Matson, Inc.
Form 10-K
February 27, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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 001-34187

Matson, Inc.

(Exact name of registrant as specified in its charter)

Hawaii	**99-0032630**

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

1411 Sand Island Parkway

Honolulu, HI 96819

(Address of principal executive offices and zip code)

(808) 848-1211

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Number of shares of Common Stock outstanding at February 24, 2015:

43,385,305

Aggregate market value of Common Stock held by non-affiliates at June 30, 2014:

$1,144,794,947

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Documents Incorporated By Reference

The following document is incorporated by reference in Part III of the Annual Report on Form 10-K to the extent described therein: Proxy statement for the annual meeting of shareholders of Matson, Inc. to be held April 23, 2015.

Table of Contents

TABLE OF CONTENTS

				Page
		PART I		
Items 1.		Business		1
	A.	Business Description		2
		(1)	Ocean Transportation	2
		(2)	Terminals	3
		(3)	Logistics and Other Services	3
		(4)	Maritime Laws and the Jones Act	4
		(5)	Competition	4
		(6)	Rate Regulations and Fuel Costs	5
		(7)	Seasonality	6
	B.	Employees and Labor Relations		6
	C.	Energy		7
	D.	Available Information		7
Item 1A.		Risk Factors		7
Item 1B.		Unresolved Staff Comments		15
Item 2.		Properties		15
Item 3.		Legal Proceedings		15
Item 4.		Mine Safety Disclosures		16
		PART II		
Item 5.		Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities		17
Item 6.		Selected Financial Data		18
Item 7.		Management s Discussion and Analysis of Financial Condition and Results of Operations		19
Items 7A.		Quantitative and Qualitative Disclosures About Market Risk		31
Item 8.		Financial Statements and Supplementary Data		32
Item 9.		Changes in and Disagreements With Accountants on Accounting and Financial Disclosure		68
Item 9A.		Controls and Procedures		68
		Conclusion Regarding Effectiveness of Disclosure Controls and Procedures		68

	Internal Control over Financial Reporting	68
Item 9B.	Other Information	68

PART III

Item 10.		Directors, Executive Officers and Corporate Governance	68
	A.	Directors	68
	B.	Executive Officers	68
	C.	Corporate Governance	68
	D.	Code of Ethics	68
Item 11.		Executive Compensation	68
Item 12.		Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
Item 13.		Certain Relationships and Related Transactions, and Director Independence	69
Item 14.		Principal Accounting Fees and Services	69

PART IV

Item 15.		Exhibits and Financial Statement Schedules	69
	A.	Financial Statements	69
	B.	Financial Statement Schedules	69
	C.	Exhibits Required by Item 601 of Regulation S-K	69
Signatures			75

Table of Contents

MATSON, INC.

FORM 10-K

Annual Report for the Fiscal Year

Ended December 31, 2014

PART I

ITEM 1. BUSINESS

Matson, Inc., a holding company incorporated in January 2012, in the State of Hawaii, and its subsidiaries (Matson or the Company), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics. For financial information by segment for the years ended December 31, 2014, 2013 and 2012, see Note 14 to the consolidated financial statements in Item 8 of Part II below.

Ocean Transportation: Matson s Ocean Transportation business is conducted through Matson Navigation Company, Inc. (MatNav), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav is an asset-based business that provides a vital lifeline of ocean freight transportation services to the island economies of Hawaii, Guam and Micronesia, and also operates a premium, expedited service from China to Long Beach, California. In January 2013, Matson began providing ocean services to various islands in the South Pacific including New Zealand, Fiji, Samoa, American Samoa, Tonga and the Cook Islands, and later expanded service to include Australia to the Solomon Islands, and Nauru. Matson s fleet consists of 18 owned and three chartered vessels including containerships, combination container/roll-on/roll-off ships, and custom-designed barges.

Matson also provides container stevedoring, container equipment maintenance and other terminal services for MatNav and other ocean carriers through Matson Terminals, Inc. (Matson Terminals), a wholly-owned subsidiary of MatNav, on the islands of Oahu, Hawaii, Maui and Kauai.

Matson has a 35 percent ownership interest in SSA Terminals, LLC (SSAT) through a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc. (SSA), a subsidiary of Carrix, Inc. SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the U.S. West Coast, including to MatNav at several of those facilities. Matson records its share of income in the joint venture in operating expenses within the Ocean Transportation segment due to the nature of SSAT s operations.

Logistics: Matson s Logistics business is conducted through Matson Logistics, Inc. (Matson Logistics or Logistics), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides multimodal transportation, including domestic and international rail intermodal service (Intermodal); long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload services, expedited freight services (collectively Highway); and warehousing and distribution services. The warehousing and distribution services are provided in the U.S. by Matson Logistics Warehousing, Inc. (Matson Logistics Warehousing), a wholly-owned subsidiary of Matson Logistics.

Horizon Acquisition: On November 11, 2014, Matson and Horizon Lines, Inc. (Horizon) announced that MatNav and Horizon entered into a definitive merger agreement pursuant to which Horizon will be merged with a subsidiary of MatNav. As a result, Matson will acquire Horizon s Alaska operations and assume all of Horizon s non-Hawaii assets and liabilities (the Horizon Transaction). Separately, on the same day, Horizon announced that it agreed to sell its Hawaii operations to The Pasha Group (Pasha), (the Pasha Transaction), and cease all of its operations in Puerto Rico. On February 25, 2015, the stockholders of Horizon approved the adoption of the definitive merger agreement. The Horizon Transaction is conditioned on the Pasha Transaction closing and other customary closing conditions. The Pasha Transaction is subject to clearance by the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

The total value for the Horizon Transaction is approximately $456.0 million (before transaction costs), based on Horizon s net debt outstanding as of September 21, 2014, less the anticipated proceeds from the Pasha Transaction. The Company will fund the Horizon Transaction from cash on hand and available borrowings under its revolving credit facility.

Separation Transaction: On December 1, 2011, Alexander & Baldwin, Inc., the former parent company of MatNav (the Former Parent Company), announced that its Board of Directors unanimously approved a plan to pursue the separation (the Separation) of the Former Parent Company to create two independent, publicly traded companies, Matson, Inc., and Alexander & Baldwin, Inc. (A&B), a Hawaii-based land company with interests in real estate development, commercial real estate and agriculture.

Table of Contents

As part of the Separation, a holding company, Alexander & Baldwin, Holdings, Inc. (Holdings) was formed to facilitate the organization and segregation of the assets of the two businesses. The Separation was completed on June 29, 2012. In the Separation, the shareholders of Holdings received one share of common stock of A&B for every share of Holdings held of record as of June 18, 2012. Immediately following the Separation, Holdings changed its name to Matson, Inc. For accounting purposes, Matson is the successor company to the Former Parent Company.

A. BUSINESS DESCRIPTION

(1) Ocean Transportation

Matson s Hawaii service provides ocean freight services (lift-on/lift-off, roll-on/roll-off and conventional services) between the ports of Long Beach, Oakland, Seattle, and the major ports in Hawaii on the islands of Oahu, Kauai, Maui and Hawaii. Matson is the largest carrier of ocean cargo between the U.S. West Coast and Hawaii. Westbound cargo carried by Matson to Hawaii includes dry containers of mixed commodities, refrigerated commodities, packaged foods, building materials, automobiles and household goods. Matson s eastbound cargo from Hawaii includes automobiles, household goods, dry containers of mixed commodities, food and beverages, and livestock. The majority of Matson s Hawaii service revenue is derived from the westbound carriage of containerized freight and automobiles.

Matson s China service is part of an integrated Hawaii/Guam/China service. This service employs five of Matson s containerships in a weekly service that carries cargo from Long Beach to Honolulu and then to Guam. The vessels continue to the ports of Xiamen, Ningbo and Shanghai in China, where they are loaded with cargo to be discharged in Long Beach. These vessels also carry cargo destined to and originating from the Guam and Micronesia services.

Matson s Guam service provides weekly container and conventional freight services between the U.S. West Coast and Guam. Additionally, Matson provides freight services from Guam to the Commonwealth of the Northern Mariana Islands.

Matson s Micronesia service provides container and conventional freight services between the U.S. West Coast and the islands of Kwajalein, Ebeye and Majuro in the Republic of the Marshall Islands, the islands of Yap, Pohnpei, Chuuk and Kosrae in the Federated States of Micronesia, and the Republic of Palau. Cargo destined for these locations is transshipped through Guam.

In January 2013, Matson purchased the primary assets of a South Pacific ocean freight carrier based in Auckland, New Zealand. Matson named this new business   Matson South Pacific,   which currently transports freight between New Zealand, Australia and other South Pacific Islands including Nauru, Fiji, Samoa, American Samoa, Tonga, the Cook Islands, and the Solomon Islands.

Matson s Vessel Information: Matson s fleet includes 18 owned and three chartered vessels. The Matson-owned fleet represents an initial investment of approximately $1.3 billion and consists of: 11 containerships; three combination container/roll-on/roll-off ships; one roll-on/roll-off barge; and three container barges equipped with cranes. The majority of vessels in the Matson-owned fleet have been acquired with the assistance of withdrawals from a Capital Construction Fund (CCF) established under Section 607 of the Merchant Marine Act of 1936

(see Note 6 to the consolidated financial statements in Item 8 of Part II below for additional information about the CCF).

During the fourth quarter of 2013, MatNav and Aker Philadelphia Shipyard, Inc. (APSI) entered into definitive agreements pursuant to which APSI will construct two new 3,600 twenty-foot equivalent unit (TEU) Aloha-class containerships with dual-fuel capable engines, which are expected to be delivered during the third and fourth quarters of 2018 (the Shipbuilding Agreements), at a cost of approximately $418.0 million. APSI s obligations under the Shipbuilding Agreements are guaranteed by Aker Philadelphia Shipyard ASA.

As a complement to its fleet, as of December 31, 2014, Matson owns approximately 32,400 containers and 9,800 chassis, which represents an initial investment of approximately $278 million, and miscellaneous other equipment. Matson also leases approximately 8,100 containers and 7,200 chassis. Capital expenditures incurred by Ocean Transportation in 2014 for vessels, equipment and systems totaled approximately $27.8 million.

Matson s U.S. flagged vessels must meet specified seaworthiness standards established by U.S. Coast Guard rules and classification society requirements. These standards require that our ships undergo two dry-docking inspections within a five-year period. However, all of Matson s U.S. flagged vessels are enrolled in the U.S. Coast Guard s Underwater Survey in Lieu of Dry-docking (UWILD) program. The UWILD program allows eligible ships to meet their intermediate dry-docking requirement with a far less costly underwater inspection.

Table of Contents

Matson operates four non-U.S. flag vessels (one owned; one under a bareboat charter arrangement; and the remaining two on time charter) in the Pacific Islands. Matson is responsible for ensuring that the owned and bareboat chartered ships meet international standards for seaworthiness, which among other requirements generally mandate that Matson perform two dry-docking inspections every five years. The dry-dockings of Matson s time chartered vessels are the responsibility of the ships owners.

Vessels owned and chartered by Matson as of December 31, 2014 are as follows:

							Usable Cargo Capacity			
					Maximum	Maximum	Containers		Vehicles	
Vessel Name	Owned/ Chartered	Official Number	Year Built	Length	Speed (Knots)	Deadweight (Long Tons)	Reefer Slots	TEUs(1)	Autos	Trailers
Diesel-Powered Ships										
MAUNALEI	Owned	1181627	2006	681 1	22	33,771	328	1,992		
MANULANI	Owned	1168529	2005	712 0	23	29,517	284	2,378		
MAUNAWILI	Owned	1153166	2004	711 9	23	29,517	326	2,378		
MANUKAI	Owned	1141163	2003	711 9	23	29,517	326	2,378		
OLOMANA (4)	Owned	1559	1999	381 5	14	5,364	68	521		
R.J. PFEIFFER	Owned	979814	1992	713 6	23	27,100	300	2,245		
MOKIHANA	Owned	655397	1983	860 2	23	29,484	354	1,994	1,323	38
MANOA	Owned	651627	1982	860 2	23	30,187	408	2,824		
MAHIMAHI	Owned	653424	1982	860 2	23	30,167	408	2,824		
LILOA (4)	Chartered	4681	2003	358 11	15	5,934	30	513		
IMUA II (4)	Chartered	9184237	2005	388 6	15	8,071	90	630		
MANA (4)	Chartered	4958	1997	329 9	13	4,508	60	384		
Steam-Powered Ships										
KAUAI	Owned	621042	1980	720 5	22	26,308	276	1,644	44	
MAUI	Owned	591709	1978	720 5	22	26,623	252	1,644		
MATSONIA	Owned	553090	1973	760 0	21	22,501	258	1,727	450	85
LURLINE	Owned	549900	1973	826 6	21	22,213	246	1,646	761	55
LIHUE	Owned	530137	1971	787 8	21	38,656	188	2,018		
Barges										
WAIALEALE (2)	Owned	978516	1991	345 0		5,621	36		230	45
MAUNA KEA (3)	Owned	933804	1988	372 0		6,837	70	379		
MAUNA LOA (3)	Owned	676973	1984	350 0		4,658	78	335		
HALEAKALA (3)	Owned	676972	1984	350 0		4,658	78	335		

(1) Twenty-foot Equivalent Units (including trailers). TEU is a standard measure of cargo volume correlated to the volume of a standard 20-foot dry cargo container.

(2) Roll-on/roll-off barge.

(3) Container barges equipped with cranes.

(4) Except for these four foreign-flagged vessels, all vessels are U.S. flagged and are Jones Act qualified.

(2) Terminals

Matson Terminals provides container stevedoring, container equipment maintenance and other terminal services for Matson and another ocean carrier at a 105-acre marine terminal in Honolulu.

The terminal facility, which can accommodate three vessels at one time, is leased through September 2016 from the State of Hawaii. Matson is currently in the process of renewing this lease. Matson Terminals owns and operates seven cranes at the terminal. Matson Terminals also provides container stevedoring and other terminal services to Matson and other vessel operators on the islands of Hawaii, Maui and Kauai. SSAT provides terminal and stevedoring services to various carriers at six terminal facilities on the U.S. West Coast and to MatNav at several of those facilities. Matson records its share of income in the joint venture in operating expenses within the Ocean Transportation segment due to the nature of SSAT s operations.

(3) Logistics and Other Services

Matson Logistics is a transportation intermediary that provides intermodal rail services, highway, warehousing and distribution, and other third-party logistics services for North American customers and international ocean carrier customers, including MatNav.

Table of Contents

Matson Logistics also provides freight forwarding, consolidation, customs brokerage, purchase order management and non-vessel operating common carrier services. Matson Logistics Warehousing provides warehousing and distribution services in Northern and Southern California, and in Georgia. Through Matson Logistics Warehousing, Matson Logistics provides its customers with a full suite of rail, highway, warehousing and distribution services.

Matson Logistics is able to reduce transportation costs for its customers through volume purchases of rail, motor carrier and ocean transportation services, augmented by such services as shipment tracking and tracing, and single-vendor invoicing. Matson Logistics operates six customer service centers, including one in China (for supply chain services), and has sales offices throughout the United States.

(4) Maritime Laws and the Jones Act

Maritime Laws: All interstate and intrastate marine commerce within the U.S. falls under the Merchant Marine Act of 1920 (commonly referred to as the Jones Act).

The Jones Act is a long-standing cornerstone of U.S. maritime policy. Under the Jones Act, all vessels transporting cargo between covered U.S. ports must, subject to limited exceptions, be built in the U.S., registered under the U.S. flag, manned by predominantly U.S. crews, and owned and operated by U.S.-organized companies that are controlled and 75 percent owned by U.S. citizens. U.S.-flagged vessels are generally required to be maintained at higher standards than foreign-flagged vessels and are subject to rigorous supervision and inspections by, or on behalf of, the U.S. Coast Guard, which requires appropriate certifications and background checks of the crew members. Under Section 27 of the Jones Act, the carriage of cargo between the U.S. West Coast, Hawaii and Alaska on foreign-built or foreign-documented vessels is prohibited.

During 2014, approximately 63 percent of Matson s revenues generated by ocean transportation services came from trades that were subject to the Jones Act. Matson s trade route between the U.S. West Coast and Hawaii is included within the non-contiguous Jones Act market. As an island economy, Hawaii is highly dependent on ocean transportation. The Jones Act ensures frequent, reliable, roundtrip service to keep store shelves stocked, reduces inventory costs and helps move local products to market. Matson s vessels operating in this trade route are fully Jones Act qualified.

Matson is a member of the American Maritime Partnership (AMP), which supports the retention of the Jones Act and similar cabotage laws. The Jones Act has broad support from both houses of Congress. Matson also believes that the ongoing war on terrorism has further solidified political support for U.S. flagged vessels because a vital and dedicated U.S. merchant marine is a cornerstone for a strong homeland defense, as well as a critical source of trained U.S. mariners for wartime support. AMP seeks to inform elected officials and the public about the economic, national security, commercial, safety and environmental benefits of the Jones Act and similar cabotage laws. Repeal of the Jones Act would allow foreign-flag vessel operators that do not have to abide by all U.S. laws and regulations, to sail between U.S. ports in direct competition with Matson and other U.S. domestic operators that must comply with all such laws and regulations.

Other U.S. maritime laws require vessels operating between Guam, a U.S. territory, and U.S. ports to be U.S.-flagged and predominantly U.S. crewed, but not U.S. built.

Cabotage laws are not unique to the United States, and similar laws exist around the world in over 50 countries, including regions in which Matson provides ocean transportation services. Any changes in such laws may have an impact on the services provided by Matson in those regions.

(5) Competition

Hawaii Service: Matson s Hawaii service has one major containership competitor, Horizon Lines, Inc. (Horizon), which serves Long Beach and Oakland, California, Tacoma, Washington, and Honolulu, Hawaii. The Hawaii service also has one additional liner competitor, Pasha Hawaii Transport Lines, LLC, a subsidiary of Pasha, that operates a roll-on/roll-off ship, specializing in the carriage of automobiles, large pieces of rolling stock, such as trucks and buses, as well as a limited amount of household goods and containers. Pasha is also expected to launch a new combination container/ roll-on/roll off vessel during the first half of 2015, which will increase containership capacity in the Hawaii trade. In addition, if the Pasha Transaction (see Horizon Acquisition above) is cleared by the U.S. Department of Justice and Pasha acquires Horizon s Hawaii operations, Pasha will be the second major liner carrier operating in Hawaii instead of Horizon.

There also are two barge operators, Aloha Marine Lines and Sause Brothers, which offer service between the U.S. West Coast and Hawaii.

Table of Contents

Foreign-flag vessels carrying cargo to Hawaii from non-U.S. locations also provide competition for Matson s Hawaii service. Asia, Australia, New Zealand, and the South Pacific islands have direct foreign-flag services to Hawaii. Mexico, South America and Europe have indirect foreign-flag services to Hawaii. Other competitors in the Hawaii service include two common carrier barge services, unregulated proprietary operators, and contract carriers of bulk cargoes. Air freight competition for time-sensitive and perishable cargoes exists; however, inroads by such competition in terms of cargo volume are limited by the amount of cargo space available in passenger aircrafts and by relatively high air freight rates. Over the years, additional barge competitors periodically have entered and left the U.S.-Hawaii trades, mostly from the Pacific Northwest.

Matson vessels are operated on schedules that provide shippers and consignees regular day-of-the-week sailings from the U.S. Pacific Coast and day-of-the-week arrivals in Hawaii. Matson generally offers an average of three westbound sailings per week, though this amount may be adjusted according to seasonal demand and market conditions. Matson provides over 150 westbound sailings per year, which is greater than its domestic liner ocean competitors combined sailings. One of Matson s westbound sailings each week continues on to Guam and China, so the number of eastbound sailings from Hawaii to the U.S. Mainland averages two per week. This service is attractive to customers because more frequent arrivals permit customers to reduce inventory costs. Matson also competes by offering a more comprehensive service to customers, supported by the scope of its container equipment, a dedicated neighbor islands barge network, its efficiency and experience in handling cargoes of all types, and competitive pricing.

China Service: Major competitors to Matson s China service include large international carriers such as COSCO, Hanjin, MSC, Evergreen, China Shipping, Maersk, APL, K Line, OOCL, Hyundai and NYK Line. Matson competes by offering fast and reliable freight availability from the ports of Xiamen, Ningbo and Shanghai in China to Long Beach, California using its newest and most fuel efficient ships, providing fixed day arrivals in Long Beach and next-day cargo availability. Matson s service is further differentiated by offering a dedicated Long Beach terminal providing fast truck turn times, an off-dock container yard, one-stop intermodal connections, and providing state-of-the-art technology and world-class customer service. Matson has offices in Hong Kong, Xiamen, Ningbo and Shanghai, and has contracted with terminal operators in Xiamen, Ningbo and Shanghai.

Guam Service: Matson s Guam service competes with several foreign carriers that call at Guam with less frequent service, along with Waterman Steamship Corporation, a U.S.-flagged carrier, which periodically calls at Guam.

Micronesia and the South Pacific Services: Matson s Micronesia and South Pacific services have competition from a variety of local and international carriers that provide freight services to the area.

Logistics: Matson Logistics competes with hundreds of local, regional, national and international companies that provide transportation and third-party logistics services. The industry is highly fragmented and, therefore, competition varies by geography and areas of service. Matson Logistics competes most directly with C.H. Robinson Worldwide, the Hub Group, and other large and small freight brokers and intermodal marketing companies, and asset-invested market leaders like JB Hunt. Competition is differentiated by the depth, scale and scope of customer relationships; vendor relationships and rates; network capacity; and real-time visibility into the movement of customers goods and other technology solutions. Additionally, while Matson Logistics primarily provides surface transportation brokerage, it also competes to a lesser degree with other forms of transportation for the movement of cargo, including air services.

For 2014, the Company s ten largest Ocean Transportation customers accounted for approximately 25 percent of the Company s Ocean Transportation revenue, and the Company s ten largest Logistics customers accounted for approximately 26 percent of the Company s Logistics revenue. None of these customers accounted for more than 10 percent of the Company s revenues in their respective operating segments.

(6) Rate Regulations and Fuel Costs

Matson is subject to the jurisdiction of the Surface Transportation Board with respect to its domestic ocean rates. A rate in the noncontiguous domestic trade is presumed reasonable and will not be subject to investigation if the aggregate of increases and decreases is not more than 7.5 percent above, or more than 10 percent below, the rate in effect one year before the effective date of the proposed rate, subject to increase or decrease by the percentage change in the U.S. Producer Price Index.

Table of Contents

During 2014, Matson applied the following general rate increases per container, and terminal handling charge increases per container, in its Hawaii and Guam services:

	General Rate Increase			Terminal Handling Charge Increase		
	Hawaii			Hawaii		
Effective date:	**Westbound**	**Eastbound**	**Guam (1)**	**Westbound**	**Eastbound**	**Guam (1)**
January 5, 2014	$ 175	$ 85		$ 50	$ 25	
January 26, 2014			$ 275			$ 75

(1) Increases in Guam apply to both westbound and eastbound containers.

Matson s Ocean Transportation services engaged in U.S. foreign commerce are subject to the jurisdiction of the Federal Maritime Commission (FMC). The FMC is an independent regulatory agency that is responsible for the regulation of ocean-borne international transportation of the U.S. Conducting business in foreign shipping markets subjects the Company to certain risks (see Item 1A of Part I below for additional information about such risks).

During 2014, Matson s fuel-related surcharges for its Hawaii and Guam services were as follows:

	Fuel-related Surcharge	
Effective date:	**Hawaii**	**Guam**
December 31, 2013	34.5%	36.5%
March 23, 2014	39.5%	41.5%
June 8, 2014	42.5%	43.0%
November 2, 2014	37.5%	38.0%
December 21, 2014	35.5%	36.0%

(7) Seasonality

Matson s Ocean Transportation services typically experience seasonality in volume, generally following a pattern of increasing volumes starting in the second quarter of each year, culminating in a peak season throughout the third quarter, with subsequent weakening of demand in the fourth and first quarters. As a result, earnings tend to follow a similar pattern, offset by periodic vessel dry-docking and other episodic cost factors, which can lead to earning variability. In addition, in the China trade, volume is driven primarily by U.S. consumer demand for goods during key retail selling seasons while freight rates are impacted mainly by macro supply and demand variables. Matson s Logistics services are not significantly impacted by seasonality factors.

B. EMPLOYEES AND LABOR RELATIONS

As of December 31, 2014, Matson and its subsidiaries had 1,056 employees, of which 285 employees were covered by collective bargaining agreements with unions. Of these covered employees, 252 are subject to collective bargaining agreements that expired in 2014. These numbers do not include billets on ships discussed below, employees of SSAT or contractors.

Matson and SSAT are members of the Pacific Maritime Association (PMA), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union (ILWU) on the U.S. West Coast. The PMA/ILWU collective bargaining agreements that cover substantially all U.S. West Coast longshore labor expired on July 1, 2014. On February 20, 2015, the PMA and the ILWU announced a tentative agreement on a new five-year contract covering longshore workers at all 29 U.S. West Coast ports. The tentative agreement is subject to ratification by both the PMA and ILWU, and no assurance can be given that the tentative agreement will be ratified by both parties. If the tentative agreement is not ratified, Matson and SSAT could be subject to future slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson s or SSAT s operations.

Matson also has collective bargaining agreements with ILWU labor in Hawaii, and ILWU office clerical workers in Oakland, each of which expired on June 30, 2014. Workers under these agreements are operating under extensions with the unions. With a tentative agreement reached between the PMA and the ILWU, negotiations with the ILWU labor in Hawaii are expected to resume, and negotiations with the ILWU office clerical workers in Oakland are expected to commence; however no assurance can be given that agreements will be reached without slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson s operations.

At December 31, 2014, the active Matson fleet employed seagoing personnel in 235 billets. Each billet corresponds to a position on a ship that typically is filled by two or more employees, because seagoing personnel rotate between active sea-duty and time ashore. Matson s seagoing employees are represented by six unions, three representing unlicensed crew members and three representing licensed crew members. Matson negotiates directly with these unions. Matson s unlicensed union contracts with the Seafarer s International Union, the Sailors Union of the Pacific and the Marine Firemen s Union were renewed in mid-2013 and extend through June 30, 2017. Matson s contracts with the American Radio Association were renewed in mid-2013 and extend through August 15, 2016. Matson s contracts with the Masters, Mates & Pilots will expire on June 15, 2023 for 13 vessels and on August 15, 2023 for one managed vessel. Matson s contract with the Marine Engineers Beneficial Association will expire on August 15, 2018.

Table of Contents

The absence of strikes and the availability of labor through hiring halls are important to the maintenance of profitable operations by Matson. Over the past 40 years, Matson s operations have been significantly disrupted by only one labor dispute, which occurred in 2002 when the ILWU workers were locked out for ten days on the U.S. West Coast.

During 2014, Matson contributed to multiemployer pension plans for vessel crews. If Matson were to withdraw from or significantly reduce its obligation to contribute to any one of the plans, Matson would review and evaluate data, actuarial assumptions, calculations and other factors used in determining its withdrawal liability, if any. If any third parties materially disagree with Matson s determination, Matson would pursue the various means available to it under federal law for the adjustment or removal of its withdrawal liability. Matson also participates in a multiemployer pension plan for its office clerical workers in Long Beach. Matson Terminals participates in two multiemployer pension plans for its Hawaii ILWU non-clerical employees (see Note 9 to the consolidated financial statements in Item 8 of Part II below for a discussion of withdrawal liabilities under certain multiemployer pension plans).

C. ENERGY

Matson purchases fuel oil, lubricants and gasoline for its operations, and also pays fuel surcharges to drayage providers and rail carriers. Fuel oil is by far Matson s largest energy-related expense. In 2014, Matson used approximately 306,000 metric tons of fuel oil for its vessels, compared with 302,000 metric tons in 2013, at an average price per metric ton of $661 and $691 for the years ended December 31, 2014 and 2013, respectively.

D. AVAILABLE INFORMATION

Matson makes available, free of charge on or through its Internet website, Matson s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission (SEC). The address of Matson s Internet website is www.matson.com. The contents of our website are not incorporated by reference into this Form 10-K.

The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding Matson and other issuers that file electronically with the SEC. The public may read and copy any materials Matson files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The address of the SEC s Internet website is www.sec.gov.

ITEM 1A. RISK FACTORS

The Company s business faces the risks set forth below, which may adversely affect our business, financial condition and operating results. All forward-looking statements made by the Company or on the Company s behalf are qualified by the risks described below.

Risks Relating To Operations

Changes in U.S., global, or regional economic conditions that result in a decrease in consumer confidence or market demand for the Company s services and products in Hawaii, the U.S. Mainland, Guam, Asia or South Pacific may adversely affect the Company s financial position, results of operations, liquidity, or cash flows.

A weakening of the U.S., Guam, Asian, South Pacific or global economies may adversely impact the level of freight volumes and freight rates. Within the U.S., a weakening of economic drivers in Hawaii, which include tourism, military spending, construction starts, personal income growth, and employment, or the weakening of consumer confidence, market demand, the economy in the U.S. Mainland, or the effect of a change in the strength of the U.S. dollar against other foreign currencies, may further reduce the demand for goods to and from Hawaii and Asia, travel to Hawaii and domestic transportation of goods, adversely affecting inland and ocean transportation volumes or rates. We are unable to determine the full impact of congressional budget action on our carriage of military cargo, but we believe it continues to negatively impact us, and we could continue to be impacted by future cuts to federal programs, including Defense Department programs as a result of congressional budget action. In addition, overcapacity in the global or transpacific ocean transportation markets or a change in the cost of goods or currency exchange rates may adversely affect freight volumes and rates in the Company s China service.

Table of Contents

The Company may face new or increased competition.

The Company may face new competition by established or start-up shipping operators that enter the Company s markets. The entry of a new competitor or the addition of ships or capacity by existing competition on any of the Company s routes could result in a significant increase in available shipping capacity that could have an adverse effect on volumes and rates.

One current competitor, Pasha, expects to launch a new combination container/ roll-on/roll off vessel during the first half of 2015, which will increase containership capacity in the Hawaii trade, and could affect rates and volumes in the Hawaii trade lane on an intermediate term basis. In addition, Pasha has agreed to buy Horizon s Hawaii business, which could alter the competitive dynamics in the Hawaii trade.

The loss of or damage to key vendor, agent and customer relationships may adversely affect the Company s business.

The Company s businesses are dependent on their relationships with key vendors, agents and customers, and derive a significant portion of their revenues from the Company s largest customers. The Company could be adversely affected by any changes in the services provided, or changes to the costs of services provided by key vendors and agents. Relationships with railroads and shipping companies and agents are important in the Company s intermodal business. The Company s business also relies on its relationships with the military, freight forwarders, large retailers and consumer goods and automobile manufacturers, as well as other larger customers. For 2014, the Company s Ocean Transportation segment s ten largest customers accounted for approximately 25 percent of the business revenue. For 2014, the Company s Logistics segment s ten largest customers accounted for approximately 26 percent of the business revenue. The loss of or damage to any of these key relationships may adversely affect the Company s business and revenue.

An increase in fuel prices, or changes in the Company s ability to collect fuel surcharges, may adversely affect the Company s profits.

Fuel is a significant operating expense for the Company s Ocean Transportation business. The price and supply of fuel are unpredictable and fluctuate based on events beyond the Company s control. Increases in the price of fuel may adversely affect the Company s results of operations based on market and competitive conditions. Increases in fuel costs also can lead to other expense increases, for example, increased costs of energy and purchased transportation services. In the Company s Ocean Transportation and Logistics services segments, the Company is able to utilize fuel surcharges to partially recover increases in fuel expense, although increases in the fuel surcharge may adversely affect the Company s competitive position and may not correspond exactly with the timing of increases in fuel expense. Changes in the Company s ability to collect fuel surcharges also may adversely affect its results of operations.

Work stoppages or other labor disruptions caused by unionized workers of the Company, other workers or their unions in related industries may adversely affect the Company s operations.

As of December 31, 2014, Matson and its subsidiaries had 1,056 employees, of which 285 employees were covered by collective bargaining agreements with unions. Of these covered employees, 252 are subject to collective bargaining agreements that expired in 2014. In addition, at December 31, 2014, the active Matson fleet employed seagoing personnel in 235 billets. Each billet corresponds to a position on a ship that

typically is filled by two or more employees, because seagoing personnel rotate between active sea-duty and time ashore. Such employees are also subject to collective bargaining agreements. Furthermore, the Company relies on the services of third-parties including SSAT and its parent company, SSA, that employ persons covered by collective bargaining agreements.

Matson and SSAT are members of the Pacific Maritime Association (PMA), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union (ILWU) on the U.S. West Coast. The PMA/ILWU collective bargaining agreements that cover substantially all U.S. West Coast longshore labor expired on July 1, 2014. On February 20, 2015, the PMA and the ILWU announced a tentative agreement on a new five-year contract covering longshore workers at all 29 U.S. West Coast ports. The tentative agreement is subject to ratification by both the PMA and ILWU, and no assurance can be given that the tentative agreement will be ratified by both parties. If the tentative agreement is not ratified, Matson and SSAT could be subject to future slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson s or SSAT s operations.

Matson also has collective bargaining agreements with ILWU labor in Hawaii, and ILWU office clerical workers in Oakland, each of which expired on June 30, 2014. Workers under these agreements are operating under extensions with the unions. With a tentative agreement reached between the PMA and the ILWU, negotiations with the ILWU labor in Hawaii are expected to resume, and negotiations with the ILWU office clerical workers in Oakland are expected to commence; however no assurance can be given that agreements will be reached without slow-downs, strikes, lock-outs or other disruptions that may adversely impact Matson s operations.

Table of Contents

The Company is susceptible to weather and natural disasters.

The Company s operations are vulnerable to disruption as a result of weather and natural disasters such as bad weather at sea, hurricanes, typhoons, tsunamis, floods and earthquakes. Such events will interfere with the Company s ability to provide on-time scheduled service, resulting in increased expenses and potential loss of business associated with such events. In addition, severe weather and natural disasters can result in interference with the Company s terminal operations, and may cause serious damage to its vessels, loss or damage to containers, cargo and other equipment, and loss of life or physical injury to its employees, all of which could have an adverse effect on the Company s business.

The Company maintains casualty and liability insurance policies, which are generally subject to large retentions and deductibles. Some types of losses, such as losses resulting from a port blockage, generally are not insured. In some cases the Company retains the entire risk of loss because it is not economically prudent to purchase insurance coverage or because of the perceived remoteness of the risk. Other risks are uninsured because insurance coverage may not be commercially available. Finally, the Company retains all risk of loss that exceeds the limits of its insurance.

The Company s significant operating agreements and leases could be replaced on less favorable terms or may not be replaced.

The significant operating agreements and leases of the Company in its various businesses expire at various points in the future and may not be replaced or could be replaced on less favorable terms, thereby adversely affecting the Company s future financial position, results of operations and cash flows. The Company leases a 105-acre marine terminal at Honolulu, Hawaii that expires in September 2016. The Company is currently in the process of renewing this lease.

If we are not able to use our information technology and communications systems effectively, our ability to conduct business might be negatively impacted.

The Company is highly dependent on the proper functioning of our information technology systems to enable operations and compete effectively. Our information technology systems rely on third party service providers for access to the Internet, satellite-based communications systems, the electric grid, database storage facilities and telecommunications providers. We have no control over the operations of these third-party service providers. If our information technology and communications systems experience reliability issues, integration or compatibility concerns or if our third party providers are unable to perform effectively or experience disruptions or failures, there could be an adverse impact on the availability and functioning of our information technology and communications systems, which could lead to business disruption or inefficiencies, reputational harm or a loss of customers that could have an adverse effect on our business.

Our information technology systems may be exposed to cybersecurity risks and other disruptions that could impair the Company s ability to operate and adversely affect its business.

The Company relies extensively on its information technology systems and third party service providers, including for accounting, billing, disbursement, cargo booking and tracking, vessel scheduling and stowage, equipment tracking, customer service, banking, payroll and employee

communication systems. Despite our continuous efforts to make investments in our information technology systems, the implementation of security measures to protect our data and infrastructure against breaches and other cyber threats, and our use of internal processes and controls designed to protect the security and availability of our systems, our information technology and communication systems may be vulnerable to cybersecurity risks faced by other large companies in our industry. Our systems may be susceptible to computer viruses, hacking, malware, denial of service attacks, cyber terrorism, circumvention of security systems, malfeasance, breaches due to employee error, natural disasters, telecommunications failure, or other catastrophic events at the Company s facilities, aboard its vessels or at third-party locations. Any failure, breach or unauthorized access to the Company s or third-party systems could result in the loss of confidential, sensitive or proprietary information, interruptions in its service or production or otherwise impact our ability to conduct business operations, and could result in potential reductions in revenue and profits, damage to its reputation or liability.

Loss of the Company s key personnel could adversely affect its business.

The Company s future success will depend, in significant part, upon the continued services of its key personnel, including its senior management and skilled employees. The loss of the services of key personnel could adversely affect the Company s future operating results because of such employees experience and knowledge of the Company s business and customer relationships. If key employees depart, the Company may have to incur significant costs to replace them, and the Company s ability to execute its business model could be impaired if it cannot replace them in a timely manner. The Company does not maintain key person insurance on any of its key personnel.

Table of Contents

The Company is involved in a joint venture and is subject to risks associated with joint venture relationships.

The Company is involved in a terminal joint venture, SSAT, and may initiate future joint venture projects. A joint venture involves certain risks such as:

- The Company may not have voting control over the joint venture;
- The Company may not be able to maintain good relationships with its joint venture partner;
- The joint venture partner at any time may have economic or business interests that are inconsistent with the Company s;
- The joint venture partner may fail to fund its share of capital for operations or to fulfill its other commitments, including providing accurate and timely accounting and financial information to the Company;
- The joint venture may experience operating difficulties and financial losses, which may lead to asset write-downs or impairment charges that could negatively impact the operating results of the joint venture and the Company;
- The joint venture or venture partner could lose key personnel; and
- The joint venture partner could become bankrupt requiring the Company to assume all risks and capital requirements related to the joint venture project, and the related bankruptcy proceedings could have an adverse impact on the operation of the partnership or joint venture.

In addition, the Company relies on the terminal joint venture, SSAT, and SSA for its stevedoring services on the U.S. West Coast. The Company could be adversely affected by any changes in the services provided, or to the costs of such services provided by the Company s terminal joint venture, SSAT, and SSA.

The Company is subject to risks associated with conducting business in foreign shipping markets.

Matson s China, Micronesia and South Pacific services are subject to risks associated with conducting business in a foreign shipping market, which include:

- Challenges associated with operating in foreign countries and doing business and developing relationships with foreign companies;
- Challenges in working with and maintaining good relationships with joint venture partners in our foreign operations;
- Difficulties in staffing and managing foreign operations;

- U.S. and foreign legal and regulatory restrictions, including compliance with the Foreign Corrupt Practices Act and foreign laws that prohibit corrupt payments to government officials;
- Global vessel overcapacity that may lead to decreases in volumes and shipping rates;
- Competition with established and new carriers;
- Currency exchange rate fluctuations and our ability to manage these fluctuations;
- Political and economic instability;
- Protectionist measures that may affect the Company s operation of its wholly-owned foreign enterprise; and
- Challenges caused by cultural differences.

Any of these risks has the potential to adversely affect the Company s operating results.

The Company s Logistics segment is dependent upon third parties for equipment, capacity and services essential to operate the Company s Logistics business, and if the Company fails to secure sufficient third party services, its business could be adversely affected.

The Company s Logistics segment is dependent upon rail, truck and ocean transportation services provided by independent third parties. If the Company cannot secure sufficient transportation equipment, capacity or services from these third parties at reasonable rates to meet its customers needs and schedules, customers may seek to have their transportation and logistics needs met by other third parties on a temporary or permanent basis. As a result, the Company s business, consolidated results of operations and financial condition could be adversely affected.

The Company is subject to risks related to a marine accident or spill event.

The Company s vessel and terminal operations could be faced with a maritime accident, oil or other spill, or other environmental mishap. Such event may lead to personal injury, loss of life, damage of property, pollution and suspension of operations. As a result, such event could have an adverse effect on the Company s business.

Table of Contents

The Company s Shipbuilding Agreements with Aker Philadelphia Shipyard, Inc. are subject to risks.

On November 6, 2013, MatNav and APSI entered into definitive agreements pursuant to which APSI will construct two new 3,600-TEU Aloha-class dual-fuel capable containerships, with expected delivery dates during the third and fourth quarters of 2018. Failure of either party to the shipbuilding agreement to fulfill its obligations under the agreement could have an adverse effect on the Company s financial position and results of operations.

Heightened security measures, war, actual or threatened terrorist attacks, efforts to combat terrorism and other acts of violence may adversely impact the Company s operations and profitability.

War, terrorist attacks and other acts of violence may cause consumer confidence and spending to decrease, or may affect the ability or willingness of tourists to travel to Hawaii, thereby adversely affecting Hawaii s economy and the Company. Additionally, future terrorist attacks could increase volatility in the U.S. and worldwide financial markets. Acts of war or terrorism may be directed at the Company s shipping operations, or may cause the U.S. government to take control of Matson s vessels for military operation. Heightened security measures potentially slow the movement and increase the cost of freight through U.S. or foreign ports, across borders or on U.S. or foreign railroads or highways and could adversely affect the Company s business and results of operations.

Acquisitions may have an adverse effect on the Company s business.

The Company s growth strategy includes expansion through acquisitions. Acquisitions may result in difficulties in assimilating acquired assets or companies, and may result in the diversion of the Company s capital and its management attention from other business issues and opportunities. The Company may not be able to integrate companies that it acquires successfully, including their personnel, financial systems, distribution, operations and general operating procedures. The Company may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company. The Company may pay a premium for an acquisition, resulting in goodwill that may later be determined to be impaired, adversely affecting the Company s financial condition and results of operations. For a discussion of risks related to the pending acquisition of the stock of Horizon Lines, Inc., see Risks Related to the Pending Acquisition of Horizon set forth below.

Risks Relating to the Pending Acquisition of Horizon

The pending acquisition of Horizon is subject to conditions that may not be satisfied on a timely basis, or at all.

The consummation of the pending acquisition of Horizon is subject to a number of conditions that must be satisfied or waived, including, among others, the absence of a material adverse effect in connection with Horizon s non-Hawaii business and thathere is no significant financial impact as a result of Horizon operating the main engines on its Alaska ships on ultra-low-sulfur fuel (Horizon announced it received an exemption from the requirement that it operate its ships on ultra-low-sulfur fuel on January 9, 2015). There can be no assurance that the conditions to closing the merger will be satisfied or that the merger will be completed.

If the acquisition of Horizon is not completed on a timely basis, or at all, the Company s business could be adversely affected, and the Company will be subject to a number of risks, including the following:

- We may not realize any of the benefits expected from its consummation;
- Time and resources committed by our management to matters relating to the acquisition of Horizon (including integration planning) could otherwise have been devoted to pursuing other beneficial opportunities; and
- The market price of our common stock could decline to the extent that the current market price reflects a market assumption that the acquisition of Horizon will be completed.

This loss of benefits, or the increase in risks, could have a material adverse effect on our business.

Completion of the Horizon acquisition is conditioned upon the consummation of Horizon s pending transaction with Pasha, which may take longer than expected or not occur at all.

The consummation of the Horizon Transaction is conditioned upon the completion of the Pasha Transaction. Before the Pasha Transaction may be completed, the waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended must have been terminated or expired, Pasha must have funds necessary to pay its purchase price, and other customary closing conditions must be satisfied. On January 12, 2015, Horizon and Pasha received a second request for additional information and documentary material from the U.S. Department of Justice, which has the effect of extending the waiting period until 30 days after both Horizon and Pasha have substantially complied with the second request. Although Horizon and Pasha have agreed to use their best efforts to obtain the requisite governmental approvals, there can be no assurances that these approvals will be obtained, or to the timing of such approvals.

Table of Contents

The Company may fail to realize the anticipated benefits of the Horizon acquisition, and the continuing integration process could adversely impact our ongoing operations.

We may fail to realize some or all of the anticipated benefits of the Horizon acquisition if the integration process takes longer or is more costly than expected or otherwise fails to meet our expectations. In addition, we anticipate that the overall integration of Horizon s non-Hawaii business will be a time-consuming and expensive process that could significantly disrupt our business.

Potential difficulties and challenges we may encounter in the integration process include the following:

- The integration of key employees, strategies and operations;
- The disruption of ongoing businesses and distraction of our management team from ongoing business concerns;
- The creation of a need for additional compliance, documentation, risk management and internal control procedures;
- Costs necessary to establish and maintain effective internal controls for Horizon;
- Inability to maintain the key business and customer relationships of Horizon;
- Harm to our existing business relationships;
- Litigation for activities of Horizon, including claims from terminated employees, customers, former stockholders or other third parties;
- The creation of uniform standards, controls, procedures, policies and information systems; and
- The integration of corporate cultures and maintenance of employee morale.

The acquisition of Horizon may expose us to unknown liabilities.

Following the completion of the acquisition of Horizon, we will be subject to all of the liabilities of Horizon s non-Hawaii business. If there are unknown liabilities or other obligations, including contingent liabilities, our business could be materially affected. We may learn additional information about Horizon s non-Hawaii business that adversely affects us, such as unknown liabilities or other issues that could affect our ability to comply with other applicable laws. Moreover, Horizon may not be able to collect in full on its indemnification rights against Hawaii liabilities under the agreements in the Pasha Transaction.

We may be required to record a significant charge to earnings if recorded goodwill associated with the Horizon Acquisition becomes impaired.

Following the completion of the acquisition of Horizon, we expect to record a significant intangible asset related to goodwill. We are required to test goodwill for impairment annually, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less that its carrying amount. Factors that could lead to an impairment of goodwill include any significant adverse changes affecting the reporting unit s financial condition, results of operations, and future cash flows.

We may be required to record future charges to earnings if goodwill associated with the Horizon Acquisition become impaired. Any such charge would adversely impact our financial results.

We have incurred, and expect to continue incurring, substantial expenses related to the pending acquisition.

We have incurred, and expect to continue incurring, substantial expenses in connection with completing the acquisition of Horizon and integrating the operations of Horizon with our operations. While we have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our transaction and integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. As a result, the transaction and integration expenses associated with the acquisition of Horizon could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of Horizon following the completion of the acquisition of Horizon.

Risks Relating to Financial Matters

A deterioration of the Company s credit profile or disruptions of the credit markets could restrict its ability to access the debt capital markets or increase the cost of debt.

Deterioration in the Company s credit profile may have an adverse effect on the Company s ability to access the private or public debt markets and also may increase its borrowing costs. If the Company s credit profile deteriorates significantly, its access to the debt

Table of Contents

capital markets or its ability to renew its committed lines of credit may become restricted, or the Company may not be able to refinance debt at the same levels or on the same terms. Because the Company relies on its ability to draw on its revolving credit facilities to support its operations, when required, any volatility in the credit and financial markets that prevents the Company from accessing funds (for example, a lender that does not fulfill its lending obligation) could have an adverse effect on the Company s financial condition and cash flows. Additionally, the Company s credit agreements generally include an increase in borrowing rates if the Company s credit profile deteriorates. Furthermore, the Company incurs interest under its revolving credit facilities based on floating rates. Floating rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect the Company s cash flow and results of operations.

Failure to comply with certain restrictive financial covenants contained in the Company s credit facilities could preclude the payment of dividends, impose restrictions on the Company s business segments, capital resources or other activities or otherwise adversely affect the Company.

The Company s credit facilities contain certain restrictive financial covenants, the most restrictive of which include the maintenance of minimum shareholders equity levels, a maximum ratio of debt to earnings before interest, taxes, depreciation and amortization, and the maintenance of no more than a maximum amount of priority debt as a percentage of consolidated tangible assets. If the Company does not maintain the required covenants, and that breach of covenants is not cured timely or waived by the lenders, resulting in default, the Company s access to credit may be limited or terminated, dividends may be suspended, and the lenders could declare any outstanding amounts due and payable. The Company s continued ability to borrow under its credit facilities is subject to compliance with these financial and other non-financial covenants.

The Company s effective income tax rate may vary.

Various internal and external factors may have favorable or unfavorable, material or immaterial effects on the Company s effective income tax rate and, therefore, the Company s net income and earnings per share. These factors include, but are not limited to changes in tax rates; changes in tax laws, regulations, and rulings; changes in interpretations of existing tax laws, regulations and rulings; changes in the Company s evaluation of collectability of deferred tax assets and uncertain tax positions; changes in accounting principles; changes in current pre-tax income as well as changes in forecasted pre-tax income; changes in the level of CCF deductions, non-deductible expenses, and expenses eligible for tax credits; changes in the mix of earnings among countries with varying tax rates; acquisitions and changes in the Company s corporate structure. These factors may result in periodic revisions to our effective income tax rate, which could affect the Company s cash flow and results of operations.

Changes in the value of pension assets, or a change in pension law or key assumptions, may adversely affect the Company s financial performance.

The amount of the Company s employee pension and post-retirement benefit costs and obligations are calculated on assumptions used in the relevant actuarial calculations. Adverse changes in any of these assumptions due to economic or other factors, changes in discount rates, higher health care costs, or lower actual or expected returns on plan assets, may adversely affect the Company s operating results, cash flows, and financial condition. In addition, a change in federal law, including changes to the Employee Retirement Income Security Act or Pension Benefit Guaranty Corporation premiums, may adversely affect the Company s single-employer and multiemployer pension plans and plan funding. These factors, as well as a decline in the fair value of pension plan assets, may put upward pressure on the cost of providing pension and medical benefits and may increase future pension expense and required funding contributions. There can be no assurance that it will be successful in limiting future cost and expense increases, and continued upward pressure in costs and expenses could further reduce the profitability of the Company s businesses.

The Company may have exposure under its multiemployer pension and post-retirement plans in which it participates that extends beyond its funding obligation with respect to the Company s employees.

The Company contributes to various multiemployer pension plans. In the event of a partial or complete withdrawal by the Company from any plan that is underfunded, the Company would be liable for a proportionate share of such plan s unfunded vested benefits. Based on the limited information available from plan administrators, which the Company cannot independently validate, the Company believes that its portion of the contingent liability in the case of a full withdrawal or termination may be material to its financial position and results of operations. If any other contributing employer withdraws from any plan that is underfunded, and such employer (or any member in its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then the Company, along with the other remaining contributing employers, would be liable for its proportionate share of such plan s unfunded vested benefits. In addition, if a multiemployer plan fails to satisfy the minimum funding requirements, the Internal Revenue Service will impose certain penalties and taxes.

Table of Contents

Risks Relating to Legal and Legislative Matters

The impact of the molasses release in September 2013 may have an adverse effect on the Company s financial position, results of operations, or cash flows.

The Company could be faced with regulatory compliance obligations, third party or governmental agency claims, disputes, legal or other proceedings, fines, penalties, natural resource damages, inquiries or investigations or other regulatory actions in connection with the release of molasses into Honolulu Harbor in September 2013. The Company cannot currently estimate the potential impact of any such events, but such events could involve or result in significant expenditures or losses by the Company, or result in significant changes to Matson s tariffs, rates, rules and practices in dealing with its customers, all of which could have an adverse effect on the Company s financial position, results of operations, or cash flows. See Legal Proceedings below.

The Company is subject to, and may in the future be subject to, disputes, legal or other proceedings, or government inquiries or investigations, that could have an adverse effect on the Company.

The nature of the Company s business exposes it to the potential for disputes, legal or other proceedings, or government inquiries or investigations, relating to antitrust matters, labor and employment matters, personal injury and property damage, environmental and other matters, as discussed in the other risk factors disclosed in this section or in other Company filings with the SEC. For example, Matson is a common carrier, whose tariffs, rates, rules and practices in dealing with its customers are governed by extensive and complex foreign, federal, state and local regulations, which may be the subject of disputes or administrative or judicial proceedings. If these disputes develop into proceedings, these proceedings, individually or collectively, could involve or result in significant expenditures or losses by the Company, or result in significant changes to Matson s tariffs, rates, rules and practices in dealing with its customers, all of which could have an adverse effect on the Company s future operating results, including profitability, cash flows, and financial condition. For a description of significant legal proceedings involving the Company, see Legal Proceedings below.

Repeal, substantial amendment, or waiver of the Jones Act or its application could have an adverse effect on the Company s business.

If the Jones Act was to be repealed, substantially amended, or waived and, as a consequence, competitors were to enter the Hawaii or Alaska markets with lower operating costs by utilizing their ability to acquire and operate foreign-flag and foreign-built vessels, the Company s business would be adversely affected. In addition, the Company s advantage as a U.S.-citizen operator of Jones Act vessels could be eroded by periodic efforts and attempts by foreign interests to circumvent certain aspects of the Jones Act. If maritime cabotage services were included in the General Agreement on Trade in Services, the North American Free Trade Agreement or other international trade agreements, or if the restrictions contained in the Jones Act were otherwise altered, the shipping of cargo between covered U.S. ports could be opened to foreign-flag or foreign-built vessels.

Non-compliance with, or changes to, federal, state or local law or regulations, including passage of climate change legislation or regulation, may adversely affect the Company s business.

The Company is subject to federal, state and local laws and regulations, including cabotage laws, government rate regulations, and environmental regulations including those relating to air quality initiatives at port locations, including, but not limited to, the Oil Pollution Act of 1990, the Comprehensive Environmental Response Compensation & Liability Act of 1980, the Rivers and Harbors Act of 1899, the Clean Water Act, the Invasive Species Act and the Clean Air Act. Continued compliance with these laws and regulations may result in additional costs and changes in operating procedures that may adversely affect the Company s business. Noncompliance with, or changes to, the laws and regulations governing the Company s business could impose significant additional costs on the Company and adversely affect the Company s financial condition and results of operations. In addition, changes in environmental laws impacting the business, including passage of climate change legislation or other regulatory initiatives that restrict emissions of greenhouse gasses, may require costly vessel modifications, the use of higher-priced fuel and changes in operating practices that may not be recoverable through increased payments from customers. Further changes to these laws and regulations could adversely affect the Company. Climate change legislation, such as limiting and reducing greenhouse gas emissions through a cap and trade system of allowances and credits, if enacted, may have an adverse effect on the Company s business.

Table of Contents

Risks Related to Capital Structure

The Company s business could be adversely affected if the Company were determined not to be a U.S. citizen under the Jones Act.

Certain provisions of the Company s articles of incorporation protect the Company s ability to maintain its status as a U.S. citizen under the Jones Act. Although the Company believes it currently is a U.S. citizen under the Jones Act, if non-U.S. citizens were able to defeat such articles of incorporation restrictions and own in the aggregate more than 25 percent of the Company s common stock, the Company would no longer be considered a U.S. citizen under the Jones Act. Such an event could result in the Company s ineligibility to engage in coastwise trade and the imposition of substantial penalties against it, including seizure or forfeiture of its vessels, which could have an adverse effect on the Company s financial condition and results of operation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases a 105-acre marine terminal at Honolulu, Hawaii. The lease expires in September 2016, and the Company is currently in the process of renewing this lease. The Company s other primary terminal facilities located at the Port of Seattle, Washington, and the Ports of Oakland and Long Beach, California, are leased by the Company s terminal joint venture partner, SSAT. The Company leases seven acres at West Oahu, Hawaii, and 30 acres at Polaris Point, Guam that are used as container depots. The following is a summary of the Company s other significant facilities:

Location	Description of Facility	Square Footage
Honolulu, Hawaii	Corporate headquarters	16,444
Oakland, California	Office	47,580
Phoenix, Arizona	Office	22,808
Oakbrook Terrace, Illinois	Office	17,004
Concord, California	Office	7,974
Auckland, New Zealand	Office	3,832
Shanghai, China	Office	7,240
Pooler, Georgia	Warehouse facility	710,844
Oakland, California	Warehouse facility	400,000
Black Creek, Georgia	Warehouse facility	367,265
Pooler, Georgia	Warehouse facility	324,832
Hayward, California	Warehouse facility	214,000
Rancho Dominguez, California	Warehouse facility	141,000
Oakland, California	Warehouse facility	132,000
Alameda, California	Storage facility	47,500

For additional information about the Company s properties, refer to Business Description in Item 1 of Part 1 above.

ITEM 3. LEGAL PROCEEDINGS

See Business Business Description - Rate Regulations and Fuel Costs above for a discussion of rate and other regulatory matters in which Matson is routinely involved.

Environmental Matter: Molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company in September 2013. The Company is cooperating with federal and state agencies involved in responding to and investigating the incident. On September 20, 2013, the Hawaii Department of Health (DOH) and other responding governmental agencies announced that they had officially transitioned their role from a response phase to a recovery and restoration phase. The DOH also reported on September 20, 2013 that dissolved oxygen and pH levels in the harbor and nearby Keehi Lagoon had returned to normal target levels and that there was no longer discoloration of the water in those same areas attributable to the molasses release. Keehi Lagoon was reopened to the public on September 21, 2013.

On October 10, 2013, the Company was served with a federal grand jury subpoena seeking documents in connection with a criminal investigation into the release of molasses into Honolulu Harbor. In addition, in April 2014, the Company received two subpoenas from the Hawaii Attorney General and written requests for information regarding the release from the following governmental agencies: (i) the DOH; (ii) the State of Hawaii Office of Hawaiian Affairs; and (iii) the U.S. Environmental Protection Agency (the EPA) (Region IX).

Table of Contents

On October 21, 2014, the U.S. Attorney for the District of Hawaii (the U.S. Attorney) filed an Information with the U.S. District Court for the District of Hawaii (the Court) charging Matson Terminals, Inc. (MTI), the subsidiary of the Company that operated the pipeline, with two misdemeanor violations of Section 407 of the Rivers and Harbors Act of 1899 (the Refuse Act) arising from the molasses release. The U.S. Attorney also filed a Memorandum of Plea Agreement (the Plea Agreement), subject to the approval of the Court, to resolve federal criminal charges arising from the molasses release. Pursuant to the Plea Agreement, MTI agreed to plead guilty to the two violations of the Refuse Act and to pay $1.0 million, comprised of a $0.4 million fine and restitution payments of $0.6 million to community organizations involved in the protection of the shoreline. On October 24, 2014, MTI entered a guilty plea in the Court. On January 29, 2015, MTI executed an Amended Plea Agreement that was accepted by the Court which then sentenced MTI to make the payments described above. On February 24, 2015, the EPA informed the Company that it will not seek to debar MTI and its affiliates from obtaining future U.S. government contracts.

Furthermore, the Company has not yet resolved any potential civil claims by the governmental agencies arising out of the molasses release. However, except with respect to the matters discussed above, government agencies have not initiated any legal actions in connection with the release of molasses. Therefore, the Company is not able to estimate the future costs, penalties, damages or expenses that it may incur related to the incident. As a result, at this time no assurance can be given that the impact of the incident on the Company s financial position, results of operations, or cash flows will not be material. The Company continues to respond to governmental requests for information, and is engaging in dialogue with governmental agencies in order to reasonably resolve these matters.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Matson s common stock is traded on the New York Stock Exchange under the ticker symbol MATX . As of February 24, 2015, there were 2,515 shareholders of record of Matson common stock. In addition, Cede & Co., which appears as a single record holder, represents the holdings of thousands of beneficial owners of Matson common stock.

---

* $100 invested on 12/31/09 in stock or index, including reinvestment of dividends.

Trading volume averaged 273,309 shares a day in 2014 compared with 228,479 shares a day in 2013 and 245,085 shares a day in 2012.

The quarterly intra-day high and low sales prices and end of quarter closing prices, as reported by the New York Stock Exchange, and cash dividends paid per share of common stock, for each fiscal quarter during 2014 and 2013, were as follows:

	Dividends Paid		Market Price High		Low		Close
2014							
First Quarter	$	0.160	$ 26.88	$	22.50	$	24.69
Second Quarter	$	0.160	$ 26.91	$	22.48	$	26.84
Third Quarter	$	0.170	$ 29.54	$	25.02	$	25.03
Fourth Quarter	$	0.170	$ 36.73	$	24.48	$	34.52
2013							
First Quarter	$	0.150	$ 27.69	$	23.92	$	24.60
Second Quarter	$	0.150	$ 26.44	$	21.51	$	25.00
Third Quarter	$	0.160	$ 29.47	$	25.00	$	26.23
Fourth Quarter	$	0.160	$ 27.85	$	23.46	$	26.11

Although Matson expects to continue paying quarterly cash dividends on its common stock, the declaration and payment of dividends are subject to the discretion of the Board of Directors and will depend upon Matson s financial condition, results of operations, cash requirements and other factors deemed relevant by the Board of Directors. Matson s Board of Directors declared a cash dividend of $0.17 per share payable on March 5, 2015 to shareholders of record on February 12, 2015.

The Company did not repurchase any of its common stock in 2014, 2013 or 2012.

See the subsection captioned Equity Compensation Plan Information in Matson s 2015 Proxy Statement for information regarding securities authorized for issuance under the Company s equity compensation plans, which subsection is incorporated herein by reference.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following should be read in conjunction with Item 8, Financial Statements and Supplementary Data, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars and shares in millions, except shareholders of record and per-share amounts):

	2014	2013	2012	2011	2010
Operating Revenue:					
Ocean Transportation	$ 1,278.4	$ 1,229.4	$ 1,189.8	$ 1,076.2	$ 1,015.0
Logistics	435.8	407.8	370.2	386.4	355.6
Total Operating Revenue	$ 1,714.2	$ 1,637.2	$ 1,560.0	$ 1,462.6	$ 1,370.6
Operating Income:					
Ocean Transportation (1)	$ 131.1	$ 94.3	$ 96.6	$ 73.7	$ 118.3
Logistics	8.9	6.0	0.1	4.9	7.1
Total Operating Income	140.0	100.3	96.7	78.6	125.4
Interest expense	(17.3)	(14.4)	(11.7)	(7.7)	(8.2)
Income from Continuing Operations Before Income Taxes	122.7	85.9	85.0	70.9	117.2
Income tax expense	(51.9)	(32.2)	(33.0)	(25.1)	(46.7)
Income From Continuing Operations	70.8	53.7	52.0	45.8	70.5
(Loss) Income From Discontinued Operations (net of income taxes)			(6.1)	(11.6)	21.6
Net Income	$ 70.8	$ 53.7	$ 45.9	$ 34.2	$ 92.1
Identifiable Assets:					
Ocean Transportation (2)	$ 1,313.9	$ 1,168.6	$ 1,097.2	$ 1,083.9	$ 1,084.7
Logistics	87.9	79.7	77.1	76.4	73.8
Other (3)				1,384.0	1,336.1
Total Assets	$ 1,401.8	$ 1,248.3	$ 1,174.3	$ 2,544.3	$ 2,494.6
Capital Expenditure from Continuing Operations (4):					
Ocean Transportation	$ 27.8	$ 33.8	$ 37.0	$ 44.2	$ 69.4
Logistics	0.1	1.4	1.1	3.0	1.8
Total Capital Expenditures	$ 27.9	$ 35.2	$ 38.1	$ 47.2	$ 71.2
Depreciation and Amortization from Continuing Operations:					
Ocean Transportation	$ 66.6	$ 66.4	$ 69.1	$ 68.4	$ 67.6
Logistics	3.1	3.3	3.4	3.2	3.2
Total Depreciation and Amortization	$ 69.7	$ 69.7	$ 72.5	$ 71.6	$ 70.8
Earnings Per Share in Income from continuing operations:					
Basic	$ 1.65	$ 1.26	$ 1.23	$ 1.10	$ 1.71
Diluted	$ 1.63	$ 1.25	$ 1.22	$ 1.09	$ 1.70
Earnings Per Share in Net Income:					
Basic	$ 1.65	$ 1.26	$ 1.09	$ 0.82	$ 2.23
Diluted	$ 1.63	$ 1.25	$ 1.08	$ 0.81	$ 2.22
Cash dividends per share declared	$ 0.66	$ 0.62	$ 0.93	$ 1.26	$ 1.26

As of December 31:					
Shareholders of record	2,509	2,607	2,729	2,923	3,079
Shares outstanding	43.2	42.8	42.6	41.7	41.3
Long-term debt non-current	$ 352.0	$ 273.6	$ 302.7	$ 180.1	$ 136.6

(1) The Ocean Transportation segment includes $6.6 million, $(2.0) million, $3.2 million, $8.6 million, and $12.8 million, of equity in (loss) income from the Company s terminal joint venture, SSAT, for 2014, 2013, 2012, 2011, and 2010, respectively.

(2) The Ocean Transportation segment includes $64.4 million, $57.6 million, $59.6 million, $56.5 million, and $52.9 million, related to the Company s terminal joint venture equity investment in SSAT as of December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(3) Other identifiable assets related to discontinued operations from A&B and the Company s second China Long Beach Express Service (CLX2) of $1.4 billion, and $1.3 billion, as of December 31, 2011, and 2010, respectively.

(4) Excludes expenditures related to Matson s acquisitions, which are classified as payments for acquisitions in Cash Flows used in Investing Activities from Continuing Operations within the consolidated statements of cash flows.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

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 Internet 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. These include, for example, all references to 2015 or future years. 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 Part I, Item 1A under the caption of Risk Factors of this Form 10-K, which section is incorporated herein by reference. 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.

OVERVIEW

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a discussion of the Company s financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company s consolidated financial statements from year to year, the primary factors that accounted for those changes, and how certain accounting principles, policies and estimates affect the Company s consolidated financial statements. MD&A is provided as a supplement to, and should be read in conjunction with, the consolidated financial statements and the accompanying notes to the consolidated financial statements in Item 8 of Part II below. MD&A is presented in the following sections:

- Business Outlook
- Consolidated Results of Operations
- Analysis of Operating Revenue and Income by Segment
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, Contingencies and Off-Balance Sheet Arrangements
- Critical Accounting Estimates

- Other Matters

Table of Contents

BUSINESS OUTLOOK

The Business Outlook provides the Company s views on current conditions and trends in the various markets it serves, recent Company performance and its near-term prospects. The following information updates the quarterly filings made by the Company throughout 2014. All forward-looking statements made herein are qualified by the inherent risks of the Company s operations and the markets it serves, as more fully described in the Risk Factors set out in Item 1A.

The Company serves multiple domestic and international transportation markets and its operations are therefore impacted by regional, national and international economic conditions. Given its large operational presence in Hawaii, the Company s volumes in the Hawaii trade are highly dependent on the future results of the overall Hawaii economy, competitive activity related to capacity and pricing, and to specific economic sub-categories including construction. In addition, the timing of fuel surcharge collections can lead to fluctuations in quarterly operating income performance on a comparable year over year basis, but does not typically lead to a material annual year over year fluctuation in operating income performance.

In the China trade, volume is driven primarily by U.S. consumer demand for goods during key retail selling seasons while freight rates are impacted mainly by macro supply and demand variables. Currently, there is a global surplus of container vessel capacity, and a recent market survey conducted by Alphaliner estimates that 1.75 million TEUs of new vessel capacity will be delivered in 2015. While excess vessel capacity may be mitigated through vessel scrapping, deferral of new vessel deliveries, vessel lay-ups and slow steaming, transpacific freight rates depend primarily upon rational carrier management of industry capacity.

In the Guam trade, the competitive environment has historically impacted financial results, and to a lesser degree, overall market volume. Currently, the Company is the sole carrier of containerized freight from the U.S. West Coast to Guam following the departure of its major competitor from the trade lane in mid-November of 2011.

All trade lanes for Matson s Ocean Transportation services typically experience seasonality in volume and generally follow a pattern of increasing volumes starting in the second quarter of each year culminating in a peak season throughout the third quarter, with subsequent weakening of demand in the fourth and first quarters. As a result, earnings tend to follow a similar pattern, offset by periodic vessel dry-docking and other episodic cost factors, which can lead to earnings variability.

Ocean Transportation: Market growth continued in Hawaii during the fourth quarter 2014; however, the Company experienced modest competitive losses in eastbound backhaul freight. The Company believes that the Hawaii economy is in a multi-year recovery and is anticipating modest market growth in the trade in 2015. However, containership capacity is projected to increase in the first half of 2015 as a competitor is expected to launch an additional new vessel into the trade. As a result, the Company expects its 2015 Hawaii container volume to approximate the 2014 level.

During the fourth quarter 2014, the Company realized significantly higher freight rates in its China trade, reflecting the high demand for its expedited transpacific service, which was amplified by cargo availability delays experienced by other ocean carriers associated with port congestion on the U.S. West Coast. International vessel overcapacity is expected to continue in 2015 with vessel deliveries outpacing demand growth. The Company expects strong demand for its expedited service to continue in 2015 resulting in high vessel utilization levels and

premium freight rates.

In Guam, the Company s container volume increased modestly in the fourth quarter due to general market growth. In 2015, the Company expects market growth in Guam to result in flat to modestly higher container volume compared to 2014, assuming no new competitors enter the market.

The Company plans to maintain its core nine-ship fleet deployment throughout 2015 for the trade lanes referenced above.

The Company s terminal joint venture, SSAT, showed slight year over year improvement in operating results during the fourth quarter. Notwithstanding the productivity challenges resulting from the ongoing port congestion on the U.S. West Coast, the Company expects modest profit at SSAT for 2015.

Additionally, Matson incurred $4.6 million in legal fees, penalties, and other expenses in 2014 related to the molasses released into Honolulu Harbor in September 2013. At this stage in the proceedings, the Company is not able to estimate the future costs, penalties, damages or expenses that it may incur related to the incident.

Table of Contents

For the full year 2015, Ocean Transportation operating income is expected to be modestly higher than 2014. The Company expects operating income for the first quarter of 2015 to approach levels achieved in the fourth quarter 2014 due to higher freight rates in the China trade, the timing of fuel surcharge collections, and modest volume growth in our core trade lanes.

The Company s outlook for 2015 excludes any future effects from the September 2013 molasses incident and the pending transaction with Horizon Lines, Inc., pursuant to which the Company will acquire the stock of Horizon, which will include Horizon s Alaska operations and the assumption of all of Horizon s non-Hawaii business assets and liabilities.

Logistics: Volume growth in Logistics highway businesses extended into the fourth quarter 2014 and, combined with highway yield improvements, drove an increase in operating income margin to 2.8 percent. The Company expects 2015 operating income to exceed the 2014 level of $8.9 million, driven by continued volume growth, expense control and improvements in warehouse operations.

Interest Expense: The Company expects its interest expense in 2015 to decrease slightly from the 2014 amount of $17.3 million.

Income Tax Expense: The effective tax rate for the fourth quarter 2014 was 38.4 percent as compared to 49.3 percent in the fourth quarter 2013. The rate for the fourth quarter 2013 was higher primarily due to the impact of the litigation charge, and a change in timing of CCF deposits that led to a corresponding increase in tax expense. The Company expects its 2015 effective tax rate to be approximately 38.5 percent.

Other: The Company expects maintenance capital expenditures for 2015 to be approximately $40.0 million and, in addition, has scheduled contract payments of $33.4 million in 2015 relating to its two vessels under construction. The Company also expects to make additional contributions to its CCF in 2015, which may exceed the $65.5 million net contribution made in 2014.

CONSOLIDATED RESULTS OF OPERATIONS

The following analysis of the financial condition and results of operations of Matson should be read in conjunction with the consolidated financial statements in Item 8 of Part II below.

Consolidated Results: 2014 compared with 2013:

	Years Ended December 31,		
(dollars in millions, except per share amounts)	**2014**	**2013**	**Change**
Operating revenue	$ 1,714.2	$ 1,637.2	4.7%
Operating costs and expenses	(1,574.2)	(1,536.9)	2.4%
Operating income	140.0	100.3	39.6%

Interest expense		(17.3)		(14.4)	20.1%
Income before income taxes		122.7		85.9	42.8%
Income tax expense		(51.9)		(32.2)	61.2%
Net income	$	70.8	$	53.7	31.8%
Basic earnings per share	$	1.65	$	1.26	31.0%
Diluted earnings per share	$	1.63	$	1.25	30.4%

Consolidated Operating Revenue for the year ended December 31, 2014 increased $77.0 million, or 4.7 percent, compared to the prior year. This increase was due to $49.0 million and $28.0 million higher revenues for Ocean Transportation and Logistics, respectively. The reasons for the operating revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Operating Costs and Expenses for the year ended December 31, 2014 increased $37.3 million, or 2.4 percent, compared to the prior year. The increase was due to increases of $12.2 million and $25.1 million in costs for Ocean Transportation and Logistics, respectively. The reasons for the operating expense changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Income Tax Expense during the year ended December 31, 2014 was $51.9 million, or 42.3 percent, of income before income taxes, as compared to $32.2 million, or 37.5 percent on income before income taxes, in the prior year. The increase in income tax rate was principally due to a non-cash valuation allowance recorded against deferred tax assets related to foreign operations, and non-deductible charges related to the acquisition, offset by the release of uncertain tax positions.

Table of Contents

Consolidated Results: 2013 compared with 2012:

	Years Ended December 31,		
(dollars in millions, except per share amounts)	**2013**	**2012**	**Change**
Operating revenue	$ 1,637.2	$ 1,560.0	4.9%
Operating costs and expenses	(1,536.9)	(1,463.3)	5.0%
Operating income	100.3	96.7	3.7%
Interest expense	(14.4)	(11.7)	23.1%
Income from continuing operations before income taxes	85.9	85.0	1.1%
Income tax expense	(32.2)	(33.0)	(2.4%)
Income from continuing operations	53.7	52.0	3.3%
Loss from discontinued operations (net of income taxes)		(6.1)	
Net income	$ 53.7	$ 45.9	17.0%
Basic earnings per share	$ 1.26	$ 1.09	15.6%
Diluted earnings per share	$ 1.25	$ 1.08	15.7%

Consolidated Operating Revenue for the year ended December 31, 2013 increased $77.2 million, or 4.9 percent, compared to the prior year. This increase was due to $39.6 million and $37.6 million higher revenues for Ocean Transportation and Logistics, respectively. The reasons for the operating revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Operating Costs and Expenses for the year ended December 31, 2013 increased $73.6 million, or 5.0 percent, compared to the prior year. The increase was due to increases of $41.9 million and $31.7 million in costs for Ocean Transportation and Logistics, respectively. The reasons for the operating expense changes are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Income Tax Expense during the year ended December 31, 2013 was $32.2 million, or 37.5 percent of income from continuing operations before income tax, as compared to $33.0 million, or 38.8 percent, in the prior year. The change in tax rate percent is due principally to a tax benefit in 2013 from the re-measurement of uncertain tax positions and a non-recurring tax increase in the prior year from non-deductible charges related to the Separation.

Loss from Discontinued Operations was $6.1 million for the year ended December 31, 2012 related to the Separation and the shutdown of the Company s CLX2 operations. There were no discontinued operations during 2013.

Table of Contents

ANALYSIS OF OPERATING REVENUE AND INCOME BY SEGMENT

Additional detailed information related to the operations and financial performance of the Company s Reportable Segments is included in Part II Item 6 and Note 14 to the consolidated financial statements in Item 8 of Part II below. The following information should be read in relation to the information contained in those sections.

Ocean Transportation: 2014 compared with 2013:

	Years Ended December 31,		
(dollars in millions)	**2014**	**2013**	**Change**
Ocean Transportation revenue	$ 1,278.4	$ 1,229.4	4.0%
Operating costs and expenses	1,147.3	1,135.1	1.1%
Operating income	$ 131.1	$ 94.3	39.0%
Operating income margin	10.3%	7.7%	
Volume (Units) (1)			
Hawaii containers	138,300	138,500	(0.1%)
Hawaii automobiles	70,600	81,500	(13.4%)
China containers	62,000	61,300	1.1%
Guam containers	24,600	24,100	2.1%
Micronesia/South Pacific Containers	14,800	12,800	15.6%

---

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

Ocean Transportation revenue increased $49.0 million, or 4.0 percent during the year ended December 31, 2014 compared to the prior year. This increase was due primarily to higher freight yields across major trade lanes, higher fuel surcharge revenue, and increased volume in the South Pacific, partially offset by lower automobile volume.

During the year ended December 31, 2014, container volumes in Hawaii and China were relatively flat; Guam volume increased modestly due to timing of shipments; and Micronesia/South Pacific volume increased 15.6 percent reflecting a full year of operations and service reconfiguration in the South Pacific. Hawaii automobile volume decreased 13.4 percent primarily due to certain customer losses.

Ocean Transportation operating income increased $36.8 million, or 39.0 percent during the year ended December 31, 2014. The increase was primarily due to higher freight yields across major trade lanes, the timing of fuel surcharge collections, lower outside transportation costs, and improved results at the Company s terminal joint venture, SSAT, partially offset by higher terminal handling expenses and higher general and administrative expenses some of which were attributable to the Company s pending acquisition of Horizon Lines Alaska operations. In addition, the fourth quarter 2013 was negatively impacted by the $9.95 million litigation charge. In 2014, the Company incurred $4.6 million in penalties, legal and other expenses related to the molasses released into Honolulu Harbor in September 2013 compared to $3.0 million in 2013.

The Company s terminal joint venture, SSAT, contributed $6.6 million during the year ended December 31, 2014, compared to a $2.0 million loss in 2013. The increase was primarily attributable to increased lift volume and the absence of transition costs related to the Oakland terminal expansion in 2013.

Table of Contents

Ocean Transportation: 2013 compared with 2012:

	Years Ended December 31,	
(dollars in millions)	**2013**	**2012**