stock units vest ratably over 3 years and the performance share units cliff vest over 3 years, provided that the total shareholder return of the Company’s common stock over the relevant period meets or exceeds pre-defined levels of relative total shareholder returns of the Standard & Poor’s MidCap 400 Index and the Dow Jones U.S. Real Estate Index.

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In April 2017, the Company granted to the directors 18,582 shares of time-based restricted stock units which vest ratably over 3 years.

The following table summarizes the Company's stock option activity during 2017 (in thousands, except weighted average exercise price and weighted average contractual life):

	2012 Plan	Weighted-average exercise price	Weighted-average contractual life	Aggregate intrinsic value
Outstanding, January 1, 2017	903.5	$ 17.78		
Exercised	(196.3)	$ 15.62		
Outstanding, June 30, 2017	707.2	$ 18.38	3.0 years	$ 16,348
Vested or expected to vest	707.2	$ 18.38	3.0 years	$ 16,348
Exercisable, June 30, 2017	707.2	$ 18.38	3.0 years	$ 16,348

The following table summarizes 2017 non-vested restricted stock unit activity (in thousands, except weighted-average grant-date fair value amounts):

	2012 Plan restricted stock units	Weighted-average grant-date fair value
Outstanding, January 1, 2017	293.5	$ 33.81
Granted	117.6	$ 44.26
Vested	(96.0)	$ 37.27
Canceled	(14.4)	$ 34.45
Outstanding, June 30, 2017	300.7	$ 36.76

The fair value of the Company’s time-based awards is determined using the Company's stock price on the date of grant. The fair value of the Company's market-based awards is estimated using the Company's stock price on the date of grant and the probability of vesting using a Monte Carlo simulation with the following weighted-average assumptions:

	2017 Grants	2016 Grants
Volatility of A&B common stock	25.4%	26.3%
Average volatility of peer companies	25.7%	27.7%
Risk-free interest rate	1.5%	1.1%

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Share-based expense:				
Time-based and market-based restricted stock units	1.1	1.0	2.2	2.1
Total recognized tax benefit	(0.4)	(0.3)	(0.8)	(0.6)
Share-based expense (net of tax)	$0.7	$0.7	$1.4	$1.5

8. RELATED PARTY TRANSACTIONS

Construction Contracts and Material Sales. The Company entered into contracts in the ordinary course of business, as a supplier, with affiliates that are members in entities in which the Company also is a member. Revenues earned from transactions with affiliates totaled approximately $6.0 million and $2.1 million for the quarters ended June 30, 2017 and 2016, respectively. Revenues earned from transactions with affiliates totaled approximately $9.9 million and $4.2 million for the six months ended June 30, 2017 and 2016, respectively. Receivables from these affiliates were $2.7 million and $2.1 million at June 30, 2017 and December 31, 2016, respectively. Amounts due to these affiliates were $0.3 million and $0.2 million at June 30, 2017 and December 31, 2016, respectively.

Commercial Real Estate. The Company entered into contracts in the ordinary course of business, as a lessor of property, with unconsolidated affiliates in which the Company has an interest, as well as with certain entities that are owned by a director of the Company. Revenues earned from these transactions were $1.2 million and $2.6 million for the quarter and six months ended June 30, 2017, respectively, and immaterial for the quarter and six months ended June 30, 2016. Receivables from these affiliates were immaterial as of June 30, 2017 and December 31, 2016.

During the quarters ended June 30, 2017 and 2016, the Company recorded developer fee revenues of approximately $0.9 million and $0.2 million related to management and administrative services provided to certain unconsolidated investments in affiliates. Developer fee revenues recorded for the six months ended June 30, 2017 and 2016 were $1.6 million and $0.5 million, respectively. Receivables from these affiliates were immaterial as of June 30, 2017 and December 31, 2016.

9. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost recorded for the quarters ended June 30, 2017 and 2016 were as follows (in millions):

	Pension Benefits		Post-retirement Benefits	
	2017	2016	2017	2016
Service cost	$0.7	$0.8	$ —	$ 0.1
Interest cost	2.1	2.1	0.1	0.1
Expected return on plan assets	(2.4)	(2.5)	—	—
Amortization of net loss included in net periodic pension cost	1.1	1.9	0.1	0.1
Amortization of prior service credit included in net periodic pension cost	(0.2)	(0.2)	—	—
Curtailment gain	(0.3)	(0.3)	—	—
Net periodic benefit cost	$1.0	$1.8	$ 0.2	$ 0.3

The components of net periodic benefit cost recorded for the six months ended June 30, 2017 and 2016 were as follows (in millions):

	Pension Benefits		Post-retirement Benefits	
	2017	2016	2017	2016
Service cost	$1.5	$1.6	$ 0.1	$ 0.1
Interest cost	4.2	4.4	0.2	0.2
Expected return on plan assets	(4.8)	(5.0)	—	—
Amortization of net loss included in net periodic pension cost	2.3	3.7	0.1	0.1
Amortization of prior service credit included in net periodic pension cost	(0.5)	(0.5)	—	—
Curtailment gain	(0.3)	(0.5)	—	—
Net periodic benefit cost	$2.4	$3.7	$ 0.4	$ 0.4

10. ACQUISITIONS

Manoa Marketplace Acquisition. The Company applies the provisions of FASB ASC Topic No. 805, Business Combinations, ("ASC 805") to acquisitions that constitute a business, as defined. Under ASC 805, assets acquired and liabilities assumed are recorded at fair value. The excess of the purchase price over the net fair value of assets acquired and liabilities assumed is recorded as goodwill. The fair values of assets acquired and liabilities assumed are determined through the market, income or cost approaches, and the valuation approach is generally based on the specific characteristics of the asset or liability. Under the market approach, value is estimated using information from transactions in which other participants in the market have paid for reasonably similar assets that have been sold within a reasonable period from the valuation date. Adjustments are made to compensate for differences between reasonably similar assets and the item being valued. Under the income approach, the future cash flows expected to be received over the life of the asset, taking into account a variety of factors, such as long-term growth rates and the amount and timing of cash flows, are discounted to present value using a rate of return that accounts for the time value of money and investment risk factors. Under the cost approach, the Company estimates the cost to replace the asset with a new asset taking into consideration a variety of factors such as age, physical condition, functional obsolescence and economic obsolescence. The fair value of liabilities assumed is calculated as the net present value of estimated payments using prevailing market interest rates for liabilities with similar credit risk and terms.

On January 29, 2016, the Company consummated the purchase of the leasehold and leased fee interests in Manoa Marketplace, a multi-tenant neighborhood shopping center in Honolulu for $82.4 million through a 1031 transaction. The allocation of purchase price to assets acquired and liabilities assumed is as follows (in millions):

Assets acquired:	
Land	$40.5
Building	36.8
In-place leases	7.0
Favorable leases	1.3
Total assets acquired	85.6
Total liabilities assumed	3.2
Net assets acquired	$82.4

The finite-lived intangible assets related to in-place leases and favorable leases are amortized over their respective lease terms. As of the acquisition date, the weighted-average remaining lives of the in-place leases and favorable leases were approximately 5 and 3 years, respectively.

In connection with the Manoa Marketplace transaction, the Company incurred approximately $1.1 million of acquisition-related expenses during the six months ended June 30, 2016. The costs are included in selling, general and administrative costs in the accompanying condensed consolidated statements of operations and are reported in the Commercial Real Estate segment for segment reporting purposes.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss by component for the six months ended June 30, 2017 were as follows (in millions, net of tax):

	Employee benefit plans	Interest rate swap	Total
Beginning balance, January 1, 2017	$ (45.0)	$ 1.8	$ (43.2)
Unrealized interest rate hedging loss, net of taxes of $0.2	—	(0.4)	(0.4)
Amounts reclassified from accumulated other comprehensive loss, net of taxes of $0.6 and $0.1 for employee benefit plans and interest rate swap, respectively	1.4	0.2	1.6
Ending balance, June 30, 2017	$ (43.6)	$ 1.6	$ (42.0)

The reclassifications of other comprehensive income components out of accumulated other comprehensive loss for the quarter and six months ended June 30, 2017 and 2016 were as follows (in millions):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reclassification adjustment for interest expense included in net income (loss)	0.1	—	0.3	—
Amortization of defined benefit pension items reclassified to net periodic pension cost:				
Prior service credit	(0.2)	(0.2)	(0.5)	(0.5)
Net loss	1.3	1.9	2.5	3.7
Total reclassifications before income tax	1.2	1.7	2.3	3.2
Income taxes related to reclassifications of other comprehensive income	(0.3)	(0.6)	(0.7)	(1.1)
Total reclassifications of other comprehensive income components, net of tax	$0.9	$1.1	$1.6	$2.1

12. INCOME TAXES

The Company's effective tax rate was higher for the quarter ended June 30, 2017 compared to the same period in 2016 primarily due to the 2016 recognition of non-refundable federal tax credits related to the Company’s investment in two photovoltaic facilities, discussed below.

In 2016, the Company invested $15.4 million in Waihonu Equity Holdings, LLC ("Waihonu"), an entity that operates two photovoltaic facilities with a combined capacity of 6.5 megawatts in Mililani, Oahu. The Company accounts for its investment in Waihonu under the equity method. The investment return from the Company's investment in Waihonu is principally composed of non-refundable federal and refundable state tax credits. The federal tax credits are accounted for using the flow through method, which reduces the provision for income taxes in the year that the federal tax credits first become available. During 2016, the Company recognized income tax benefits of approximately $8.7 million related to the non-refundable tax credits, $2.9 million related to the refundable state tax credits in Income Tax Receivable, as well as a corresponding reduction to the carrying amount of its investment in Waihonu, recorded in Investments in Affiliates in the accompanying condensed consolidated balance sheets. For the quarter and six months ended June 30, 2017, the Company recorded reductions to the carrying value of its Waihonu solar investment of $0.2 million and $2.2 million, respectively, in Reduction in Solar Investments, net in the accompanying condensed consolidated statements of operations. For the quarter and six months ended June 30, 2016, the Company recorded reductions to the carrying value of its Waihonu solar investment of $8.7 million in Reduction in Solar Investments, net in the accompanying condensed consolidated statements of operations.

The Company recognizes accrued interest on income taxes in income tax expense. As of June 30, 2017, accrued interest was not material. As of June 30, 2017, the Company has not identified any material unrecognized tax positions.

13. NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2017 and December 31, 2016, notes payable and long-term debt consisted of the following (in millions):

	2017	2016
Revolving credit loans (2.86% for 2017 and 2.42% for 2016)	$101.8	$14.9
Term loans:		
6.38%, payable through 2017, secured by Midstate Hayes	—	8.2
1.85%, payable through 2017, unsecured	1.2	2.5
2.00%, payable through 2018, unsecured	0.4	0.8
3.31%, payable through 2018, unsecured	1.9	2.8
5.19%, payable through 2019, unsecured	5.5	6.5
6.90%, payable through 2020, unsecured	48.8	65.0
LIBOR plus 1.00%, payable through 2021, secured by asphalt terminal (a)	5.5	6.1
3.15%, payable through 2021, second mortgage secured by Kailua Town Center III	4.9	—
LIBOR plus 1.50%, payable through 2021, secured by Kailua Town Center III (b)	11.1	11.2
LIBOR plus 2.00%, payable through 2021, secured by letter of credit (c)	9.4	9.4
5.53%, payable through 2024, unsecured	28.5	28.5
3.90%, payable through 2024, unsecured	65.9	68.1
4.15%, payable through 2024, secured by Pearl Highlands Center	87.9	88.8
5.55%, payable through 2026, unsecured	46.0	46.0
5.56%, payable through 2026, unsecured	25.0	25.0
4.35%, payable through 2026, unsecured	22.0	22.0
3.88%, payable through 2027, unsecured	50.0	50.0
LIBOR plus 1.35%, payable through 2029, secured by Manoa Marketplace (d)	60.0	60.0
Total debt (contractual)	575.8	515.8
Add debt premium (discount)	0.3	0.5
Adjustment for debt issuance costs	(1.2)	(1.2)
Total debt (carrying value)	574.9	515.1
Less current portion	(44.1)	(42.4)
Long-term debt	$530.8	$472.7

(a) Loan has a stated interest rate of LIBOR plus 1.00%, but is swapped through maturity to a 5.98% fixed rate.

(b) Loan has a stated interest rate of LIBOR plus 1.50%, but is swapped through maturity to a 5.95% fixed rate.

(c) Loan has an effective interest rate of 2.82% for 2017 and 2.82% for 2016.

(d) Loan has a stated interest rate of LIBOR plus 1.35%, but is swapped through maturity to a 3.14% fixed rate.

14. CESSATION OF SUGAR OPERATIONS

A summary of the pre-tax costs and remaining costs associated with the Cessation is as follows (in millions):

	Six Months Ended June 30, 2017	Cumulative amount recognized as of June 30, 2017	Remaining to be recognized	Total
Employee severance benefits and related costs	$ 0.3	$ 22.1	$ —	$ 22.1
Asset write-offs and accelerated depreciation	—	71.3	—	71.3
Property removal, restoration and other exit-related costs	1.5	8.6	1.8	10.4
Total Cessation-related costs	$ 1.8	$ 102.0	$ 1.8	$ 103.8

A rollforward of the Cessation-related liabilities during the six months ended June 30, 2017 is as follows (in millions):

	Employee severance benefits and related costs	Other exit costs[1]	Total
Balance at December 31, 2016	$ 13.7	$ 5.4	$ 19.1
Expense	0.3	1.5	1.8
Cash payments	(14.0)	(1.7)	(15.7)
Balance at June 30, 2017	$ —	$ 5.2	$ 5.2

[1] Includes asset retirement obligations.

The Cessation-related liabilities were included in the accompanying condensed consolidated balance sheets as follows (in millions):

	Classification on balance sheet	June 30, 2017	December 31, 2016
Employee severance benefits and related costs	HC&S cessation-related liabilities	$ —	$ 13.7
Other exit costs	HC&S cessation-related liabilities	5.2	5.4
Total Cessation-related liabilities		$ 5.2	$ 19.1

15. INVESTMENTS IN AFFILIATES

The Company's investments in affiliates consist principally of equity investments in limited liability companies in which the Company has the ability to exercise significant influence over the operating and financial policies of these investments. Accordingly, the Company accounts for its investments using the equity method of accounting. Operating results include the Company's proportionate share of net income from its equity method investments. A summary of combined financial information related to the Company's equity method investments for the quarters and six months ended June 30, 2017 and 2016 is as follows (in millions):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$43.6	48.8	$84.2	96.0
Gross Profit	$7.7	8.5	$14.7	17.0
Income from continuing operations*	$3.2	4.2	$6.6	8.8
Net Income*	$3.1	3.9	$6.4	8.6

* Includes earnings from equity method investments held by the investee.

16. DERIVATIVE INSTRUMENTS

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

Cash Flow Hedges of Interest Rate Risk

During 2016, the Company entered into an interest rate swap agreement with a notional amount of $60.0 million which was designated as a cash flow hedge. The Company structured the interest rate swap agreement to hedge the variability of future interest payments due to changes in interest rates with regards to the Company's long-term debt. A summary of the key terms related to the Company's outstanding cash flow hedge as of June 30, 2017 is as follows (dollars in millions):

Effective date	Maturity date	Interest rate	Notional amount at June 30, 2017	Fair value at June 30, 2017	Fair value at December 31, 2016	Classification on balance sheet
4/7/2016	8/1/2029	3.14%	$ 60.0	$2.5	$ 2.8	Other assets

The Company assessed the effectiveness of the cash flow hedge at inception and will continue to do so on an ongoing basis. The effective portion of the changes in fair value of the cash flow hedge is recorded in accumulated other comprehensive loss and subsequently reclassified into interest expense as interest is incurred on the related-variable rate debt. When ineffectiveness exists, the ineffective portion of changes in fair value of the cash flow hedge is recognized in earnings in the period affected.

Non-designated Hedges

As of June 30, 2017, the Company has two interest rate swaps that have not been designated as cash flow hedges whose key terms are as follows (dollars in millions):

Effective date	Maturity date	Interest rate	Notional amount at June 30, 2017	Fair value at June 30, 2017	Fair value at December 31, 2016	Classification on balance sheet
1/1/2014	9/1/2021	5.95%	$ 11.0	$(1.2)	$ (1.3)	Other non-current liabilities
6/18/2008	3/1/2021	5.98%	$ 5.5	$(0.4)	$ (0.5)	Other non-current liabilities
Total			$ 16.5	$(1.6)	$ (1.8)	

The following table represents the pre-tax effect of the derivative instruments in the Company's condensed consolidated statement of comprehensive income (loss) (in millions):

	Quarter Ended June 30,		Six Months Ended June 30,	
Derivatives in Designated Cash Flow Hedging Relationships:	2017	2016	2017	2016
Amount of loss recognized in OCI on derivatives (effective portion)	$0.6	$2.8	$0.6	$2.8

The Company records gains or losses related to interest rate swaps that have not been designated as cash flow hedges in interest expense in its condensed consolidated statements of operations, and the amounts were immaterial during each of the quarters ended June 30, 2017 and 2016.

The Company measures all of its interest rate swaps at fair value. The fair values of the Company's interest rate swaps (Level 2) are based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date and are determined using interest rate pricing models and interest rate related observable inputs.

17. DISCONTINUED OPERATIONS

In December 2016, HC&S completed its final harvest and the Company ceased its sugar operations.

The historical results of operations have been presented as discontinued operations in the condensed consolidated financial statements and prior periods have been recast.

The revenue, operating profit, gain on asset dispositions, income tax (expense) benefit and after-tax effects of these transactions for the quarters and six months ended June 30, 2017 and 2016 were as follows (in millions):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sugar operations revenue (Land Operations)	$0.5	$20.6	$22.6	$38.0
Operating loss before income taxes	$(1.0)	$(20.4)	$(1.2)	$(34.1)
Gain on asset dispositions, net	2.2	—	6.3	—
Income (loss) from discontinued operations before income taxes	1.2	(20.4)	5.1	(34.1)
Income tax (expense) benefit	(0.4)	16.7	(1.9)	19.6
Income (loss) from discontinued operations	$0.8	$(3.7)	$3.2	$(14.5)
Basic earnings (loss) per share	$0.02	$(0.07)	$0.07	$(0.30)
Diluted earnings (loss) per share	$0.02	$(0.07)	$0.07	$(0.30)

There was no depreciation and amortization related to discontinued operations for the quarter and six months ended June 30, 2017. Depreciation and amortization related to discontinued operations was $18.1 million and $34.7 million for the quarter and six months ended June 30, 2016, respectively.

18. SEGMENT RESULTS

Segment results were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Commercial Real Estate	$33.8	$34.5	$67.5	$69.3
Land Operations	12.1	5.5	23.1	11.5
Materials & Construction	52.2	42.0	100.7	92.6
Total revenue	98.1	82.0	191.3	173.4
Operating Profit (Loss):				
Commercial Real Estate	13.4	14.7	27.7	27.8
Land Operations[1]	1.7	(11.5)	(0.7)	(14.8)
Materials & Construction	6.7	4.9	12.3	12.9
Total operating profit	21.8	8.1	39.3	25.9
Interest expense	(6.2)	(6.8)	(12.4)	(13.7)
Gain on the sale of improved property	—	8.0	3.0	8.0
General corporate expenses	(5.9)	(4.0)	(11.6)	(10.8)
REIT evaluation/conversion costs[2]	(2.2)	(1.9)	(7.0)	(1.9)
Income From Continuing Operations Before Income Taxes	7.5	3.4	11.3	7.5
Income tax expense	(3.5)	(0.3)	(2.7)	(0.6)
Income From Continuing Operations	4.0	3.1	8.6	6.9
Income (loss) from discontinued operations, net of income tax	0.8	(3.7)	3.2	(14.5)
Net Income (Loss)	4.8	(0.6)	11.8	(7.6)
Income attributable to noncontrolling interest	(0.5)	(0.1)	(1.2)	(0.6)
Net Income (Loss) Attributable to A&B	$4.3	$(0.7)	$10.6	$(8.2)

[1] For the quarter and six months ended June 30, 2017, Land Operations segment operating profit includes non-cash reductions of $0.2 million and $2.2 million, respectively, related to the Company's solar tax equity investments. For the quarter and six months ended June 30, 2016, Land Operations segment operating profit included non-cash reductions of $9.5 million. The non-cash reductions are recorded in Reductions in solar investment, net on the condensed consolidated statement of operations.

[2] Costs related to the Company's in-depth evaluation of and conversion to a REIT.

19. SUBSEQUENT EVENTS

On July 25, 2017, the Company's Board of Directors declared a quarterly cash dividend of $0.07 per share of outstanding common stock, which will be paid on September 7, 2017 to shareholders of record as of August 7, 2017.

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

The following analysis of the condensed consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries (collectively, the "Company") should be read in conjunction with the condensed consolidated financial statements and related notes thereto included in Item 1 of this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission ("SEC").

FORWARD-LOOKING STATEMENTS

Alexander & Baldwin, Inc. ("A&B" or the "Company"), from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, 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 web sites (including web sites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the factors that are described in "Risk Factors" of this quarterly report, the Company's 2016 Annual Report on Form 10-K and other filings with the SEC. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

INTRODUCTION

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

- Business Overview: This section provides a general description of A&B's business, as well as recent developments that A&B believes are important in understanding its results of operations and financial condition or in understanding anticipated future trends.
- Critical Accounting Estimates: This section identifies and summarizes those accounting policies that significantly impact A&B's reported results of operations and financial condition and require significant judgment or estimates on the part of management in their application.
- Consolidated Results of Operations: This section provides an analysis of A&B's consolidated results of operations for the quarters and six months ended June 30, 2017 and 2016.
- Analysis of Operating Revenue and Profit by Segment: This section provides an analysis of A&B's results of operations by business segment.
- Liquidity and Capital Resources: This section provides a discussion of A&B's financial condition and an analysis of A&B's cash flows for the six months ended June 30, 2017 and 2016, as well as a discussion of A&B's ability to fund its future commitments and ongoing operating activities through internal and external sources of capital.
- Quantitative and Qualitative Disclosures about Market Risk: This section discusses how A&B monitors and manages exposure to potential gains and losses associated with changes in interest rates.

BUSINESS OVERVIEW

A&B, whose history dates back to 1870, is headquartered in Honolulu and operates through three reportable segments: Commercial Real Estate; Land Operations; and Materials & Construction. The Company's three reportable

segments reflect an internal reorganization of the operations and reporting structure that the Company completed in the fourth quarter of 2016 to

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facilitate operational efficiencies and enhance the execution of the Company's businesses. Prior to October 1, 2016, the Company operated under four reportable segments: Commercial Real Estate, Real Estate Development and Sales, Materials & Construction, and Agribusiness. As a result of the segment reorganization, the Company's former Real Estate Development and Sales and Agribusiness segments have been combined into the new Land Operations reportable segment. Additionally, the following items were realigned in connection with the segment changes: (1) agricultural leases that previously were included in the Commercial Real Estate segment were reclassified to the Land Operations segment, (2) certain industrial leases that previously were included in the former Agribusiness segment were reclassified to the Commercial Real Estate segment, (3) sales of commercial properties that previously were included in the former Real Estate Development and Sales segment were reclassified to the Commercial Real Estate segment, and (4) the Company's solar energy investments that previously were presented as Corporate investments were reclassified to Land Operations. The financial information for all prior periods has been recast to correspond to these segment changes.

On July 10, 2017, the Company's board of directors unanimously approved a plan for the Company to be subject to tax as a REIT for U.S. federal income tax purposes commencing with the Company's taxable year ending December 31, 2017. Although the Company began operating in compliance with the requirements for qualification and taxation as a REIT for the taxable year ending December 31, 2017, the Company intends to complete a merger that will create a new holding company structure for the Company to facilitate its ongoing compliance with those requirements. Pursuant to a merger agreement entered into on July 10, 2017 among the Company, A&B REIT Holdings and Merger Sub, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation. As a result of the merger, A&B REIT Holdings will replace the Company as the Hawaii-based, publicly held corporation through which the Company's operations are conducted, and promptly following the merger A&B REIT Holdings will be renamed "Alexander & Baldwin, Inc."

The merger will facilitate the Company's ongoing compliance with the REIT requirements by ensuring that certain standard REIT ownership limitations and transfer restrictions apply to the Company's capital stock. On July 14, 2017, A&B REIT Holdings filed a registration statement on Form S-4 with the Securities and Exchange Commission, which includes a preliminary proxy statement/prospectus that provides information regarding the REIT Election, the proposed merger and the special meeting at which the Company's shareholders will be given the opportunity to vote on the merger.

Commercial Real Estate

The Commercial Real Estate segment owns, operates and manages retail, industrial, and office properties in Hawaii and on the mainland. The Commercial Real Estate segment also leases urban land in Hawaii to third-party lessees.

Land Operations

The Land Operations segment actively manages the Company's land and real estate-related assets and deploys these assets to their highest and best use. Primary activities of the Land Operations segment include planning, zoning, financing, constructing, purchasing, managing, selling, and investing in real property; renewable energy; and diversified agribusiness activities. As a result of the previously mentioned segment realignment, the Company has reclassified the HC&S sugar operations, which completed its final harvest and ceased operations in December 2016, to the Land Operations segment and also presented the operations as discontinued operations for all periods.

Materials & Construction

The Materials & Construction segment performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells basalt aggregate; produces and sells asphaltic and ready-mix concrete; provides and sells various construction- and traffic-control-related products and manufactures and sells precast concrete products.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated – Second quarter of 2017 compared with 2016

	Three Months Ended June 30,			
(dollars in millions, except per-share amounts)	2017	2016	$ Change	% Change
Operating revenue	$98.1	$82.0	16.1	19.6
Operating costs and expenses	87.3	72.4	14.9	20.6
Operating income	10.8	9.6	1.2	12.5
Other expense, net	(3.3)	(6.2)	2.9	(46.8)
Income tax expense	(3.5)	(0.3)	(3.2)	12X
Income from continuing operations	4.0	3.1	0.9	29.0
Discontinued operations (net of income taxes)	0.8	(3.7)	4.5	NM
Net income (loss)	4.8	(0.6)	5.4	NM
Income attributable to noncontrolling interest	(0.5)	(0.1)	(0.4)	5X
Net income (loss) attributable to A&B	$4.3	$(0.7)	5.0	NM
Basic earnings per share - continuing operations	$0.08	$0.06	0.02	33.3
Basic earnings (loss) per share - discontinued operations	0.02	(0.07)	0.09	NM
Net income (loss) available to A&B shareholders	$0.10	$(0.01)	0.11	NM
Diluted earnings per share - continuing operations	$0.07	$0.06	0.01	16.7
Diluted earnings (loss) per share - discontinued operations	0.02	(0.07)	0.09	NM
Net income (loss) available to A&B shareholders	$0.09	$(0.01)	0.10	NM

The Company's consolidated operating revenue increased $16.1 million, or 19.6%, to $98.1 million for the second quarter of 2017 as compared to the second quarter of 2016, reflecting an increase in revenue for Land Operations of $6.6 million, and an increase in Materials & Construction revenue of $10.2 million.

Consolidated operating costs and expenses for the second quarter of 2017 increased $14.9 million, or 20.6%, to $87.3 million compared to the second quarter of 2016. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment. Operating costs and expenses for the second quarter of 2017 also included $2.2 million related to the Company's evaluation and conversion to a REIT.

The Company's other expenses, net were $3.3 million in the second quarter of 2017 compared to $6.2 million in the second quarter of 2016. The change in other income (expense) was primarily due to a lower non-cash reduction to solar investments, net in the second quarter of 2017 as compared to the second quarter of 2016, as well as higher income from the Company's equity method investments.

The Company recorded an income tax expense of $3.5 million on pre-tax income of $7.5 million for the second quarter of 2017, and an income tax expense of $0.3 million on pre-tax income of $3.4 million for the second quarter of 2016. The Company's effective tax rate was higher for the quarter ended June 30, 2017 compared to the same period in 2016 primarily due to the 2016 recognition of non-refundable federal tax credits related to the Company’s investment in two photovoltaic facilities.

Consolidated – First half of 2017 compared with 2016

	Six Months Ended June 30,			
(dollars in millions, except per-share amounts)	2017	2016	$ Change	% Change
Operating revenue	$191.3	$173.4	17.9	10.3
Operating costs and expenses	173.8	155.2	18.6	12.0
Operating income	17.5	18.2	(0.7)	(3.8)
Other expense, net	(6.2)	(10.7)	4.5	(42.1)
Income tax expense	(2.7)	(0.6)	(2.1)	5X
Income from continuing operations	8.6	6.9	1.7	24.6
Discontinued operations (net of income taxes)	3.2	(14.5)	17.7	NM
Net income (loss)	11.8	(7.6)	19.4	NM
Income attributable to noncontrolling interest	(1.2)	(0.6)	(0.6)	100.0
Net income (loss) attributable to A&B	$10.6	$(8.2)	18.8	NM
Basic earnings per share - continuing operations	$0.16	$0.14	0.02	14.3
Basic earnings (loss) per share - discontinued operations	0.07	(0.30)	0.37	NM
Net income (loss) available to A&B shareholders	$0.23	$(0.16)	0.39	NM
Diluted earnings per share - continuing operations	$0.16	$0.14	0.02	14.3
Diluted earnings (loss) per share - discontinued operations	0.07	(0.30)	0.37	NM
Net income (loss) available to A&B shareholders	$0.23	$(0.16)	0.39	NM

The Company's consolidated operating revenue increased $17.9 million, or 10.3%, to $191.3 million for the first half of 2017 as compared to the first half of 2016, reflecting an increase in revenue for Land Operations of $11.6 million, and an increase in revenue for Materials & Construction of $8.1 million.

Consolidated operating costs and expenses for the first half of 2017 increased $18.6 million, or 12.0%, to $173.8 million compared to the first half of 2016. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment. Operating costs and expenses for the first half of 2017 also included $7.0 million related to the Company's evaluation of a REIT conversion.

The Company's other expenses, net, were $6.2 million in the first half of 2017 compared to $10.7 million in the first half of 2016. The change in other income (expense) was primarily due to a lower reduction in solar investments, net, partially offset by lower gains on sales of improved property.

The Company recorded an income tax expense of $2.7 million on pre-tax income of $11.3 million for the first half of 2017, and an income tax expense of $0.6 million on pre-tax income of $7.5 million for the first half of 2016. The Company's effective tax rate was higher for the first half ended June 30, 2017 compared to the same period in 2016 due primarily to the 2016 recognition of non-refundable federal tax credits related to the Company’s investment in two photovoltaic facilities.

ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

Commercial Real Estate – Second quarter of 2017 compared with 2016

	Quarter Ended June 30,		
(dollars in millions)	2017	2016	% Change
Commercial Real Estate segment operating revenue	$33.8	$34.5	(2.0)
Commercial Real Estate segment operating costs and expenses	(18.9)	(20.1)	(6.0)
Selling, general and administrative	(2.0)	(0.3)	6.7x
Other segment income[2]	0.5	0.6	(16.7)
Commercial Real Estate operating profit	$13.4	$14.7	(8.8)
Operating profit margin	39.6 %	42.6 %	
Operating profit by location			
Hawaii	$12.4	$13.0	(4.6)
Mainland	1.0	1.7	(41.2)
Total	$13.4	$14.7	(8.8)
Net Operating Income ("NOI")[1]			
Hawaii	$19.4	$18.3	6.0
Mainland	2.8	4.0	(30.0)
Total	$22.2	$22.3	(0.4)
Same-Store Net Operating Income ("NOI")[1]			
Hawaii	$19.3	$18.4	4.9
Mainland	2.8	2.7	3.7
Total	$22.1	$21.1	4.7
Gross Leasable Area ("GLA") (million sq. ft.) - Improved, end of period			
Hawaii	2.9	2.9	
Mainland	1.8	1.8	
Total improved	4.7	4.7	
Hawaii ground leases (acres)	116	115	

[1]Refer to page 28 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

[2]Other segment income for the Commercial Real Estate segment includes intersegment revenues, primarily from our Materials & Construction segment, which are eliminated in our consolidated results of operations.

Commercial Real Estate revenue for the second quarter of 2017 and 2016 was $33.8 million and $34.5 million, respectively. The decrease was primarily attributable to the cumulative impact of timing of sales and acquisitions during 2016, partially offset by increases in Hawaii same-store rents. "Same-store" refers to properties that were owned throughout the entire duration of both periods under comparison, including stabilized properties. Stabilized properties refer to commercial properties developed by the Company that have achieved 80 percent economic occupancy in each of the periods presented for comparison.

Operating profit and net operating income ("NOI") for the second quarter of 2017 decreased by 8.8% and 0.4%, respectively, compared to the second quarter of 2016. The period over period decrease in operating profit was primarily due to an increase in general and administrative expenses, reflecting the Company’s strategic shift to focus on the growth of the commercial real estate portfolio through acquisition, development and redevelopment, resulting in a reallocation of certain personnel costs to the Commercial Real Estate segment, as well as higher personnel costs related to bringing property management and leasing in-house and the resultant overlap in property management costs while transitioning from existing third-party property management arrangements. The period over period decrease in NOI was primarily due to the timing of sales and acquisitions, partially offset by increases in same-store rents. Same Store NOI for the second quarter of 2017 increased by 4.7% compared to the second quarter of 2016. The period over period increase in Same Store NOI was primarily due to an increase in same-store rents throughout the Hawaii and Mainland portfolios.

Tenant improvement costs were $0.9 million and $1.0 million for the quarter ended June 30, 2017 and 2016, respectively.

The Company's commercial portfolio's occupancy percentage summarized by geographic location and property type as of June 30, 2017 was as follows:

Percent occupancy	Hawaii	Mainland	Total
Retail	93.9	96.0	94.1
Industrial	94.4	97.1	95.9
Office	89.7	87.5	88.2
Total	93.8	94.6	94.1

The Company's commercial portfolio's quarter end same-store occupancy as of June 30, 2017 was 94.1% as compared to 93.6% as of June 30, 2016.

The table below identifies sales and acquisitions between December 31, 2016 and June 30, 2017:

Dispositions			Acquisitions		
Date	Property	Leasable sq. ft.	Date	Property	Leasable sq. ft.
1/17	The Maui Clinic Building	16,600	6/17	Honokohau Industrial	73,200
	Total dispositions	16,600		Total improved acquisitions	73,200

The table below identifies sales and acquisitions between December 31, 2015 and December 31, 2016:

Dispositions			Acquisitions		
Date	Property	Leasable sq. ft.	Date	Property	Leasable sq. ft.
6/16	Ninigret Office Park	185,500	12/16	2927 East Manoa Road (Ground Lease)	N/A
6/16	Gateway Oaks	59,700	1/16	Manoa Marketplace	139,300
6/16	Prospect Park	163,300			
	Total dispositions	408,500		Total improved acquisitions	139,300

Commercial Real Estate – First half of 2017 compared with 2016

	Six Months Ended June 30,		
(dollars in millions)	2017	2016	% Change
Commercial Real Estate segment operating revenue	$67.5	$69.3	(2.6)
Commercial Real Estate segment operating costs and expenses	(37.7)	(40.7)	(7.4)
Selling, general and administrative	(3.2)	(1.8)	77.8
Other segment income[2]	1.1	1.0	10.0
Commercial Real Estate operating profit	$27.7	$27.8	(0.4)
Operating profit margin	41.0 %	40.1 %	
Operating profit by location			
Hawaii	$25.7	$24.9	3.2
Mainland	2.0	2.9	(31.0)
Total	$27.7	$27.8	(0.4)
Net Operating Income ("NOI")[1]			
Hawaii	$38.8	$36.8	5.4
Mainland	5.6	7.9	(29.1)
Total	$44.4	$44.7	(0.7)
Same-Store Net Operating Income ("NOI")[1]			
Hawaii	$35.4	$34.3	3.2
Mainland	5.6	5.4	3.7
Total	$41.0	$39.7	3.3

[1]Refer to page 28 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

[2]Other segment income for the Commercial Real Estate segment includes intersegment revenues, primarily from our Materials & Construction segment, which are eliminated in our consolidated results of operations.

Commercial Real Estate revenue for the first half of 2017 decreased $1.8 million from the first half of 2016, primarily due to the timing of sales and acquisitions during 2016, partially offset by an increase in Hawaii same-store rents. "Same-store" refers to properties that were owned throughout the entire duration of both periods under comparison, including stabilized properties. Stabilized properties refer to commercial properties developed by the Company that have achieved 80 percent economic occupancy in each of the periods presented for comparison.

Operating profit and net operating income ("NOI") for the first half of 2017 decreased by 0.4% and 0.7%, respectively, compared to the same period last year. The period over period decrease in operating profit was primarily due to an increase in general and administrative expenses, reflecting the Company's strategic shift to focus on the growth of the commercial real estate portfolio through acquisition, development and redevelopment, resulting in a reallocation of certain personnel costs to the Commercial Real Estate segment, as well as higher personnel costs related to bringing property management and leasing in-house and the resultant overlap in property management costs while transitioning from existing third-party property management arrangements. The period over period decrease in NOI was primarily due to the timing of sales and acquisitions, partially offset by increases in same-store rents. Same Store NOI for the first half of 2017 increased by 3.3% compared to the first half of 2016. The period over period increase in Same Store NOI was primarily due to an increase in same-store rents throughout the Hawaii and Mainland portfolios.

Tenant improvement costs were $1.5 million and $2.4 million for the six months ended June 30, 2017 and 2016, respectively.

Use of Non-GAAP Financial Measures

Net operating income ("NOI") is presented for the Commercial Real Estate segment, and is calculated by adjusting segment operating profit for depreciation and amortization, straight-line lease adjustments, and general, administration and other expenses. Other real estate companies may use different methodologies for calculating NOI, and accordingly, the Company's presentation of NOI may not be comparable to other real estate companies.

NOI is a non-GAAP measure used by the Company in evaluating the segment's operating performance as it is an indicator of the return on property investment, and provides a method of comparing performance of core operations, on an unlevered basis, over time. NOI should be not be viewed as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

A reconciliation of Commercial Real Estate segment operating profit to Commercial Real Estate segment NOI is as follows:

Reconciliation of Commercial Real Estate Operating Profit to NOI

	Quarter Ended June 30,						
(dollars in millions)	2017			2016			
	Hawaii	Mainland	Total	Hawaii	Mainland	Total	% Change
Commercial Real Estate Operating Profit	$12.4	$ 1.0	$13.4	$13.0	$ 1.7	$14.7	(8.8)
Adjustments:							
Depreciation and amortization	5.0	1.5	6.5	5.2	2.1	7.3	(11.0)
Straight-line lease adjustments	(0.5)	—	(0.5)	(0.7)	—	(0.7)	(28.6)
General, administrative and other expenses	2.5	0.3	2.8	0.8	0.2	1.0	180.0
Commercial Real Estate NOI	19.4	2.8	22.2	18.3	4.0	22.3	(0.4)
Acquisitions/disposition and other adjustments	(0.1)	—	(0.1)	0.1	(1.3)	(1.2)	(91.7)
Commercial Real Estate Same-Store NOI	$19.3	$ 2.8	$22.1	$18.4	$ 2.7	$21.1	4.7

	Six Months Ended June 30,						
(dollars in millions)	2017			2016			
	Hawaii	Mainland	Total	Hawaii	Mainland	Total	% Change
Commercial Real Estate Operating Profit	$25.7	$ 2.0	$27.7	$24.9	$ 2.9	$27.8	(0.4)
Adjustments:							
Depreciation and amortization	10.1	3.0	13.1	10.4	4.3	14.7	(10.9)
Straight-line lease adjustments	(1.0)	—	(1.0)	(1.4)	0.2	(1.2)	(16.7)
General, administrative and other expenses	4.0	0.6	4.6	2.9	0.5	3.4	35.3
Commercial Real Estate NOI	38.8	5.6	44.4	36.8	7.9	44.7	(0.7)
Acquisitions/disposition and other adjustments	(3.4)	—	(3.4)	(2.5)	(2.5)	(5.0)	(32.0)
Commercial Real Estate Same-Store NOI	$35.4	$ 5.6	$41.0	$34.3	$ 5.4	$39.7	3.3

Land Operations – Second quarter of 2017 compared with 2016

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

	Quarter Ended June 30,	
(dollars in millions)	2017	2016
Development sales revenue	$0.7	$—
Unimproved/other property sales revenue	4.4	—
Agribusiness revenue	6.1	5.2
Other operating revenues	0.9	0.3
Total Land Operations segment revenue	$12.1	$5.5
Operating expenses	(12.0)	(8.2)
Earnings from joint ventures	0.6	(0.1)
Reductions in solar investments, net	(0.2)	(9.5)
Interest and other income	1.2	0.8
Total Land Operations operating profit (loss)	$1.7	$(11.5)

Second quarter 2017: Land Operations operating revenue and operating profit were $12.1 million and $1.7 million, respectively. Operating results for the Land Operations segment included $1.9 million of profit related to the sales of a 3-acre parcel in Wailea, Maui and a 6-acre parcel in Haliimaile, Maui, partially offset by operating expenses and $0.2 million non-cash reduction in the carrying value of the Company's Waihonu solar investment. The Company also recorded income from joint ventures of $0.6 million during the second quarter of 2017, compared to a loss from joint ventures of $0.1 million in the second quarter of 2016.

Second quarter 2016: Land Operations operating revenue and operating loss were $5.5 million and $11.5 million, respectively. Operating results included a $9.5 million non-cash reduction in the carrying value of the Company's Waihonu solar investment, operating expenses, partially offset by revenue from the sale of electricity generated by the Company's renewable energy assets.

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Land Operations – First half of 2017 compared with 2016

(dollars in millions)	Six Months Ended June 30, 2017	2016
Development sales revenue	$3.1	$—
Unimproved/other property sales revenue	6.0	—
Agribusiness revenue	12.5	10.9
Other operating revenues	1.5	0.6
Total Land Operations segment revenue	$23.1	$11.5
Operating expenses	(24.3)	(18.3)
Earnings from joint ventures	0.7	0.4
Reductions in solar investments, net	(2.2)	(9.5)
Interest and other income	2.0	1.1
Total Land Operations operating loss	$(0.7)	$(14.8)

First half 2017: Land Operations operating revenue and operating loss were $23.1 million and $0.7 million, respectively. Operating results for the Land Operations segment included a $2.2 million non-cash reduction in the carrying value of the Company's Waihonu solar investment, segment operating expenses, partially offset by $4.6 million of profit related to the sales of a 3-acre parcel in Wailea, Maui, a 6-acre parcel in Haliimaile, Maui, a 1-acre lot at Maui Business Park, and a 0.8-acre vacant, urban parcel on Maui, as well as revenue generated from the Company's renewable energy assets.

First half 2016: Land Operations operating revenue and operating loss were $11.5 million and $14.8 million, respectively. Operating results included a $9.5 million non-cash reduction in the carrying value of the Company's Waihonu solar investment, segment operating expenses, partially offset by revenue from the sale of electricity generated by the Company's renewable energy assets.

Discontinued Operations

The revenue, operating profit (loss), and after-tax effects of discontinued operations as of June 30, 2017 and 2016 were as follows (in millions):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sugar operations revenue (Land Operations)	$0.5	$20.6	$22.6	$38.0
Operating loss before income taxes	$(1.0)	$(20.4)	$(1.2)	$(34.1)
Gain on asset dispositions	2.2	—	6.3	—
Income (loss) from discontinued operations before income taxes	1.2	(20.4)	5.1	(34.1)
Income tax (expense) benefit	(0.4)	16.7	(1.9)	19.6
Income (loss) from discontinued operations	$0.8	$(3.7)	$3.2	$(14.5)
Basic earnings (loss) per share	$0.02	$(0.07)	$0.07	$(0.30)
Diluted earnings (loss) per share	$0.02	$(0.07)	$0.07	$(0.30)

Second quarter 2017: Income from discontinued operations of $0.8 million during the second quarter of 2017 reflected the gain on asset dispositions and the results of operations, partially offset by cessation-related costs. During the quarter ended June 30, 2017, the Company sold factory equipment which resulted in a total gain of $2.2 million. The cessation charges included costs related to employee severance and benefits, as well as property removal, restoration and other exit-related costs. See Note 14, "Cessation of Sugar Operations" for further discussion regarding the cessation and the related costs associated with such exit and disposal activities.

Second quarter 2016: Loss from discontinued operations of $3.7 million during the second quarter of 2016 reflected sugar operations cessation costs, partially offset by results of the sugar operations. The cessation charges included accelerated depreciation, employee severance benefits and related costs, and property removal, restoration and other exit-related costs.

First half 2017: Income from discontinued operations of $3.2 million during the first half of 2017 reflected the gain on asset dispositions and the results of operations related to the final sugar voyage, partially offset by cessation-related costs. During the first half ended June 30, 2017, the Company sold mobile equipment assets, its bulk sugar transportation vessel and factory equipment, which resulted in a total gain of $6.3 million. Additionally, the Company recognized revenue and operating profit during the first half of 2017, primarily related to the final delivery of sugar inventory, which occurred in January 2017. The cessation charges included costs related to employee severance and benefits, as well as property removal, restoration and other exit-related costs. See Note 14, "Cessation of Sugar Operations" for further discussion regarding the cessation and the related costs associated with such exit and disposal activities.

First half 2016: Loss from discontinued operations of $14.5 million during the first half of 2016 reflected sugar operations cessation costs, partially offset by results of the sugar operations. The cessation charges included accelerated depreciation, employee severance benefits and related costs, and property removal, restoration and other exit-related costs.

MATERIALS & CONSTRUCTION

Materials & Construction - Second quarter of 2017 compared with 2016

	Quarter Ended June 30,		
(dollars in millions)	2017	2016	% Change