

Alexander & Baldwin, Inc.
Form 10-Q
August 02, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-35492

ALEXANDER & BALDWIN, INC.

(Exact name of registrant as specified in its charter)

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

P. O. Box 3440, Honolulu, Hawai`i 96801
(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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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.

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

Number of shares of common stock outstanding as of June 30, 2018: 72,022,647

ALEXANDER & BALDWIN, INC.
 FORM 10-Q
 For the Quarterly Period Ended June 30, 2018

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALEXANDER & BALDWIN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts) (Unaudited)

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Operating Revenue:				
Commercial Real Estate	\$33.8	\$33.8	\$69.0	\$67.5
Land Operations	19.3	12.1	48.6	23.1
Materials & Construction	59.0	52.2	107.8	100.7
Total operating revenue	112.1	98.1	225.4	191.3
Operating Costs and Expenses:				
Cost of Commercial Real Estate	19.2	18.9	37.8	37.7
Cost of Land Operations	19.8	9.0	49.6	17.4
Cost of Materials & Construction	50.1	41.7	93.0	80.8
Selling, general and administrative	15.1	14.8	30.1	29.5
REIT evaluation/conversion costs	—	2.2	—	7.0
Total operating costs and expenses	104.2	86.6	210.5	172.4
Operating Income (Loss)	7.9	11.5	14.9	18.9
Income (loss) related to joint ventures	4.4	1.9	1.8	3.2
Reductions in solar investments, net	(0.2)	(0.2)	(0.3)	(2.2)
Interest and other income (expense), net (Note 2)	(0.6)	0.5	(1.3)	0.8
Interest expense	(8.9)	(6.2)	(17.3)	(12.4)
Income (Loss) from Continuing Operations Before Income Taxes and Net Gain (Loss) on Sale of Improved Properties and Ground Leased Land	2.6	7.5	(2.2)	8.3
Income tax benefit (expense)	0.1	(3.5)	2.8	(2.7)
Income (Loss) from Continuing Operations Before Net Gain (Loss) on Sale of Improved Properties and Ground Leased Land	2.7	4.0	0.6	5.6
Net gain (loss) on the sale of improved properties and ground leased land	0.2	—	49.8	3.0
Income (Loss) from Continuing Operations	2.9	4.0	50.4	8.6
Income (loss) from discontinued operations, net of income taxes	0.1	0.8	—	3.2
Net Income (Loss)	3.0	4.8	50.4	11.8
Income (loss) attributable to noncontrolling interest	(0.5)	(0.5)	(0.6)	(1.2)
Net Income (Loss) Attributable to A&B Shareholders	\$2.5	\$4.3	\$49.8	\$10.6
Basic Earnings (Loss) Per Share of Common Stock:				
Continuing operations available to A&B shareholders	\$0.03	\$0.08	\$0.72	\$0.16
Discontinued operations available to A&B shareholders	—	0.02	—	0.07
Net income (loss) available to A&B shareholders	\$0.03	\$0.10	\$0.72	\$0.23
Diluted Earnings (Loss) Per Share of Common Stock:				
Continuing operations available to A&B shareholders	\$0.03	\$0.07	\$0.69	\$0.16
Discontinued operations available to A&B shareholders	—	0.02	—	0.07
Net income (loss) available to A&B shareholders	\$0.03	\$0.09	\$0.69	\$0.23

Weighted-Average Number of Shares Outstanding:

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Basic	72.0	49.2	69.2	49.1
Diluted	72.3	49.6	72.3	49.6

Amounts Available to A&B Shareholders (Note 4):

Continuing operations available to A&B shareholders, net of income taxes	\$2.4	\$3.7	\$49.8	\$8.1
Discontinued operations available to A&B shareholders, net of income taxes	0.1	0.8	—	3.2
Net income (loss) available to A&B shareholders	\$2.5	\$4.5	\$49.8	\$11.3

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income (Loss)	\$3.0	\$4.8	\$50.4	\$11.8
Other Comprehensive Income (Loss), net of tax:				
Unrealized interest rate hedging gain (loss)	0.6	(0.6)	2.4	(0.6)
Reclassification adjustment for interest expense included in net income (loss)	—	0.1	—	0.3
Defined benefit pension plans:				
Amortization of net loss included in net periodic pension cost	1.2	1.3	2.2	2.5
Amortization of prior service credit included in net periodic pension cost	(0.1)	(0.2)	(0.3)	(0.5)
Curtailment (gain)/loss	(0.4)	—	(0.4)	—
Income taxes related to other comprehensive income (loss)	(0.3)	(0.1)	(1.0)	(0.5)
Other comprehensive income (loss), net of tax	1.0	0.5	2.9	1.2
Comprehensive Income (Loss)	4.0	5.3	53.3	13.0
Comprehensive income (loss) attributable to noncontrolling interest	(0.5)	(0.5)	(0.6)	(1.2)
Comprehensive Income (Loss) Attributable to A&B Shareholders	\$3.5	\$4.8	\$52.7	\$11.8

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions) (Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$9.5	\$68.9
Accounts receivable, net	54.7	47.3
Costs and estimated earnings in excess of billings on uncompleted contracts	19.9	20.2
Inventories	28.7	31.9
Real estate held for sale	15.9	67.4
Prepaid expenses and other assets	38.4	39.1
Total current assets	167.1	274.8
Investments in Affiliates	388.3	401.7
Real Estate Developments	139.6	151.0
Property – Net	1,321.0	1,147.5
Intangible Assets – Net	77.8	46.9
Deferred Tax Asset	18.4	16.5
Goodwill	102.3	102.3
Restricted Cash	0.2	34.3
Other Assets	57.5	56.2
Total assets	\$2,272.2	\$2,231.2
LIABILITIES AND EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt	\$35.8	\$46.0
Accounts payable	40.1	43.3
Billings in excess of costs and estimated earnings on uncompleted contracts	2.0	5.7
Accrued dividends	—	783.0
Accrued and other liabilities	43.0	48.8
Total current liabilities	120.9	926.8
Long-term Liabilities:		
Long-term debt	755.0	585.2
Accrued retirement benefits	23.1	22.7
Other non-current liabilities	34.8	37.4
Total long-term liabilities	812.9	645.3
Total liabilities	933.8	1,572.1
Redeemable Noncontrolling Interest	8.0	8.0
Equity:		
Common stock	1,790.8	1,161.7
Accumulated other comprehensive income (loss)	(39.4)	(42.3)
Distributions in excess of accumulated earnings	(426.0)	(473.0)
Total A&B shareholders' equity	1,325.4	646.4
Noncontrolling interest	5.0	4.7
Total equity	1,330.4	651.1
Total liabilities and equity	\$2,272.2	\$2,231.2
See Notes to Condensed Consolidated Financial Statements.		

ALEXANDER & BALDWIN, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions) (Unaudited)

	Six Months Ended June 30, 2018		2017
Cash Flows from			
Operating Activities:			
Net income (loss)	\$ 50.4		\$ 11.8
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation and amortization	21.3		21.0
Deferred income taxes	(2.7)	)	0.1
Gains on asset transactions, net of asset write-downs	(50.7)	)	(12.1)
Share-based compensation expense	2.7		2.2
Investments in affiliates, net of distributions of income	3.2		5.8
Changes in operating assets and liabilities:			
Trade, contracts retention, and other receivables	(8.2)	)	(6.3)
Costs and estimated earnings in excess of billings on uncompleted contracts - net	(3.5)	)	0.6
Inventories	3.2		9.2
Prepaid expenses, income tax receivable and other assets	1.5		(3.7)
Accrued pension and post-retirement benefits	5.0		1.6
Accounts payable	(2.7)	)	(3.6)
Accrued and other liabilities	(13.4)	)	(36.6)
Real estate inventory sales (real estate developments held for sale)	34.1		2.9
Expenditures for real estate inventory (real estate developments held for sale)	(13.4))	(9.5)

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Net cash provided by (used in) operations	26.8		(16.6)
Cash Flows from Investing Activities:				
Capital expenditures for acquisitions	(194.7	)	(10.1)
Capital expenditures for property, plant and equipment	(25.3	)	(13.3)
Proceeds from disposal of property and other assets	155.3		16.6	
Payments for purchases of investments in affiliates and other investments	(15.8	)	(23.9)
Distributions of capital from investments in affiliates and other investments	20.3		2.0	
Net cash provided by (used in) investing activities	(60.2	)	(28.7)
Cash Flows from Financing Activities:				
Proceeds from issuance of long-term debt	504.1		83.5	
Payments of long-term debt and deferred financing costs	(391.1	)	(35.1)
Borrowings (payments) on line-of-credit agreement, net	(14.9	)	11.4	
Distribution to noncontrolling interests	(0.2	)	(0.2)
Cash dividends paid	(156.6	)	(6.9)
Proceeds from issuance (repurchase) of capital stock and other, net	(1.4	)	(4.0)
Net cash provided by (used in) financing activities	(60.1	)	48.7	
Cash, Cash Equivalents and Restricted Cash:				
Net increase (decrease) in cash, cash equivalents, and restricted cash	(93.5)	3.4	
	103.2		12.3	

Balance, beginning of
period

Balance, end of period	\$	9.7	\$	15.7
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Other Cash Flow

Information:

Interest paid, net of capitalized interest	\$	(17.0)	\$	(8.5)
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	\$	1.4		\$	2.3	
Fair value of loan assumed in connection with acquisition	\$	61.0		\$	—	
Issuance of shares for stock dividend	\$	626.4		\$	—	

Reconciliation of cash, cash equivalents and restricted cash:

Beginning of the period

Cash and cash equivalents	\$	68.9		\$	2.2	
Restricted cash		34.3			10.1	
Cash, cash equivalents and restricted cash	\$	103.2		\$	12.3	

End of the period

Cash and cash equivalents	\$	9.5		\$	11.0	
Restricted cash		0.2			4.7	
Cash, cash equivalents and restricted cash	\$	9.7		\$	15.7	

See Notes to Condensed Consolidated Financial Statements.

ALEXANDER & BALDWIN, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
 For the Six Months Ended June 30, 2018 and 2017
 (In millions) (Unaudited)

	Total Equity		(Distributions in Excess of Accumulated)			Redeemable Non-Controlling Interest	
	Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interest	Total		
	Stated Share Value	(Loss)	Earnings	Interest	Interest		
Balance, January 1, 2017	49.0	\$1,157.3	\$(43.2)	\$95.2	\$3.9	\$1,213.2	\$10.8
Net income (loss)	—	—	—	10.6	0.5	11.1	0.7
Other comprehensive income (loss), net of tax	—	—	1.2	—	—	1.2	—
Dividends on common stock (\$0.07 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

	Total Equity		(Distributions in Excess of Accumulated)			Redeemable Non-Controlling Interest	
	Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interest	Total		
	Stated Share Value	(Loss)	Earnings	Interest	Interest		
Balance, January 1, 2018	49.3	\$1,161.7	\$(42.3)	\$(473.0)	\$4.7	\$651.1	\$8.0
Net income (loss)	—	—	—	49.8	0.5	50.3	0.1
Impact of adoption of ASU 2014-09	—	—	—	(1.4)	—	(1.4)	—
Other comprehensive income (loss), net of tax	—	—	2.9	—	—	2.9	—
Stock dividend (\$11.65 per share)	22.6	626.4	—	—	—	626.4	—
Distributions to noncontrolling interest	—	—	—	—	(0.2)	(0.2)	—
Adjustments to redemption value of redeemable noncontrolling interest	—	—	—	0.1	—	0.1	(0.1)
Share-based compensation	—	2.7	—	—	—	2.7	—
Shares issued or repurchased, net	0.1	—	—	(1.5)	—	(1.5)	—
Balance, June 30, 2018	72.0	\$1,790.8	\$(39.4)	\$(426.0)	\$5.0	\$1,330.4	\$8.0

See Notes to Condensed Consolidated Financial Statements.

Alexander & Baldwin, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. DESCRIPTION OF BUSINESS

Alexander & Baldwin, Inc. ("A&B" or the "Company") is headquartered in Honolulu and operates three segments: Commercial Real Estate ("CRE"); Land Operations; and Materials & Construction ("M&C"). In the fourth quarter of 2017, the Company completed a conversion process to comply with the requirements to be treated as a real estate investment trust ("REIT") commencing with the taxable year ended December 31, 2017.

On November 16, 2017, the Company declared a special distribution to its shareholders in the aggregate amount of \$783.0 million (approximately \$15.92 per share) (the "Special Distribution") in connection with its conversion to a REIT. On January 23, 2018, the Company completed the Special Distribution to shareholders in the form of \$156.6 million of cash dividends and issuance of \$626.4 million of common shares. As of June 30, 2018, the Company had 72.0 million shares outstanding.

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, 2017 and 2016, 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, 2017 and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), and other subsequent filings with the U.S. Securities and Exchange Commission.

Reclassifications: Certain amounts in the Company's prior period condensed consolidated financial statements have been reclassified to conform to the current period presentation. In connection with the adoption of Accounting Standards Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, transfers to or from restricted cash which have previously been shown in the Company's investing activities section of the condensed consolidated statements of cash flows are now required to be shown as part of the total change in cash, cash equivalents and restricted cash in the condensed consolidated statements of cash flows. This change resulted in a decrease in cash flows used in investing activities of \$5.4 million during the six months ended June 30, 2017. Additionally, the Company disaggregated and separately presented long-term costs of its employee benefit plans within Accrued retirement benefits in its condensed consolidated balance sheet. In connection with such presentation, the Company reclassified \$2.8 million of accrued costs related to its non-qualified benefit plans from Other non-current liabilities and \$19.9 million of accrued costs related to its qualified pension and post-retirement benefit plans from Accrued pension and post-retirement benefits in its condensed consolidated balance sheet as of December 31, 2017.

Rounding: Amounts in the condensed consolidated financial statements and notes are rounded to the nearest tenth of a million. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may result in differences.

Significant Accounting Policies: The Company's significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of the Company's 2017 Form 10-K. Changes to significant accounting policies are included herein.

Revenue recognition

Sources of revenue for the Company primarily include commercial property rentals, sales of real estate, real estate development projects, material sales and paving construction projects. The Company generates revenue from three distinct business segments:

Commercial Real Estate: The Commercial Real Estate segment owns, operates, leases, and manages a portfolio of retail, office, and industrial properties in Hawai`i; it also leases urban land in Hawai`i to third-party lessees. Commercial Real Estate revenue is recognized on a straight-line basis over the term of the corresponding lease. Also included in rental revenues are certain tenant reimbursements and percentage rents determined in accordance with the terms of the lease. The Company records revenue

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for real estate taxes paid by its tenants for commercial properties with an offsetting expense in Cost of Commercial Real Estate in the accompanying condensed consolidated statement of operations, as the Company has concluded it is the primary obligor.

Land Operations: Revenues from sales of real estate are recognized at the point in time when control of the underlying goods is transferred to the customer and the payment is due (generally on the closing date). For certain development projects the Company will use a percentage of completion for revenue recognition. Under this method, the amount of revenue recognized is based on the development costs that have been incurred throughout the reporting period as a percentage of total expected developments associated with the development project.

Materials & Construction: Revenue from the Materials & Construction segment is primarily generated from material sales and paving and construction contracts. The recognition of revenue is based on the underlying terms of the transactions.

Materials: Revenues from material sales, which include basalt aggregate, liquid asphalt and hot mix asphalt, are usually recognized at a point in time when control of the underlying goods is transferred to the customers (generally this occurs when materials are picked up by customers or their agents) and when the Company has a present right to payment for materials sold.

Construction: The Company's construction contracts generally contain a single performance obligation as the promise to transfer individual goods or services are not separately identifiable from other promises in the contracts and is, therefore, not distinct. Revenue is earned from construction contracts over a period of time as control is continuously transferred to customers.

Construction contracts can generally be categorized into two types of contracts with customers based on the respective payment terms; either lump sum or unit priced. Lump sum contracts require the total amount of work be performed under a single fixed price irrespective of actual quantities or actual costs. Earnings on both unit price contracts and lump sum fixed-price paving contracts are recognized using the percentage of completion, cost-to-cost, input method as it is able to faithfully depict the transfer of control of the underlying assets to the customer. Certain construction contracts include retainage provisions. The balances billed but not paid by customers pursuant to these provisions generally become due upon completion and acceptance of the project work or products by the owners.

The Company deems its contract prices reflective of the standalone selling prices of the underlying goods and services since the contracts are required to go through a competitive bidding process. The Company recognizes revenue on a net basis excluding indirect taxes, such as sales tax and value added tax collected from customers and remitted to government authorities.

Interest and other income (expense), net

Interest and other income (expense), net is primarily comprised of the non-service cost components of pension and postretirement benefit expense and interest income. For the three and six months ended June 30, 2018 and 2017, Interest and other income (expense), net included the following:

	Three Months		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
(in millions)	2018	2017	2018	2017
Pension and postretirement benefit expense	\$(0.8)	\$(0.7)	\$(1.5)	\$(1.4)
Interest income	0.1	1.3	0.2	2.3
Other income (expense)	0.1	(0.1)	—	(0.1)
Interest and other income (expense), net	\$(0.6)	\$0.5	\$(1.3)	\$0.8

Interest costs on developments and major redevelopments are capitalized as part of real estate development and redevelopment projects that have not yet been placed into service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use. Capitalized interest costs related to development activities were \$0.2 million and \$0.5 million for the six months ended June 30, 2018 and 2017, respectively.

Recently adopted accounting pronouncements

In May 2014, Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") to provide guidance for revenue recognition and has superseded the revenue recognition requirements in FASB Accounting Standards Codification ("ASC") 605, as well as most industry-specific guidance. Under ASU 2014-09, revenue is recognized when a customer obtains control of the 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.

The Company adopted the provisions of ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method and applied ASU 2014-09 to those contracts that were not completed as of January 1, 2018 and whose revenue was historically accounted for under ASC 605. The cumulative impact of the adoption was a net reduction to other assets and distributions in excess of retained earnings of \$1.4 million as of January 1, 2018. In accordance with ASU 2014-09, the disclosure of the impact of adoption to our condensed consolidated balance sheet was as follows (in millions):

	Balance as of December 31, 2017	Impact of adoption	Balance as of January 1, 2018
Other Assets	\$ 56.2	\$ (1.4)	\$ 54.8
Distributions in excess of accumulated earnings	\$ (473.0)	\$ (1.4)	\$ (474.4)

The adoption of ASU 2014-09 did not significantly impact the Company's revenue recognition treatment for its Materials & Construction business segment due to the short term duration of the Company's construction contracts. The Company's Commercial Real Estate business segment recognizes its revenue under the accounting framework of ASC 840, Leases and is therefore excluded from the scope of ASU 2014-09.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

Recently issued accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. The guidance replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. This ASU is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

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. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2018. The FASB has subsequently issued other related ASUs, which amend ASU 2016-02 to provide transition practical expedients that an entity may elect to apply and other guidance. The Company is currently in the process of assessing the inventory of its leases that will be impacted by the adoption. The Company does not expect the adoption of the new guidance to have a material impact on the accounting treatment and disclosures of the Company's leases.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The guidance amends the hedge accounting model in ASC 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. The amendments expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. This ASU eliminates

the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period or fiscal year before the effective date. For cash flow and net investment hedges existing at the date of adoption, entities will apply the new guidance using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The guidance provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified. The presentation and disclosure

requirements apply prospectively. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220). The guidance permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings, giving entities the option to reclassify these amounts rather than require reclassification. The FASB also gave entities the option to apply the guidance retrospectively or in the period of adoption. When adopted, the standard requires all entities to make new disclosures, regardless of whether they elect to reclassify stranded amounts. Entities are required to disclose whether or not they elected to reclassify the tax effects related to the Tax Cuts and Jobs Act of 2017 as well as their policy for releasing income tax effects from accumulated OCI. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Entities are able to early adopt the guidance in any interim or annual period for which financial statements have not yet been issued and apply it either (1) in the period of adoption or (2) retrospectively to each period in which the income tax effects of the Tax Cuts and Jobs Act of 2017 related to items in accumulated OCI are recognized. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The guidance expands the scope of ASC 718 to include share-based payment transactions with the exception of specific guidance related to the attribution of compensation cost. The guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new 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 2017 Form 10-K, included the following (in millions) as of June 30, 2018:

Standby letters of credit ^(a)	\$11.8
Bonds ^(b)	\$437.5

^(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.

^(b) Represents bonds related to construction and real estate activities in Hawai'i. Approximately \$412.2 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.

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, 2018, the Company's limited guarantees on indebtedness related to two of its unconsolidated joint ventures totaled \$3.1 million. The Company has not incurred any significant historical losses related to guarantees on its joint venture indebtedness.

Other than obligations described above and those described in the Company's 2017 Form 10-K, obligations of the Company's 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 Hawai`i 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 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 make an immediate appeal of this ruling. In May 2016, the Hawai'i 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 annual authorization of the existing holdover permits was sought and granted by the BLNR in December 2016 and November 2017. 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 Hawai'i ("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 Hawai'i 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 the former Hawaiian Commercial & Sugar Company ("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 the hearings officer in the re-opened evidentiary hearings issued his proposed decision in August 2017. After hearing arguments on the proposed decision in October 2017, the Commission issued its final decision on June 20, 2018. The Commission's decision confirmed the Company's prior voluntary commitment to fully and permanently restore seven taro streams. It additionally called for the full restoration of three additional streams, partially restored flow in five streams to support habitat for native stream life, and provided for minimum connectivity flows in seven streams to allow for passage of biota across diversion structures in those streams. No party appealed the Commission's decision by July 20, 2018, the deadline for any such appeal.

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 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 Hawai'i 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. Contested case proceedings were

held to simultaneously reconsider the IIFS, determine appurtenant water rights, and consider applications for water use permits. Based on those proceedings, the Hearing Officer issued his recommendation to the Water Commission on November 1, 2017. The Commission has not yet issued its decision.

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 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 as well as adjusted by the number of additional shares, if any, that would have been outstanding had the potentially dilutive common shares been issued.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income (loss) from Continuing Operations, net of income taxes	\$2.9	\$4.0	\$50.4	\$8.6
Less: Income (loss) attributable to noncontrolling interest	(0.5)	(0.5)	(0.6)	(1.2)
Income (loss) from continuing operations attributable to A&B shareholders, net of income taxes	2.4	3.5	49.8	7.4
Undistributed earnings allocated to redeemable noncontrolling interest	—	0.2	—	0.7
Income (loss) from continuing operations available to A&B shareholders, net of income taxes	2.4	3.7	49.8	8.1
Income (loss) from discontinued operations available to A&B shareholders, net of income taxes	0.1	0.8	—	3.2
Net income (loss) available to A&B shareholders	\$2.5	\$4.5	\$49.8	\$11.3

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,	
	2018	2017	2018	2017
Denominator for basic EPS - weighted average shares outstanding	72.0	49.2	69.2	49.1
Effect of dilutive securities:				
Non-participating stock options and restricted stock unit awards	0.3	0.4	0.4	0.5
Special Distribution	—	—	2.7	—
Denominator for diluted EPS - weighted average shares outstanding	72.3	49.6	72.3	49.6

There were 0.2 million shares of anti-dilutive securities outstanding during the three and six months ended June 30, 2018. The number of anti-dilutive securities outstanding during the three and six months ended June 30, 2017 were immaterial.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Other than disclosed as follows, the fair value of the Company's financial instruments approximate their carrying values due to their terms and/or short-term nature.

The carrying amount and fair value of the Company's debt at June 30, 2018 was \$790.8 million and \$781.4 million, respectively, and \$631.2 million and \$642.3 million at December 31, 2017 respectively. The fair value of 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).

The Company carries its interest rate swaps at fair value. See Note 16 for fair value information regarding the Company's derivative instruments.

6. INVENTORIES

Inventories are stated at the lower of cost (principally average cost, first-in, first-out basis) or net realizable value. Inventories as of June 30, 2018 and December 31, 2017 were as follows (in millions):

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	June 30, December 31,	
	2018	2017
Asphalt	\$ 8.2	\$ 12.2
Processed rock and sand	13.7	13.5
Work in progress	3.4	2.8
Retail merchandise	1.7	1.7
Parts, materials and supplies inventories	1.7	1.7
Total	\$ 28.7	\$ 31.9

7. SHARE-BASED PAYMENT AWARDS

The following table summarizes the Company's stock option activity for the six months ended June 30, 2018 (in thousands, except weighted-average exercise price and weighted-average contractual life):

	2012 Plan Stock Options	Weighted- Average Exercise Price	Weighted- Average Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2018	630.5	\$ 12.58		
Exercised	(11.3)	\$ 12.24		
Outstanding, June 30, 2018	619.2	\$ 12.58	2.5	\$ 6,893
Vested or expected to vest	619.2	\$ 12.58	2.5	\$ 6,893
Exercisable, June 30, 2018	619.2	\$ 12.58	2.5	\$ 6,893

The following table summarizes non-vested restricted stock unit activity for the six months ended June 30, 2018 (in thousands, except weighted-average grant-date fair value amounts):

	2012 Plan Restricted Stock Units	Weighted- Average Grant-date Fair Value
Outstanding, January 1, 2018	318.9	\$ 36.66
Anti-dilutive adjustment for Special Distribution	182.9	
Granted	248.4	\$ 28.76
Vested	(175.2)	\$ 22.48
Canceled	(66.0)	\$ 24.47
Outstanding, June 30, 2018	509.0	\$ 25.91

The time-based restricted stock units granted to employees vest ratably over a period of 3 years. The time-based restricted stock units granted to non-employee directors prior to 2018 vest ratably over a period of 3 years, and the time-based restricted stock units granted to non-employee directors during 2018 vest over 1 year. The market-based 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 total shareholder returns relative to indices, as defined.

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:

	2018	2017
	Grants	Grants
Volatility of A&B common stock	22.7 %	25.4 %
Average volatility of peer companies	21.6 %	25.7 %
Risk-free interest rate	2.3 %	1.5 %

The Company recognizes compensation cost net of actual forfeitures of time-based or market-based awards. A summary of compensation cost related to share-based payments is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based expense				
Time-based and market-based restricted stock units	\$1.4	\$1.1	\$2.7	\$2.2
Total share-based expense	1.4	1.1	2.7	2.2
Total recognized tax benefit	(0.2)	(0.4)	(0.3)	(0.8)
Share-based expense (net of tax)	\$1.2	\$0.7	\$2.4	\$1.4

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 were \$1.8 million and \$6.0 million for the three months ended June 30, 2018 and 2017, respectively. Revenues earned from transactions with affiliates were \$6.3 million and \$9.9 million for the six months ended June 30, 2018 and 2017, respectively. Receivables from these affiliates were \$2.1 million and \$2.9 million as of June 30, 2018 and December 31, 2017. Amounts due to these affiliates were \$2.1 million as of June 30, 2018 and immaterial as of December 31, 2017.

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 partially owned by a director of the Company. Revenues earned from transactions with affiliates were \$0.8 million and \$1.2 million for the three months ended June 30, 2018 and 2017, respectively. Revenues earned from these transactions were \$2.3 million and \$2.6 million for the six months ended June 30, 2018 and 2017, respectively. Receivables from these affiliates were \$0.2 million as of June 30, 2018 and December 31, 2017.

Land Operations. During the three and six months ended June 30, 2017, the Company-recorded developer fee revenues were \$0.9 million and \$1.6 million, respectively, related to management and administrative services provided to certain unconsolidated investments in affiliates. Developer fee revenues recorded in 2018 were immaterial. Receivables from these affiliates were immaterial as of June 30, 2018 and December 31, 2017.

In 2017, the Company extended a five-year construction loan secured by a mortgage on real property to one of its joint ventures. Receivables from this affiliate were \$11.8 million as of June 30, 2018 and immaterial as of December 31, 2017.

9.EMPLOYEE BENEFIT PLANS

Components of the net periodic benefit cost for the three months ended June 30, 2018 and 2017 are shown below (in millions):

	Pension Benefits		Post-retirement Benefits		Non-qualified Plan Benefits	
	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Components of Net Periodic Benefit Cost	2018	2017	2018	2017	2018	2017
Service cost	\$0.4	\$0.7	\$ 0.1	\$ —	\$0.1	\$—
Interest cost	1.9	2.0	0.1	0.1	—	0.1
Expected return on plan assets	(2.2)	(2.4)	—	—	—	—
Amortization of net loss	1.1	1.1	0.1	0.1	—	—
Amortization of prior service credit	(0.1)	(0.1)	—	—	—	(0.1)
Curtailement (gain)/loss	—	—	—	—	(0.4)	(0.3)
Net periodic benefit cost	\$1.1	\$1.3	\$ 0.3	\$ 0.2	\$(0.3)	\$(0.3)

Components of the net periodic benefit cost for the six months ended June 30, 2018 and 2017 are shown below (in millions):

	Pension Benefits		Post-retirement Benefits		Non-qualified Plan Benefits	
	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Components of Net Periodic Benefit Cost	2018	2017	2018	2017	2018	2017
Service cost	\$0.9	\$1.4	\$ 0.1	\$ 0.1	\$0.1	\$0.1
Interest cost	3.7	4.0	0.2	0.2	0.1	0.2
Expected return on plan assets	(4.1)	(4.8)	—	—	—	—
Amortization of net loss	2.1	2.2	0.1	0.1	—	0.1
Amortization of prior service credit	(0.2)	(0.3)	—	—	(0.1)	(0.2)
Curtailement (gain)/loss	—	—	—	—	(0.4)	(0.3)
Net periodic benefit cost	\$2.4	\$2.5	\$ 0.4	\$ 0.4	\$(0.3)	\$(0.1)

10. ASSET ACQUISITION

On February 23, 2018, the Company completed the acquisition of three commercial properties in Hawai`i ("TRC Acquisition"): (1) Laulani Village located in Ewa Beach, Oahu, (2) Hokulei Village located in Lihue, Kauai, and (3) Pu`unene Shopping Center located in Kahului, Maui.

The total purchase price for the TRC Acquisition was \$256.7 million and consisted of total consideration paid to the seller of \$254.1 million, including a mortgage with a contractual principal amount of \$62.0 million that is secured by Laulani Village, and \$2.6 million of capitalized and acquisition-related costs paid to third parties.

The allocation of purchase price to assets acquired and liabilities assumed is as follows (in millions):

Fair value of assets acquired and liabilities assumed	
Assets acquired:	
Land	\$80.2
Property and improvements	141.7
In-place/favorable leases	36.0
Total assets acquired	\$257.9

Liabilities assumed:	
Unfavorable leases	\$2.2
Long term debt*	61.0
Total liabilities assumed	63.2
Net assets acquired	\$194.7

*Includes a fair value adjustment of \$1.0 million.

As of the acquisition date, the weighted-average remaining lives of both the in-place/favorable leases and unfavorable leases were approximately 12 years.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2018 were as follows (in millions, net of tax):

	Employee Benefit Plans	Interest Rate Swap	Total
Balance, January 1, 2018	\$ (44.2)	\$ 1.9	\$ (42.3)
Other comprehensive income (loss) before reclassifications, net of taxes of \$0.6 for interest rate swap	—	1.8	1.8
Amounts reclassified from accumulated other comprehensive income (loss), net of taxes of \$0.4 for employee benefit plans	1.1	—	1.1
Balance, June 30, 2018	\$ (43.1)	\$ 3.7	\$ (39.4)

The reclassifications of other comprehensive income (loss) components out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017 were as follows (in millions):

Details about Other Comprehensive Income (Loss) Components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Unrealized interest rate hedging gain (loss)	\$0.6	\$(0.6)	\$2.4	\$(0.6)
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:				
Net loss*	1.2	1.3	2.2	2.5
Prior service credit*	(0.1)	(0.2)	(0.3)	(0.5)
Curtailed (gain)/loss*	(0.4)	—	(0.4)	—
Total before income tax	1.3	0.6	3.9	1.7
Income taxes	(0.3)	(0.1)	(1.0)	(0.5)

Other comprehensive income (loss), net of tax	\$1.0	\$0.5	\$2.9	\$1.2
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* This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost (see Note 9 for additional details).

12. INCOME TAXES

For the prior taxable years, the Company has filed a consolidated federal income tax return, which includes all of its wholly owned subsidiaries. For its taxable year ended December 31, 2017, the Company intends to file its tax return as a REIT, which it will accomplish by filing the 2017 Form 1120-REIT with the Internal Revenue Service on or before October 15, 2018. The Company's taxable REIT subsidiary ("TRS") will file separately as a C corporation. The Company also files individual separate income tax returns in various states. The Company completed the necessary preparatory work and obtained the necessary approvals such that the Company believes it has been organized and operates in a manner that enables it to qualify, and continue to qualify, as a REIT for federal income tax purposes. As a result of the Company's conversion to a REIT, the effective tax rate for the three and six months ended June 30, 2018 differed from the effective tax rate for the same periods in 2017.

For the six months ended June 30, 2018 and 2017, the Company recorded a reduction to the carrying value of its solar tax equity investments of \$0.3 million and \$2.2 million, respectively, in "Reduction in Solar Investments, net" in the accompanying condensed consolidated statements of operations. For the three months ended June 30, 2018 and 2017, the Company recorded a reduction of \$0.2 million and \$0.2 million, respectively.

The Company recognizes accrued interest and penalties on income taxes as a component of income tax expense. As of June 30, 2018, accrued interest and penalties were not material. As of June 30, 2018, the Company has not identified any material unrecognized tax positions.

13. NOTES PAYABLE AND LONG-TERM DEBT

At June 30, 2018 and December 31, 2017, notes payable and long-term debt consisted of the following (in millions):

Debt	Stated Rate (%)	Maturity Date	Principal Outstanding	
			June 30, 2018	December 31, 2017
Secured:				
GLP Asphalt Plant	(a)	2021	\$0.8	\$ 4.8
Kailua Town Center	(b)	2021	10.7	10.8
Kailua Town Center #2	3.15%	2021	4.8	4.9
Laulani Village	3.93%	2024	62.0	—
Pearl Highlands	4.15%	2024	86.1	87.0
Manoa Marketplace	(c)	2029	60.0	60.0
Subtotal			\$224.4	\$ 167.5
Unsecured:				
Term Loan 1	2.00%	2018	—	0.1
Term Loan 2	3.31%	2018	—	1.0
Term Loan 3	5.19%	2019	3.6	4.4
Series D Note	6.90%	2020	32.6	48.8
Term Loan 4	(d)	2021	9.4	9.4
Bank Syndicated Loan	(e)	2023	50.0	—
Series A Note	5.53%	2024	28.5	28.5
Series E Note	3.90%	2024	—	62.6
Series J Note	4.66%	2025	10.0	