

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-34187

Matson, Inc.

(Exact name of registrant as specified in its charter)

Hawaii

(State or other jurisdiction of incorporation or organization)

99-0032630

(I.R.S. Employer Identification No.)

**1411 Sand Island Parkway
Honolulu, HI**

(Address of principal executive offices)

96819

(Zip Code)

(808) 848-1211

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Number of shares of common stock outstanding as of June 30, 2015: **43,527,032**

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MATSON, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

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

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Operating Revenue:				
Ocean Transportation	\$ 346.7	\$ 321.1	\$ 652.2	\$ 615.7
Logistics	100.9	115.3	193.6	213.2
Total Operating Revenue	447.6	436.4	845.8	828.9
Costs and Expenses:				
Operating costs	364.5	366.9	682.7	714.7
Equity in income of terminal joint venture	(5.2)	(2.1)	(8.6)	(2.3)
Selling, general and administrative	54.6	35.9	93.1	70.9
Total Costs and Expenses	413.9	400.7	767.2	783.3
Operating Income	33.7	35.7	78.6	45.6
Interest expense	(4.6)	(4.5)	(8.9)	(8.6)
Income before Income Taxes	29.1	31.2	69.7	37.0
Income tax expense	(19.2)	(13.1)	(34.8)	(15.5)
Net Income	\$ 9.9	\$ 18.1	\$ 34.9	\$ 21.5
Other Comprehensive Income (Loss), Net of Income Taxes:				
Net Income	\$ 9.9	\$ 18.1	\$ 34.9	\$ 21.5
Other Comprehensive Income (Loss):				
Net loss in prior service cost	—	—	(0.2)	—
Amortization of prior service cost included in net periodic pension cost	(0.2)	(0.2)	(0.6)	(0.5)
Amortization of net gain included in net periodic pension cost	0.9	0.7	2.3	1.4
Foreign currency translation adjustment	0.6	—	0.7	(0.1)
Total Other Comprehensive Income	1.3	0.5	2.2	0.8
Comprehensive Income	\$ 11.2	\$ 18.6	\$ 37.1	\$ 22.3
Basic Earnings Per Share:	\$ 0.23	\$ 0.42	\$ 0.80	\$ 0.50
Diluted Earnings Per Share:	\$ 0.23	\$ 0.42	\$ 0.79	\$ 0.50
Weighted Average Number of Shares Outstanding:				
Basic	43.5	43.0	43.4	43.0
Diluted	44.0	43.2	43.9	43.2
Cash Dividends Per Share	\$ 0.17	\$ 0.16	\$ 0.34	\$ 0.32

See Notes to Condensed Consolidated Financial Statements.

MATSON, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In millions) (Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15.8	\$ 293.4
Accounts receivable, net	223.6	197.6
Deferred income taxes	42.1	8.0
Prepaid expenses and other assets	41.4	20.5
Total current assets	322.9	519.5
Investment in terminal joint venture	68.9	64.4
Property and equipment, net	839.2	691.2
Intangible assets, net	141.7	2.5
Goodwill	247.1	27.4
Capital Construction Fund deposits	27.5	27.5
Other long-term assets	78.9	69.3
Total assets	\$ 1,726.2	\$ 1,401.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of debt	\$ 24.3	\$ 21.6
Accounts payable	156.8	133.2
Payroll and vacation benefits	21.4	17.3
Uninsured liabilities	26.9	24.5
Accrued and other liabilities	77.3	26.9
Total current liabilities	306.7	223.5
Long-term Liabilities:		

Long-term debt	492.3	352.0
Deferred income taxes	325.2	308.4
Employee benefit plans	117.8	118.6
Uninsured and other liabilities	38.8	35.5
Multi-employer withdrawal liabilities	58.5	—
Total long-term liabilities	<u>1,032.6</u>	<u>814.5</u>
Commitments and Contingencies (Note 8)		
Shareholders' Equity:		
Capital stock	32.4	32.4
Additional paid in capital	283.7	274.9
Accumulated other comprehensive loss	(51.1)	(53.3)
Retained earnings	121.9	109.8
Total shareholders' equity	<u>386.9</u>	<u>363.8</u>
Total liabilities and shareholders' equity	<u>\$ 1,726.2</u>	<u>\$ 1,401.8</u>

See Notes to Condensed Consolidated Financial Statements.

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MATSON, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In millions) (Unaudited)

	Six Months Ended June 30	
	2015	2014
Cash Flows From Operating Activities:		
Net income	\$ 34.9	\$ 21.5
Reconciling adjustments:		
Depreciation and amortization	35.6	35.2
Deferred income taxes	20.7	3.6
Share-based compensation expense	7.6	3.7
Equity in income from terminal joint venture	(8.6)	(2.3)
Distribution from terminal joint venture	3.5	—
Other	3.0	(1.5)
Changes in assets and liabilities:		
Accounts receivable	5.8	(14.4)
Deferred dry-docking payments	(12.3)	(11.8)
Deferred dry-docking amortization	11.1	10.6
Prepaid expenses and other assets	(12.6)	(7.0)
Accounts payable and accrued liabilities	(1.9)	7.0
Other liabilities	16.1	4.6
Net cash provided by operating activities	<u>102.9</u>	<u>49.2</u>
Cash Flows From Investing Activities:		
Capital expenditures	(12.2)	(20.2)
Proceeds from disposal of property and equipment	1.6	1.2
Deposits into Capital Construction Fund	(2.2)	(2.2)
Withdrawals from Capital Construction Fund	2.2	2.2
Payments for Horizon's common stock, net of cash acquired	(28.7)	—
Net cash used in investing activities	<u>(39.3)</u>	<u>(19.0)</u>
Cash Flows From Financing Activities:		
Proceeds from issuance of debt	175.0	100.0
Payments of Horizon debt and redeemed warrants	(467.5)	—
Payments of other debt	(33.4)	(6.2)
Proceeds from issuance of capital stock	2.5	0.8
Tax withholding related to net share settlements of restricted stock units	(2.9)	(1.7)
Dividends paid	(14.9)	(13.9)
Net cash (used in) provided by financing activities	<u>(341.2)</u>	<u>79.0</u>
Net (decrease) increase in cash and cash equivalents	(277.6)	109.2
Cash and cash equivalents, beginning of the period	293.4	114.5
Cash and cash equivalents, end of the period	<u>\$ 15.8</u>	<u>\$ 223.7</u>
Supplemental Cash Flow Information:		
Interest paid	\$ 8.6	\$ 6.6
Income tax paid	\$ 27.0	\$ 12.7
Non-cash Information:		
Capital expenditures included in accounts payable and accrued liabilities	\$ 2.9	\$ 2.1
Accrued dividend	\$ 7.9	\$ 7.4

1. DESCRIPTION OF THE BUSINESS

Matson, Inc., a holding company incorporated in January 2012, in the State of Hawaii, and its subsidiaries (“Matson” or the “Company”), is a leading provider of ocean transportation and logistics services.

Ocean Transportation:

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

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

Logistics:

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The Condensed Consolidated Financial Statements are unaudited. Due to the nature of the Company’s operations, the results for interim periods are not necessarily indicative of results to be expected for the year. These Condensed Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim periods, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial statements and notes thereto included in the Company’s Annual Report filed on Form 10-K for the year ended December 31, 2014.

Fiscal Period: The period end for Matson, Inc. covered by this report is June 30, 2015. The period end for MatNav and its subsidiaries covered by this report occurred on the last Friday in June, or June 26, 2015.

Significant Accounting Policies: The Company’s significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in Item 8 of the Company’s Annual Report filed on Form 10-K for the year ended December 31, 2014.

Income Taxes: During the three months ended June 30, 2015, the Company recorded a non-cash adjustment to income tax expense to write off long-term deferred tax assets that are not expected to reverse in future periods. The impact of the out-of-period adjustment to the three and six months ended June 30, 2015 was to increase tax expense by \$4.8 million and a corresponding decrease in long-term deferred tax assets, and resulted in a decrease of earnings per-share by \$0.11. The Company determined that the adjustment was not material to the current or previously reported periods.

3. BUSINESS COMBINATION

Acquisition:

On November 11, 2014, MatNav entered into a definitive merger agreement with Horizon Lines, Inc. (“Horizon”) pursuant to which MatNav would acquire Horizon’s Alaska operations and assume all of Horizon’s non-Hawaii assets and liabilities (the “Acquisition”). Horizon’s Alaska operations include four Jones Act qualified containerships and related terminal operations at the Ports of Anchorage, Dutch Harbor, Kodiak and Akutan. Also on November 11, 2014, Horizon agreed to sell its Hawaii operations, and related assets and liabilities to The Pasha Group (“Pasha”) for \$141.5 million (the “Pasha Transaction”), and announced the termination of its Puerto Rico operations during the first quarter of 2015. The Acquisition and the Pasha Transaction were completed on May 29, 2015 (the “Effective Date”).

On the Effective Date, a subsidiary of the Company merged with Horizon and as a result, the Company acquired 100 percent of Horizon’s outstanding shares and warrants for a cash price of \$0.72 per-share. The Company also acquired Horizon’s assets and assumed its liabilities including Horizon’s debt (net of proceeds from the Pasha Transaction). Immediately following the Acquisition, the Company repaid the assumed debt which included accrued interest and breakage fees, and redeemed all of Horizon’s outstanding warrants. Total cash consideration paid by the Company is as follows:

<u>(in millions)</u>	<u>Cash Consideration</u> <u>May 29, 2015</u>	
Common shares	\$	29.4

Warrants	37.1
Horizon's debt (including accrued interest and breakage fees)	428.9
Total cash consideration	<u>\$ 495.4</u>

Horizon's assets acquired and liabilities assumed were recorded based on fair value estimates as of the Effective Date with the remaining unallocated purchase price recorded as goodwill. Such fair value estimates require significant judgment including the valuation of property and equipment, and intangible assets, the valuation of debt and warrants, the assumptions used in calculating the multi-employer withdrawal pension liabilities, and the determination of net deferred tax assets. The Company's fair value estimates are subject to revision pending the finalization of information from the Trustee of the multi-employer pension plan and the Company's final fair value analysis, and consequently, the final fair value amounts may be significantly different from those reflected in the Company's Condensed Consolidated Financial Statements as of June 30, 2015.

Estimated fair values assigned to Horizon's assets acquired and liabilities assumed at the Effective Date were as follows:

(in millions)	Estimated Fair Values May 29, 2015
Cash and cash equivalents	\$ 0.8
Accounts receivable	31.7
Other current assets	7.1
Deferred tax assets, net	38.9
Property and equipment	171.0
Intangibles - Customer relationships	140.0
Other long-term assets	5.0
Accounts payable	(23.2)
Accruals and other current liabilities	(32.1)
Multi-employer withdrawal liabilities	(60.6)
Debt, capital lease obligations and warrants	(468.9)
Total identifiable assets less liabilities	(190.3)
Total cash paid for common shares	(29.4)
Goodwill	<u>\$ 219.7</u>

Deferred tax assets, net: The Company recorded Horizon's deferred tax assets and liabilities net of any change of ownership limitations. The Company also recorded a valuation allowance against the portions of deferred tax assets that the Company determined may not be realized in future periods.

Property and equipment, and intangibles: Property and equipment of \$171.0 million includes the acquisition of four Jones Act qualified containerships, containers, chassis, and other property and terminal equipment. The Company also recorded intangible assets of \$140.0 million related to customer relationships, which will be amortized over 21 years.

Goodwill: The Company recorded goodwill of \$219.7 million arising from the Acquisition, which represents the excess of the fair value of the consideration paid by the Company over the fair value of the underlying identifiable Horizon assets acquired and liabilities assumed. In accordance with ASC 805, *Business Combination*, goodwill will not be amortized, but instead will be tested for impairment at least annually, and whenever events or circumstances have occurred that may indicate a possible impairment.

Goodwill arises as a result of several factors. The Acquisition extends the geographical reach of the Company's ocean transportation services to Alaska, and represents an extension of the Company's existing platform on the U.S. West Coast. The Acquisition also provides an assembled workforce of experienced personnel with knowledge of the Alaska shipping industry and of its customers. The Company expects to leverage its existing infrastructure and operations to integrate the Alaska operations and eliminate duplicative corporate overhead costs.

Multi-employer withdrawal liabilities: Horizon's decision to terminate its Puerto Rico service during the first quarter of 2015 resulted in mass withdrawal from the multi-employer ILA-PRSSA Pension Fund. Horizon's current and long-term liabilities related to the multi-employer pension plan of \$60.6 million, included in assumed liabilities, were based upon the expected future undiscounted payments of \$73.9 million to be paid over approximately 18 years, discounted using the risk-free U.S. Treasury rate. Expected annual cash outflows related to the multi-employer pension plan are as follows (in millions):

Year ended June 30 (in millions):	Repayments
2016	\$ 2.1
2017	4.1
2018	4.1
2019	4.1
2020	4.1
Thereafter	55.4
Total	<u>\$ 73.9</u>

Debt and Warrants: The Company repaid debt, including accrued interest and breakage fees, and redeemed all of Horizon's outstanding warrants for a total of \$466.0 million during the period ended June 30, 2015, net of proceeds from the Pasha Transaction. Remaining debt of \$1.2 million at June 30, 2015 consisted of capital lease obligations.

Condensed Consolidated Statements of Income and Comprehensive Income:

The amounts of revenue and net loss before income taxes from Horizon's financial results included in the Company's Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2015 were \$24.5 million and \$2.6 million, respectively.

Selling, general and administrative expenses from Horizon's financial results included in the Company's Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2015 included \$14.7 million and \$15.6 million, respectively, of expenses incurred during

these periods, primarily composed of transaction costs, integration costs and incremental corporate overhead expenses related to the Acquisition.

Pro Forma Financial Information (Unaudited):

The following unaudited pro forma financial information presents the combined operating results of the Company, and those of Horizon excluding its Hawaii operations, as if the Acquisition had been completed at the beginning of each period presented below. The unaudited pro forma financial information includes the accounting effects of the business combination, including the amortization of intangible assets, depreciation of property and equipment, and interest expense. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the result of operations that would have been achieved if the Acquisition had taken place at the beginning of the periods presented, nor should it be taken as an indication of our future consolidated results of operations. In addition, pro forma information excludes the impact of restructuring activities implemented by the Company since completion of the Acquisition.

(in millions, except per-share amount)	(unaudited) Three Months Ended June 30		(unaudited) Six Months Ended June 30	
	2015	2014	2015	2014
Pro forma combined:				
Operating Revenue	\$ 507.2	\$ 526.2	\$ 980.6	\$ 994.1
Net income from continuing operations	\$ 7.6	\$ 8.9	\$ 25.1	\$ 0.4
Basic Earnings per share:	\$ 0.17	\$ 0.21	\$ 0.58	\$ 0.01
Diluted Earnings per share:	\$ 0.17	\$ 0.21	\$ 0.57	\$ 0.01
Weighted Average Number of Shares Outstanding:				
Basic	43.5	43.0	43.4	43.0
Diluted	44.0	43.2	43.9	43.2

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4. CAPITAL CONSTRUCTION FUND

At June 30, 2015 and December 31, 2014, the Company had the following amounts of assigned eligible accounts receivable, and on deposit to the Capital Construction Fund (“CCF”) (in millions):

	CCF Deposits and Withdrawals	Eligible Accounts Receivable Assigned to CCF	Total
Three Months Ended June 30, 2015:			
Balance at March 31, 2015	\$ 27.5	\$ 150.9	\$ 178.4
Deposits	—	—	—
Qualified withdrawals	—	—	—
Interest earned	—	0.2	0.2
Balance at June 30, 2015	\$ 27.5	\$ 151.1	\$ 178.6
Six Months Ended June 30, 2015:			
Balance at December 31, 2014	\$ 27.5	\$ 150.7	\$ 178.2
Deposits	2.2	—	2.2
Qualified withdrawals	(2.2)	—	(2.2)
Interest earned	—	0.4	0.4
Balance at June 30, 2015	\$ 27.5	\$ 151.1	\$ 178.6

Due to the nature of the assignment of eligible account receivables into the CCF, such assigned amounts are classified as part of accounts receivable in the Condensed Consolidated Balance Sheets. The Company’s CCF on deposit of \$27.5 million at June 30, 2015 and December 31, 2014, was invested in a money market fund, and is classified as a long-term asset in the Company’s Condensed Consolidated Balance Sheets.

The Company’s CCF is described in Note 6 to the Consolidated Financial Statements included in Item 8 of the Company’s Annual Report filed on Form 10-K for the year ended December 31, 2014.

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5. DEBT

At June 30, 2015 and December 31, 2014, the Company’s debt consisted of the following (in millions):

	June 30 2015	December 31 2014
Term Loans:		
5.79%, payable through 2020	\$ 35.0	\$ 38.5
3.66%, payable through 2023	72.9	77.5
4.16%, payable through 2027	55.0	55.0
4.31%, payable through 2032	37.5	37.5
4.35%, payable through 2044	100.0	100.0

Title XI Bonds:		
5.34%, payable through 2028	29.7	30.8
5.27%, payable through 2029	31.9	33.0
Revolving credit facility	152.5	—
Capital leases	2.1	1.3
Total Debt	516.6	373.6
Less current portion	(24.3)	(21.6)
Total Long-term Debt	<u>\$ 492.3</u>	<u>\$ 352.0</u>

The Company's Debt is described in Note 7 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014.

Revolving Credit Facility: On May 27, 2015, the Company borrowed \$175.0 million under the revolving credit facility to fund the Acquisition, of which \$152.5 million was outstanding as of June 30, 2015. Borrowings under the revolving credit facility are classified as long-term debt in the Condensed Consolidated Balance Sheet as principal payments under the revolving credit facility are not required until maturity. As of June 30, 2015, the Company had \$215.9 million of availability under the revolving credit facility. The interest rate on borrowings under the revolving credit facility approximated 2.3 percent during the period ended June 30, 2015.

2015 Note Purchase Agreement: On July 30, 2015, the Company entered into a private placement note purchase agreement pursuant to which the Company expects to issue \$75.0 million of 30-year senior unsecured notes (the "Notes"). The Notes will have a weighted average life of approximately 13 years and will bear interest at a rate of 3.92 percent, payable semi-annually. The Notes are expected to be issued in September 2015, subject to satisfaction of customary closing conditions. The proceeds from the Notes are expected to be used for general corporate purposes, which may include paying down the Company's revolving credit facility. The Notes will begin to amortize in 2017, with annual principal payments of approximately \$1.8 million through 2019. During the years 2020 to 2026, annual principal payments will range from approximately \$1.3 million to \$8.0 million. Starting in 2027, and in each year thereafter, the annual principal payments will be approximately \$1.5 million. The Notes have financial and other covenants that are substantially the same as those of the Company's outstanding senior unsecured notes. The Notes will be guaranteed by MatNav, and by certain other subsidiaries of the Company.

Amendment to Revolving Credit Facility: On July 30, 2015, the Company entered into amendments to its unsecured revolving credit facility (the "Credit Facility") and its long-term private debt note agreements (the "Notes"). The amendment to the Credit Facility increases the borrowing capacity of the Credit Facility from \$375 million to \$400 million, and extends the maturity date for five years to July 2020. The amendment to the Credit Facility also modifies certain pricing terms, covenants and other definitions within the agreement, and includes an uncommitted option to increase the borrowing capacity of the Credit Facility by an additional \$150 million.

The amendment to the Credit Facility is subject to commitment fees, letter of credit fees, and interest on borrowings based on the Company's ratio of total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") (the "Leverage Ratio"). Commitment fees and letter of credit fees are computed using rates tied to a sliding scale, which range from 0.15 percent to 0.30 percent, and 1.00 percent to 1.75 percent, respectively, based on the Consolidated Net Leverage Ratio, as defined within the amendment. Interest rates on borrowings are based upon the Eurodollar Rate ("LIBOR") plus 1.00 percent to 1.75 percent using a sliding scale based on the Consolidated Net Leverage Ratio. The Company may also select an interest rate at a Base Rate as defined in the agreement, plus a margin that ranges from zero percent to 0.75 percent.

The Company also entered into other amendments to its existing long-term private note agreements including modifications to certain definitions and covenants.

6. PENSION AND POST-RETIREMENT PLANS

The Company sponsors qualified defined-benefit pension and post-retirement plans (collectively, the "Plans"). The following table provides the components of net periodic benefit cost (benefit) for the Plans for the six months ended June 30, 2015 and 2014 (in millions):

	Pension Benefits June 30		Post-retirement Benefits June 30	
	2015	2014	2015	2014
Service cost	\$ 1.7	\$ 1.7	\$ 0.8	\$ 0.5
Interest cost	4.8	4.7	1.3	1.3
Expected return on plan assets	(6.9)	(7.0)	—	—
Amortization of net gain	3.2	1.5	1.2	0.3
Amortization of prior service cost	(1.2)	(1.2)	—	—
Net periodic cost (benefit)	<u>\$ 1.6</u>	<u>\$ (0.3)</u>	<u>\$ 3.3</u>	<u>\$ 2.1</u>

On April 10, 2015, the Company paid an initial contribution of \$1.6 million to its defined benefit pension plans, of total expected contributions of \$6.2 million to be made for 2015.

7. SHARE-BASED COMPENSATION

During the three months ended June 30, 2015, the Company granted approximately 20,000 in total of time-based and performance-based shares to certain of its employees at a weighted-average grant date fair value of \$42.23. The number of performance shares awarded represents the amount that can be earned based upon established targets, and will ultimately depend on the Company's performance.

Total stock-based compensation cost recognized in the Condensed Consolidated Statements of Income and Comprehensive Income as a component of selling, general and administrative expenses was \$4.8 million and \$1.9 million for the three months ended June 30, 2015 and June 30, 2014, respectively, and \$7.6 million and \$3.7 million for the six months ended June 30, 2015 and June 30, 2014, respectively. Total unrecognized compensation cost related to unvested share-based compensation arrangements was \$13.3 million at June 30, 2015, and is expected to be recognized over a weighted-average period of 2.0 years. Total unrecognized compensation cost may be adjusted for any unearned performance shares or forfeited shares.

8. CONTINGENCIES

Environmental Matter: In September 2013, molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company. The Company cooperated with federal and state agencies involved in responding to and investigating the incident. 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).

On January 29, 2015, the Company resolved the federal criminal investigation with the U.S. Attorney for the District of Hawaii by pleading guilty to two misdemeanor violations of the Rivers and Harbors Act of 1899 arising from the molasses release and paying \$1.0 million, consisting of a \$0.4 million fine and restitution payments of \$0.6 million to community organizations involved in the protection of Hawaii’s shoreline and ocean resources. In addition, on February 24, 2015, the EPA informed the Company that it will not seek to debar Matson Terminals Inc. and its affiliates from obtaining future U.S. government contracts.

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On July 29, 2015, the Company entered into a settlement agreement with the State of Hawaii settling all civil, criminal and administrative claims that the State may have had arising from the molasses release (the “Molasses Settlement”). Pursuant to the Molasses Settlement, the Company paid \$5.9 million in cash to the State and agreed to remove the molasses tank farm and pier risers at Sand Island Terminal in Honolulu, which is estimated to cost between \$5.5 million and \$9.5 million. The Company’s results for the second quarter 2015 were negatively impacted by approximately \$11.4 million of costs related to the Molasses Settlement, which the Company has included in accrued and other liabilities in the Condensed Consolidated Balance Sheet at June 30, 2015.

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

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.

9. EARNINGS PER-SHARE

The number of shares used to compute basic and diluted earnings per-share for the three and six months ended June 30, 2015 and 2014, is as follows (in millions, except per-share amounts):

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Net Income	Weighted Average Common Shares	Per Common Share Amount	Net Income	Weighted Average Common Shares	Per Common Share Amount
2015						
Basic:	\$ 9.9	43.5	\$ 0.23	\$ 34.9	43.4	\$ 0.80
Effect of Dilutive Securities:		0.5	—		0.5	—
Diluted:	\$ 9.9	44.0	\$ 0.23	\$ 34.9	43.9	\$ 0.79
	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Net Income	Weighted Average Common Shares	Per Common Share Amount	Net Income	Weighted Average Common Shares	Per Common Share Amount
2014						
Basic:	\$ 18.1	43.0	\$ 0.42	\$ 21.5	43.0	\$ 0.50
Effect of Dilutive Securities:		0.2	—		0.2	—
Diluted:	\$ 18.1	43.2	\$ 0.42	\$ 21.5	43.2	\$ 0.50

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

The computation of weighted average dilutive shares outstanding excludes certain non-qualified stock options to purchase shares of common stock where the options’ exercise prices were greater than the average market price of the Company’s common stock for the periods presented and, therefore, the effect would be anti-dilutive.

10. FAIR VALUE MEASUREMENTS

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

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

The carrying value and fair value of the Company's financial instruments as of June 30, 2015 and December 31, 2014 are as follows (in millions):

	Carrying Value at June 30, 2015	Quoted Prices in Active Markets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
		Fair Value Measurements at June 30, 2015					
Cash and cash equivalents	\$ 15.8	\$ 15.8	\$ —	\$ —	\$ —	\$ —	\$ —
Accounts receivable, net	223.6	—	—	223.6	—	—	—
Variable rate debt	152.5	152.5	—	—	—	—	—
Fixed rate debt	364.1	—	—	378.5	—	—	—

	Carrying Value at December 31, 2014	Quoted Prices in Active Markets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
		Fair Value Measurements at December 31, 2014					
Cash and cash equivalents	\$ 293.4	\$ 293.4	\$ —	\$ —	\$ —	\$ —	\$ —
Accounts receivable, net	197.6	—	—	197.6	—	—	—
Fixed rate debt	373.6	—	—	395.7	—	—	—

11. REPORTABLE SEGMENTS

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

Segment results for the three and six months ended June 30, 2015 and 2014 were as follows (in millions):

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Revenue:				
Ocean Transportation	\$ 346.7	\$ 321.1	\$ 652.2	\$ 615.7
Logistics	100.9	115.3	193.6	213.2
Total Revenue	\$ 447.6	\$ 436.4	\$ 845.8	\$ 828.9
Operating Income:				
Ocean Transportation	\$ 31.4	\$ 32.8	\$ 75.3	\$ 42.2
Logistics	2.3	2.9	3.3	3.4
Total Operating Income	33.7	35.7	78.6	45.6
Interest expense, net	(4.6)	(4.5)	(8.9)	(8.6)
Income before Income Taxes	29.1	31.2	69.7	37.0
Income taxes	(19.2)	(13.1)	(34.8)	(15.5)
Net Income	\$ 9.9	\$ 18.1	\$ 34.9	\$ 21.5

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

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

FORWARD-LOOKING STATEMENTS

Except for historical information, the statements made in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the safe-harbor provisions of the Private Security Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, SEC filings, such as the Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet Web sites (including Web sites of its subsidiaries), and oral statements made by the officers of the Company.

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

The Company cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time, including, but not limited to, the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of Matson's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission ("SEC") on February 27, 2015. Forward-looking statements speak only as of the date they are made, and the Company assumes no duty to and does not undertake to update forward-looking statements. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a discussion of the Company's financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company's financial statements from period to period, the primary factors that accounted for those changes, and how certain accounting principles, policies and estimates affect the Company's financial statements. MD&A is provided as a supplement to the Condensed Consolidated Financial Statements and notes herein, and should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014, and the Company's reports filed on Forms 10-Q and 8-K, and other publicly available information.

BUSINESS OUTLOOK

Alaska Operations Integration:

On May 29, 2015, the Company completed its previously announced Acquisition, of which the primary business was the Alaska operations. The Company expects to complete its integration of the Alaska operations within two years post-closing, at which point incremental run-rate selling, general and administrative expenses are expected to be approximately \$15.0 million per year or \$3.8 million per quarter. The Company's results for the second quarter 2015 were negatively impacted by approximately \$13.5 million of additional selling, general and administrative expenses related to the Acquisition in excess of the Company's incremental run-rate target, consisting primarily of transaction costs, integration costs, and corporate overhead expenses. In the second half 2015, the Company expects to incur approximately \$25 million of selling, general and administrative expenses related to the Acquisition in excess of the Company's incremental run-rate target.

Ocean Transportation:

In the second quarter 2015, the Hawaii trade experienced modest westbound market growth; however, the Company continued to experience competitive losses in eastbound backhaul freight. For the second half 2015, the Company expects market growth in the Hawaii trade to continue, with its Hawaii volume expected to be higher than the second half 2014.

In the China trade, freight rates were higher in the second quarter 2015 than in the year earlier period, reflecting a continuation of rate gains made in the latter half of 2014. For the second half 2015, the Company expects to maintain its volume and average freight rates with high vessel utilization levels, as its expedited service continues to realize a sizeable premium to market rates. In Guam, stable economic activity is expected and the Company envisions its volume to be modestly better than 2014, assuming no new competitors enter the market.

The Company's operating results for the second quarter 2015 included the operating results from Alaska for the period from May 29 to June 30, 2015. For the second half 2015, the Company expects Alaska container volume to approximate the 35,000 loads achieved by Horizon in the comparable period in 2014.

On July 29, 2015, the Company reached a settlement with the State of Hawaii to resolve all civil, criminal and administrative claims that the State may have had arising from the molasses release. The Company paid \$5.9 million in cash to the State and agreed to remove the molasses tank farm and pier risers at Sand Island Terminal in Honolulu, which is estimated to cost between \$5.5 million and \$9.5 million. The Company's results for the second quarter 2015 were negatively impacted by approximately \$11.4 million of costs related to the Molasses Settlement.

In the second half of 2015, exclusive of the aforementioned \$25 million of additional selling, general and administrative expenses in excess of the Company's incremental run-rate target, the Company expects ocean transportation operating income to moderately exceed the \$88.9 million achieved in the second half of 2014. However, the Company expects operating income contribution for each of the third and fourth quarters 2015 to be considerably different than the comparable periods in 2014. Specifically, third quarter 2015 operating income is expected to be approximately 50 percent higher and fourth quarter 2015 operating income is expected to be considerably lower than the comparable periods in 2014. With the second half of 2015 now expected to moderately exceed the second half of 2014, ocean transportation operating income for the full year 2015 is now expected to be substantially higher than 2014, exclusive of approximately \$38.5 million of full year selling, general and administrative expenses in excess of the Company's incremental run-rate target and the impact of the Molasses Settlement.

Logistics: The Company expects full year 2015 operating income to approximate the 2014 level of \$8.9 million.

Interest Expense: The Company expects its interest expense in the second half 2015 to increase to approximately \$10.0 million, primarily due to the incremental borrowings required to fund the Acquisition.

Income Tax Expense: Net income and earnings per share in the second quarter 2015 were adversely impacted by an effective tax rate of 66.0 percent as compared to 42.0 percent in the second quarter 2014. Income tax expense for the second quarter 2015 included a \$4.8 million non-cash adjustment to deferred tax assets, which increased the effective tax rate by 16.5 percentage points and negatively impacted earnings per share by \$0.11. The second quarter 2015 effective tax rate was further negatively impacted by changes in the value of deferred taxes and non-deductible expenses as a result of the Acquisition. The Company expects its effective tax rate for the second half 2015 to be approximately 40.0 percent.

Other: In the first half 2015, the Company had maintenance capital expenditures of approximately \$12.2 million. In the second half 2015, the Company expects maintenance capital expenditures to be approximately \$35.0 million and scheduled contract payments relating to its two vessels under construction to be \$33.0 million. The Company also expects to make additional contributions to its CCF in 2015, which are expected to exceed the \$65.5 million net contribution made in 2014.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated Results: Three months ended June 30, 2015 compared with 2014:

(dollars in millions, except per share amounts)

Three Months Ended June 30

	2015	2014	Change
Operating revenue	\$ 447.6	\$ 436.4	2.6%
Operating costs and expenses	(413.9)	(400.7)	3.3%
Operating income	33.7	35.7	(5.6)%
Interest expense	(4.6)	(4.5)	2.2%
Income before income taxes	29.1	31.2	(6.7)%
Income tax expense	(19.2)	(13.1)	46.6%
Net income	<u>\$ 9.9</u>	<u>\$ 18.1</u>	<u>(45.3)%</u>
Basic earnings per share	\$ 0.23	\$ 0.42	(45.2)%
Diluted earnings per share	\$ 0.23	\$ 0.42	(45.2)%

Consolidated operating revenue for the second quarter 2015 increased \$11.2 million, or 2.6 percent, compared to the second quarter 2014. This increase was due to \$25.6 million higher revenue from ocean transportation, offset by \$14.4 million lower revenue from logistics services.

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Operating costs and expenses for the second quarter 2015 increased \$13.2 million, or 3.3 percent, compared to the second quarter 2014. The increase was due to a \$27.0 million increase, offset by a \$13.8 million decrease in operating costs and expenses from ocean transportation and logistics segments, respectively. Changes in operating revenue and expense are described below in the Analysis of Operating Revenue and Income by Segment, as part of the discussion of trends in operating revenues and operating costs and expenses.

Interest expense increased \$0.1 million to \$4.6 million for the second quarter of 2015 compared to \$4.5 million in 2014, due to increased borrowings during the second quarter 2015 compared to the second quarter 2014.

Income tax expense was \$19.2 million or 66.0 percent of income before income taxes, for the second quarter 2015, compared to \$13.1 million, or 42.0 percent of income before income taxes in the second quarter 2014. The income tax expense for the second quarter 2015 included a \$4.8 million non-cash adjustment to deferred tax assets, which increased the effective tax rate by 16.5 percentage points. The second quarter 2015 effective tax rate was further impacted by changes in the value of deferred taxes and non-deductible expenses as a result of the Acquisition.

Consolidated Results: Six months ended June 30, 2015 compared with 2014:

(dollars in millions, except per share amounts)	Six Months Ended June 30		
	2015	2014	Change
Operating revenue	\$ 845.8	\$ 828.9	2.0%
Operating costs and expenses	(767.2)	(783.3)	(2.1)%
Operating income	78.6	45.6	72.4%
Interest expense	(8.9)	(8.6)	3.5%
Income before income taxes	69.7	37.0	88.4%
Income tax expense	(34.8)	(15.5)	124.5%
Net income	<u>\$ 34.9</u>	<u>\$ 21.5</u>	<u>62.3%</u>
Basic earnings per share	\$ 0.80	\$ 0.50	60.0%
Diluted earnings per share	\$ 0.79	\$ 0.50	58.0%

Consolidated operating revenue for the six months ended June 30, 2015 increased \$16.9 million, or 2.0 percent, compared to the six months ended June 30, 2014. This increase was due to \$36.5 million in higher revenue from ocean transportation, offset by \$19.6 million in lower revenue from logistics services.

Operating costs and expenses for the six months ended June 30, 2015 decreased \$16.1 million, or 2.1 percent, compared to the six months ended June 30, 2014. The decrease was due to a \$3.4 million increase, which offset a \$19.5 million decrease in operating costs from ocean transportation and logistics segment, respectively. Changes in operating revenue and expense are described below in the Analysis of Operating Revenue and Income by Segment, as part of the discussion of trends in operating revenues and operating.

Interest expense increased \$0.3 million to \$8.9 million for the six months ended June 30, 2015 compared to \$8.6 million in six months ended June 30, 2014. The increase was due to increased borrowings in the six months ended June 30, 2015, as compared to 2014.

Income tax expense was \$34.8 million, or 49.9 percent of income before income taxes, for the six months ended June 30, 2015, compared to \$15.5 million or 41.9 percent of income before income taxes, in 2014. The income tax expense for the six months ended June 30, 2015 included a \$4.8 million non-cash adjustment to deferred tax assets, which increased the effective tax rate by 6.9 percentage points. The income tax rate for the six months ended June 30, 2015 was further impacted by changes in the value of deferred taxes and non-deductible expenses as a result of the Acquisition.

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ANALYSIS OF OPERATING REVENUE AND INCOME BY SEGMENT

Ocean Transportation Operating Results: Three months ended June 30, 2015 compared with 2014:

(dollars in millions)	Three Months Ended June 30		
	2015	2014	Change
Ocean Transportation revenue	\$ 346.7	\$ 321.1	8.0%
Operating costs and expenses	315.3	288.3	9.4%
Operating income	<u>\$ 31.4</u>	<u>\$ 32.8</u>	<u>(4.3)%</u>

Operating income margin	9.1%	10.2%	
Volume (Units) (1)			
Hawaii containers	34,500	34,800	(0.9)%
Hawaii automobiles	17,800	19,600	(9.2)%
Alaska containers (2)	4,800	—	—
China containers	15,400	15,700	(1.9)%
Guam containers	5,900	6,200	(4.8)%
Micronesia/South Pacific containers	3,800	3,100	22.6%

(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.

(2) Alaska container volumes represent operations from May 29, 2015 to June 30, 2015.

Ocean transportation revenue increased \$25.6 million, or 8.0 percent, during the second quarter 2015 compared with the second quarter 2014. This increase was primarily due to the inclusion of revenue from the Company's acquired Alaska operations for the period from May 29 to June 30, 2015, higher freight rates in the Company's expedited China service and yield improvements in Hawaii and Guam, partially offset by lower fuel surcharge revenue.

On a year over year basis, Hawaii container volume was 0.9 percent lower as modest westbound market growth was more than offset by lower eastbound backhaul freight; China volume was approximately flat reflecting continued high utilization and demand for Matson's premium expedited service; Guam volume declined by 4.8 percent due to the timing of select shipments; and Hawaii automobile volume decreased 9.2 percent primarily due to certain customer losses. Alaska volume was included in the Company results for the first time and reflects operations from May 29 to June 30, 2015.

Ocean transportation operating income decreased \$1.4 million during the second quarter 2015 compared with the second quarter 2014. The decrease was primarily due to \$13.5 million of additional selling, general and administrative expenses related to the Acquisition in excess of the Company's incremental run-rate target, \$11.4 million of costs related to the Molasses Settlement, and higher terminal handling expenses. Offsetting these unfavorable items were higher freight rates in China, yield improvements in Hawaii and Guam, the initial inclusion of operating results for the Alaska trade, and the timing of fuel surcharge collections.

The Company's SSAT terminal joint venture investment contributed \$5.2 million during the second quarter 2015, compared to a \$2.1 million contribution in the second quarter 2014. The increase was primarily attributable to the clearing of international carrier cargo backlog.

Ocean Transportation Operating Results: Six months ended June 30, 2015 compared with 2014:

(dollars in millions)	Six Months Ended June 30		
	2015	2014	Change
Ocean Transportation revenue	\$ 652.2	\$ 615.7	5.9%
Operating costs and expenses	576.9	573.5	0.6%
Operating income	\$ 75.3	\$ 42.2	78.4%
Operating income margin	11.5%	6.9%	
Volume (Units) (1)			
Hawaii containers	67,900	68,100	(0.3)%
Hawaii automobiles	33,700	42,800	(21.3)%
Alaska containers (2)	4,800	—	—
China containers	29,800	29,400	1.4%
Guam containers	11,600	12,200	(4.9)%
Micronesia/South Pacific containers	6,400	6,300	1.6%

(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.

(2) Alaska container volumes represent operations from May 29, 2015 to June 30, 2015.

Ocean transportation revenue increased \$36.5 million, or 5.9 percent, during the six months ended June 30, 2015 compared with the six months ended June 30, 2014. This increase was primarily due to higher freight rates in the Company's expedited China service, the inclusion of revenue from the Company's acquired Alaska operations for the period from May 29 to June 30, 2015 and yield improvements in Hawaii and Guam, partially offset by lower fuel surcharge revenue and lower Guam volume.

On a year over year basis, Hawaii container volume was effectively flat as modest westbound market growth was offset by lower eastbound backhaul freight; China volume was up 1.4 percent reflecting continued high utilization and demand for Matson's premium expedited service; Guam volume declined by 4.9 percent due to the timing of select shipments; and Hawaii automobile volume decreased 21.3 percent primarily due to certain customer losses. Alaska volume was included in the Company results for the first time and reflects operations from May 29 to June 30, 2015.

Ocean transportation operating income increased \$33.1 million during the six months ended June 30, 2015 compared with the six months ended June 30, 2014. The increase was primarily due to higher freight rates in China, the timing of fuel surcharge collections, yield improvements in Hawaii and Guam, and the initial inclusion of operating results for the Alaska trade. Partially offsetting these favorable operating income items were \$13.5 million of additional selling, general and administrative expenses related to the Acquisition in excess of the Company's incremental run-rate target, \$11.4 million of costs related to the Molasses Settlement, higher terminal handling expenses, and lower Guam container volume.

The Company's SSAT terminal joint venture investment contributed \$8.6 million during the six months ended June 30, 2015, compared to a \$2.3 million contribution in the six months ended June 30, 2014. The increase was primarily attributable to the clearing of international carrier cargo backlog.

Logistics Operating Results: Three months ended June 30, 2015 compared with 2014:

(dollars in millions)	Three Months Ended June 30		
	2015	2014	Change
Intermodal revenue	\$ 55.0	\$ 67.2	(18.2)%
Highway revenue	45.9	48.1	(4.6)%
Total Logistics Revenue	100.9	115.3	(12.5)%
Operating costs and expenses	98.6	112.4	(12.3)%
Operating income	\$ 2.3	\$ 2.9	(20.7)%
Operating income margin	2.3%	2.5%	

Logistics revenue decreased \$14.4 million, or 12.5 percent, during the second quarter 2015 compared with the second quarter 2014. This decrease was primarily the result of lower intermodal and highway volume and lower fuel surcharge revenue, partially offset by favorable changes in business mix and increased warehouse revenue.

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Logistics operating income decreased by \$0.6 million, during the second quarter 2015 compared with the second quarter 2014, primarily due to the absence of a favorable litigation settlement received in 2014 and lower international intermodal volume, partially offset by warehouse operating improvements.

Logistics Operating Results: Six months ended June 30, 2015 compared with 2014:

(dollars in millions)	Six Months Ended June 30		
	2015	2014	Change
Intermodal revenue	\$ 104.6	\$ 121.8	(14.1)%
Highway revenue	89.0	91.4	(2.6)%
Total Logistics Revenue	193.6	213.2	(9.2)%
Operating costs and expenses	190.3	209.8	(9.3)%
Operating income	\$ 3.3	\$ 3.4	(2.9)%
Operating income margin	1.7%	1.6%	

Logistics revenue decreased \$19.6 million, or 9.2 percent, during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This decrease was primarily the result of lower intermodal and highway volume and lower fuel surcharge revenue, partially offset by increased warehouse revenue.

Logistics operating income decreased by \$0.1 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The decrease was primarily due to the absence of a favorable litigation settlement received in 2014 and lower international intermodal volume, partially offset by warehouse operating improvements.

LIQUIDITY AND CAPITAL RESOURCES

Overview:

Cash flows provided by operating activities are generally the Company's primary source of liquidity. Additional sources of liquidity are available from the Company's cash and cash equivalent, accounts receivable balances, deposits in the CCF, and borrowings from the Company's term loans and revolving credit facility. The Company's term loans and revolving credit facility are described in Note 5 to the Consolidated Financial Statements included in Item 8 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014, and Note 5 to the Condensed Consolidated Financial Statements included in Item 1 in this Form 10-Q.

Cash Flows:

Cash flows provided by operating activities were \$102.9 million for the six months ended June 30, 2015, compared with \$49.2 million for the six months ended June 30, 2014. The increase in cash flows provided by operating activities was primarily due to increases in net income, decreases in accounts receivable and net deferred tax assets, offset by increases in accounts payable and accrued liabilities.

Cash flows used in investing activities were \$39.3 million for the six months ended June 30, 2015, compared with \$19.0 million for the six months ended June 30, 2014. The increase in cash flows used in investing activities was primarily due to payments of \$28.7 million for the Acquisition, net of cash acquired, during the six months ended June 30, 2015, offset by a reduction in capital expenditures. Capital expenditures were \$12.2 million for the six months ended June 30, 2015, compared to \$20.2 million for the six months ended June 30, 2014, and primarily related to the ocean transportation segment.

Cash flows used in financing activities were \$341.2 million for the six months ended June 30, 2015, compared with cash flows provided by financing activities of \$79.0 million for the six months ended June 30, 2014. The change was primarily due to payments of Horizon's debt and warrants of \$467.5 million made during the six months ended June 30, 2015 related to the Acquisition, offset by proceeds from the issuance of debt net of repayments of \$141.6 million, compared to \$93.8 million for the six months ended June 30, 2014.

Other Sources of Liquidity:

Other sources of liquidity, consisting of cash and cash equivalents and accounts receivable, decreased by \$251.6 million to \$239.4 million at June 30, 2015, compared to \$491.0 million at December 31, 2014. The decrease was due primarily to a reduction in cash and cash equivalents of \$277.6 million due to cash paid in connection with the Acquisition, offset by an increase of \$26.0 million due to account receivables related to the Alaska trade lane.

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The Company had working capital of \$16.2 million at June 30, 2015, compared to \$296.0 million at December 31, 2014. The Company also had \$27.5 million of deposits in the CCF as of June 30, 2015 and December 31, 2014.

Total debt was \$516.6 million at June 30, 2015, compared with \$373.6 million at December 31, 2014. The increase in debt was due to borrowings under the Company's revolving credit facility as a result of the Acquisition.

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

There were no material changes during this quarter to the Company's contractual obligations and commitments that are described in Item 7 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014, except as described below. The Company does not have any off-balance sheet arrangements.

In May 2015, the Company borrowed \$175.0 million under the revolving credit facility to fund the Acquisition, of which \$152.5 million was outstanding as of June 30, 2015. Borrowing under the revolving credit facility is included in long-term debt, as the revolving credit facility does not require any principal payments until maturity in July 2020.

At June 30, 2015, the Company had the following additional estimated contractual obligations as a result of the Acquisition (in million):

<u>Contractual Obligations (in millions)</u>	<u>2015</u>	<u>2016-2017</u>	<u>2018-2019</u>	<u>Thereafter</u>	<u>Total</u>
Vessel improvements and terminal equipment	\$ 18.0	\$ 8.1	\$	\$	\$ 26.1
Capital lease obligations	0.5	0.7			1.2
Multi-employer withdrawal liabilities		6.2	8.2	59.5	73.9
Operating lease obligations	9.2	9.4	4.2	1.8	24.6
Total	<u>\$ 27.7</u>	<u>\$ 24.4</u>	<u>\$ 12.4</u>	<u>\$ 61.3</u>	<u>\$ 125.8</u>

A description of contingencies at June 30, 2015, is included in Note 8 to the Condensed Consolidated Financial Statements of Item 1 in this Form 10-Q, which is incorporated herein by reference.

CRITICAL ACCOUNTING ESTIMATES

There have been no changes during this quarter to the Company's critical accounting estimates as discussed in Item 7 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2014, except for the assumption used in determining the multi-employer withdrawal liabilities as described in Note 3 to the Condensed Consolidated Financial Statements in Item 1 in this Form 10-Q, which is incorporated herein by reference.

OTHER MATTERS

The Company's first quarter 2015 dividend of \$0.17 per-share was paid on June 4, 2015 to shareholders of record as of May 7, 2015. On June 25, 2015, the Company's Board of Directors declared a cash dividend of \$0.18 per-share payable on September 3, 2015 to shareholders of record as of the close of business on August 6, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk position from the information provided under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our 2014 Annual Report filed on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2015, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the six months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Environmental Matter: In September 2013, molasses was released into Honolulu Harbor from a pipeline system operated by a subsidiary of the Company. The Company cooperated with federal and state agencies involved in responding to and investigating the incident. 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).

On January 29, 2015, the Company resolved the federal criminal investigation with the U.S. Attorney for the District of Hawaii by pleading guilty to two misdemeanor violations of the Rivers and Harbors Act of 1899 arising from the molasses release and paying \$1.0 million, consisting of a \$0.4 million fine and restitution payments of \$0.6 million to community organizations involved in the protection of Hawaii's shoreline and ocean resources. In addition, on February 24, 2015, the EPA informed the Company that it will not seek to debar Matson Terminals Inc. and its affiliates from obtaining future U.S. government contracts.

On July 29, 2015, the Company reached a settlement with the State of Hawaii to resolve all civil, criminal and administrative claims that the State had arising from the molasses release. The Company paid \$5.9 million in cash to the State and agreed to remove the Molasses Tank Farm and pier risers at Sand Island Terminal in Honolulu, which is estimated to cost between \$5.5 million and \$9.5 million. The Company's results for the second quarter 2015 were negatively impacted by approximately \$11.4 million of costs related to the Molasses Settlement.

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

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

ITEM 1A. RISK FACTORS

The following risk factors are intended as a supplement to the risk factors associated with the Company's business that were previously disclosed in the Company's Form 10-K for the year ended December 31, 2014 filed with the SEC on February 27, 2015.

Risks Relating to the Acquisition

Higher than expected costs associated with the Acquisition integration progress could adversely impact our results, financial position, liquidity or cash flow.

The Company expects to implement and benefit from various cost saving initiatives as part of the integration process related to the Acquisition during the first 24 months after the closing of the Acquisition. These integration cost savings expectations are in the areas of corporate office closures and headcount reductions, information technology expense reductions, as well as customer service and marketing expense reductions. There can be no assurance that the Company will be able to achieve the expected integration cost savings or that the cost savings will be achieved within such 24-month period. The lack of or delay in integration cost savings could have a materially adverse effect upon our business and results of operations.

The Acquisition may expose us to unknown liabilities.

We acquired Horizon subject to all of the liabilities and obligations of its non-Hawaii business, including any remaining liabilities and obligations associated with its Puerto Rico operations, which Horizon ceased during the first quarter of 2015. If there are liabilities or other obligations that were unknown to us, including contingent liabilities, our business and results of operations could be materially affected.

We may continue to be exposed to risks and liabilities related to Horizon's former Hawaii business.

The Pasha Group acquired Horizon's former Hawaii business immediately before we acquired Horizon, Pasha assumed substantially all liabilities and obligations related to Horizon's Hawaii business and agreed to perform various covenants. In some cases however, Horizon, as the original contracting party, may remain primarily responsible for such assumed Hawaii liabilities and obligations. There can be no assurance that Horizon, now our subsidiary, will not incur losses related to such assumed Hawaii liabilities and obligations.

Changes in economic conditions in Alaska that result in a decrease in consumer confidence and/or market demand for the Company's services and products may adversely affect our results of operations.

A weakening of the economic drivers in Alaska, which include oil & gas prices, federal and state government spending, fisheries, tourism, personal income growth, and employment, or the effect of a change in the strength of the U.S. dollar against other foreign currencies, could reduce the demand for goods to and from Alaska, travel to Alaska and domestic transportation of goods. Any of the foregoing could have an adverse effect on inland and ocean transportation volumes or rates, which in turn could have a material adverse effect on our business and results of operations.

If we are unable to comply with changing EPA regulations regarding fuel and emissions, it may adversely impact our ongoing operations.

EPA regulations, which became effective January 1, 2015, require that the sulfur content of fuel oil utilized by vessels operating inside designated emission control areas ("ECA") not exceed 0.1 percent. The vast majority of the Alaska trade lanes in which we operate are designated as an ECA zone. On December 31, 2014, Horizon received a temporary exemption from the EPA ECA regulations for three of its vessels in the Alaska trade lane that permits us to continue to operate these vessels utilizing higher sulfur content diesel fuel for a limited time, subject to the installation and testing of an exhaust gas cleaning system (known as scrubbers) on such vessels. The temporary permit includes a schedule on which such installation and testing must be completed, with dates of installation ranging from the second half of 2015 to the end of 2016.

The installation of the scrubbers will require significant capital expenditures. If we are not able to install the scrubbers by the applicable deadline, or we are otherwise unable to comply with our obligations under the temporary permit, the temporary permit may terminate. Even if we are able to meet the requirements of the permit, there is no assurance that the scrubbers will be successful in reducing emissions and producing results that comply with the EPA ECA regulations.

If we cannot meet the conditions of the temporary permit or another exemption from the EPA ECA regulations, we would be required to operate these vessels utilizing low sulfur fuel, which could risk damaging the existing engines unless they are run at low speeds. Lower speeds, however, could cause schedule delays or require us to operate additional vessels in Alaska and incur additional costs, which could have a material adverse effect on our business, results of operations or prospects.

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

None.

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ITEM 6. EXHIBITS

- | | |
|---------|--|
| 2.1 | Contribution, Assumption and Purchase Agreement, dated as of November 11, 2014, by and among The Pasha Group, SR Holding LLC, Horizon Lines, Inc. and Sunrise Operations LLC (incorporated by reference to Exhibit 2.2 of Horizon Lines, Inc.'s Form 8-K dated November 11, 2014). |
| 2.2 | Amendment No. 1 to the Contribution, Assumption and Purchase Agreement, dated as of May 29, 2015, by and among The Pasha Group, SR Holding LLC, Horizon Lines, Inc. and Sunrise Operations LLC. |
| 10.1 | Form of Letter Agreement entered into with executive officer (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated April 1, 2015). |
| 10.2 | Letter Agreement Counter Parties (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated April 1, 2015). |
| 10.3 | Settlement Agreement and Release, effective July 29, 2015, between the State of Hawai'i, Matson Terminals, Inc. and Matson Navigation Company, Inc. (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated July 29, 2015). |
| 10.4 | Note Purchase Agreement among Matson, Inc. and the purchasers party thereto, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated July 30, 2015). |
| 10.5 | Amendment to the Second Amended and Restated Note Agreement among Matson, Inc. and the purchasers party thereto, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated July 30, 2015). |
| 10.6 | Amendment to Note Purchase Agreement among Matson, Inc. and the purchasers party thereto, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.3 of Matson's Form 8-K dated July 30, 2015). |
| 10.7 | First Amendment to Credit Agreement among Matson, Inc., the lenders party thereto, and Bank of America, N.A., as agent, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.4 of Matson's Form 8-K dated July 30, 2015). |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

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

MATSON, INC.

(Registrant)

Date: August 5, 2015

/s/ Joel M. Wine

Joel M. Wine
Senior Vice President and
Chief Financial Officer

Date: August 5, 2015

/s/ Dale B. Hendler

Dale B. Hendler
Vice President and Controller,
(principal accounting officer)

AMENDMENT NO. 1

TO THE

CONTRIBUTION, ASSUMPTION AND PURCHASE AGREEMENT

Amendment No. 1 (“Amendment”), dated as of May 29, 2015, to the Contribution, Assumption and Purchase Agreement, dated as of November 11, 2014 (the “Purchase Agreement”), by and among The Pasha Group, a California corporation (“Pasha Parent”), SR Holdings LLC, a California limited liability company and wholly owned subsidiary of Pasha Parent (“Pasha Sub” and together with Pasha Parent, “Pasha”), Horizon Lines, Inc., a Delaware corporation (“Horizon”), and Sunrise Operations LLC, a California limited liability company (“Hawaii LLC”).

WITNESSETH

WHEREAS, Section 10.3 of the Purchase Agreement provides for the amendment of the Purchase Agreement in accordance with the terms set forth therein, and Section 10.5 of the Purchase Agreement provides for an assignment of a party’s rights and obligations under the Purchase Agreement in accordance with the terms set forth therein;

WHEREAS, Pasha and Hawaii LLC desire to assign certain of their respective rights and obligations under the Purchase Agreement, as set forth herein, to Hawaii Stevedores, Inc., a Hawaii corporation (“HSI”), Hawaii Terminals, Inc., a Hawaii corporation and wholly-owned subsidiary of HSI (“HTI”), and Sea-Logix, LLC, a Delaware limited liability company (“Sea-Logix”), and HSI, HTI and Sea-Logix desire to accept such assignment;

WHEREAS, in connection with such assignments, HSI, HTI and Sea-Logix has agreed to become parties to and bound by the terms of the Purchase Agreement as set forth herein;

WHEREAS, the parties hereto desire to amend the Purchase Agreement as set forth below; and

WHEREAS, the Board of Directors of each of the parties have approved this Amendment and declared it advisable for the respective parties to enter into this Amendment.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Amendment, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions; References. Unless otherwise specifically defined herein, each term used herein shall have the meaning assigned to such term in the Purchase Agreement. Each reference to “hereof,” “herein,” “hereunder,” “hereby” and “this Agreement” shall, from

and after the date hereof, refer to the Purchase Agreement, as amended by this Amendment. Notwithstanding the foregoing, references to the date of the Purchase Agreement, as amended hereby, shall in all instances continue to refer to November 11, 2014, references to “the date hereof” and “the date of this Agreement” shall continue to refer to November 11, 2014 and references to the date of the Amendment and “as of the date of the Amendment” shall refer to May 29, 2015.

ARTICLE II

ASSIGNMENT

Section 2.1 Assignment to HSI, HTI and Sea-Logix.

(a) Pasha and Hawaii LLC hereby assign and transfer to HSI, and HSI hereby accepts and assumes, all of the rights and obligations of Pasha and Hawaii LLC under the Purchase Agreement in and with respect to the HSI Transferred Employees and the HSI Assumed Liabilities. HSI further agrees to become, and hereby is, a party to the Purchase Agreement and bound by and subject to the rights, restrictions, conditions, obligations and duties of Pasha and Hawaii LLC under the Purchase Agreement with respect to the HSI Transferred Employees and the HSI Assumed Liabilities, including without limitation the obligations set forth in Section 6.5 of the Purchase Agreement and joint and several liability for the indemnity and other obligations set forth in Article VIII of the Purchase Agreement.

(b) Pasha and Hawaii LLC hereby assign and transfer to HTI, and HTI hereby accepts and assumes, all of the rights and obligations of Pasha and Hawaii LLC under the Purchase Agreement in and with respect to the HTI Contributed Assets, HTI Transferred Employees and the HTI Assumed Liabilities. HTI further agrees to become, and hereby is, a party to the Purchase Agreement and bound by and subject to the rights, restrictions, conditions, obligations and duties of Pasha and Hawaii LLC under the Purchase Agreement with respect to the HTI Contributed Assets, HTI Transferred Employees and the HTI Assumed Liabilities, including without limitation the obligations set forth in Section 6.5 of the Purchase Agreement and joint and several liability for the indemnity and other obligations set forth in Article VIII of the Purchase Agreement.

(c) Pasha and Hawaii LLC hereby assign and transfer to Sea-Logix, and Sea-Logix hereby accepts and assumes, all of the rights and obligations of Pasha and Hawaii LLC under the Purchase Agreement in and with respect to the Sea-Logix Transferred Employees and the Sea-Logix Assumed Liabilities. Sea-Logix further agrees to become, and hereby is, a party to the Purchase Agreement and bound by and subject to the rights, restrictions, conditions, obligations and duties of Pasha and Hawaii LLC under the Purchase Agreement with respect to the Sea-Logix Transferred Employees

(d) Notwithstanding the foregoing assignments (the “Assignments”), Pasha and Hawaii LLC shall retain all of their respective obligations (including the obligations prior to the Assignments) under the Purchase Agreement, including without limitation the obligations set forth in Section 6.5 of the Purchase Agreement and joint and several liability for the indemnity and other obligations set forth in Article VIII of the Purchase Agreement.

ARTICLE III

AMENDMENTS TO PURCHASE AGREEMENT

Section 3.1 Amendment to Section 1.1. Section 1.1 of the Purchase Agreement is hereby amended as follows:

(a) Section 1.1(a) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(a) Contribution. Horizon and its Subsidiaries shall contribute, assign, transfer, convey and deliver to: (i) HTI all of Horizon’s and its Subsidiaries’ right, title and interest in and to the HTI Contributed Assets, and HTI shall acquire and accept the HTI Contributed Assets, in each case in accordance with the Step Plan, and (ii) Hawaii LLC all of Horizon’s and its Subsidiaries’ right, title and interest in and to all of the Contributed Assets (other than the HTI Contributed Assets), and Hawaii LLC shall acquire and accept all of the Contributed Assets (other than the HTI Contributed Assets), in each case in accordance with the Step Plan. Horizon and its Subsidiaries shall also transfer all of the Hawaii Employees (other than (1) Hawaii Employees who are already employees of Sea-Logix or HSI, who shall remain employees of Sea-Logix or HSI, and (2) the Disabled Hawaii Employees, who shall be transferred to or hired by Pasha, Hawaii LLC, HTI, HSI or Sea-Logix after the Closing in accordance with Section 6.5) to Hawaii LLC, HTI, HSI and/or Sea-Logix (such employees, the “Transferred Employees”), as described in further detail in Section 6.5.”

(b) Section 1.1(b) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(b) Assumption. Horizon and its Subsidiaries shall contribute, assign, transfer, convey and deliver to: (i) HSI the HSI Assumed Liabilities, and HSI shall acquire, accept and assume the HSI Assumed Liabilities; (ii) HTI the HTI Assumed Liabilities, and HTI shall acquire, accept and assume the HTI Assumed Liabilities; (iii) Sea-Logix the Sea-Logix Assumed Liabilities, and Sea-Logix shall acquire, accept and assume the Sea-Logix Assumed Liabilities; and (iv) Hawaii LLC all of the Assumed Liabilities (other than the HSI Assumed Liabilities, the HTI Assumed Liabilities and the Sea-Logix Assumed Liabilities), and Hawaii LLC shall acquire, accept and assume all of the Assumed Liabilities (other than the HSI Assumed Liabilities, the HTI Assumed Liabilities and the Sea-Logix Assumed Liabilities).”

Section 3.2 Amendment to Section 1.3. Section 1.3(b)(iii)(B) of the Purchase Agreement is hereby deleted and all references to “Sea-Logix Assignment and Assumption Agreement” are hereby stricken.

Section 3.3 Amendment to Section 2.1.

(a) Section 2.1(l) is hereby amended to delete the language “, other than those relating to the Sea-Logix Transferred Employees, Sea-Logix Transferred Assets and/or Sea-Logix Transferred Liabilities” therein.

(b) The second to last paragraph of Section 2.1 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“For the avoidance of doubt, except as expressly provided above, any assets held by HSI, HTI or Sea-Logix other than through the contribution described in Section 1.1(a) (1) will not be included in the definition of Contributed Assets, but will instead be transferred pursuant to the purchase of the Purchased Interests, and (2) are included in the definition of Transferred Assets.”

Section 3.4 Amendment to Section 2.2. Section 2.2 of the Purchase Agreement is hereby amended as follows:

(a) Section 2.2(a) is hereby amended by inserting “, HTI” immediately after the reference to “HSI” therein.

(b) “Section 2.2(c) is hereby amended is by inserting “, HTI” immediately after the references to “HSI” therein.

(c) Section 2.2(k) is hereby amended and restated in its entirety to read as follows:

“any and all other assets of Horizon and/or its Subsidiaries, except those that are (i) included in Sections 2.1(a) through (t) above or (ii) are held by HSI, HTI or Sea-Logix prior to the contribution described in Section 1.1(a); and”

(d) The final paragraph of Section 2.2 is hereby amended and restated in its entirety to read as follows:

“For the avoidance of doubt, except as expressly provided above, any assets held by HSI, HTI or Sea-Logix other than through the contribution described in Section 1.1(a) (1) will not be included in the definition of Excluded Assets, but will instead be transferred to Pasha or Pasha Sub, as applicable, pursuant to the purchase of the Purchased Interests, and (2) are included in the definition of Transferred Assets.”

Section 3.5 Amendment to Section 2.3. Section 2.3 of the Purchase Agreement is hereby amended as follows:

(a) Section 2.3(c) is hereby amended to delete the language “(other than any Transferred Sea-Logix Employee)” and by inserting “, HTI” immediately after the reference to “HSI” therein.

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(b) Sections 2.3(d) and 2.3(e) are hereby amended to delete the language “(other than any Transferred Sea-Logix Liabilities)” therein.

(c) The final paragraph of Section 2.3 is hereby amended by inserting “, HTI” immediately after the reference to “HSI” therein.

Section 3.6 Amendment to Section 2.5.

(a) Subclause (ii) of Section 2.5(b) of the Purchase Agreement is hereby amended by inserting “, HTI” immediately after the reference to “HSI” therein.

(b) Section 2.5 of the Purchase Agreement is hereby amended by inserting a new subsection (c) at the end thereof:

“(c) Notwithstanding this Section 2.5 and Section 2.6, Horizon and its Subsidiaries and Affiliates shall have no post-Closing obligations under Sections 2.5 and 2.6 with respect to that certain Regional Domestic Contract 6 (RDC 6) (Contract #HTC 711-14-D-W005) dated March 1, 2014 by and between the U.S. Transportation Command and Horizon Lines, LLC (the “RDC6 Agreement”) other than to refrain from posting or offering Horizon’s rates or schedules with respect to Horizon’s former Hawaii Business portion of the RDC6 Agreement, which is a Multi-Tradelane Contract; provided, that if the U.S. Transportation Command after the Closing Date agrees to novate, amend or assign the Hawaii Business portion of the RDC-6 Agreement to Pasha or its Subsidiaries, then the parties shall use their reasonable best efforts, and cooperate with each other, to obtain such novation, amendment or assignment; provided, further, that any such cooperation and related actions by Horizon, its Subsidiaries or any of their Affiliates shall be considered Transition Services (as defined in the Transition Services Agreement) and subject to the terms of the Transition Services Agreement, and any related costs and expenses incurred by Horizon, its Subsidiaries or any of their Affiliates shall be paid by Pasha and Hawaii LLC pursuant to Section 3.1 of the Transition Services Agreement. Other than as expressly set forth in the immediately preceding sentence, neither Pasha nor Hawaii LLC, or any of their Subsidiaries or Affiliates, shall seek, request or receive a Transition Service under the Transition Services Agreement with respect to the RDC-6 Agreement.”

Section 3.7 Amendment to Section 2.7. Section 2.7(a) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(a) “Schedule 2.7 sets forth the parties’ allocation of the Estimated Purchase Price (and any Transferred Liabilities that are treated as consideration for the Contributed Assets for federal income Tax purposes), based on the parties’ estimate of the components thereof as of the date hereof, among the Contributed Assets, the assets of Sea-Logix and the HSI Shares for all Tax purposes in a manner consistent with Section 1060 of the Code and the Treasury regulations promulgated thereunder, as well as an allocation of the portion of such amount allocable to the HSI Shares (and any liabilities of HSI and HTI treated as purchase price for federal income Tax purposes) among the assets of HSI and HTI in a manner consistent with Section 338(h)(10) of the Code and the

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Treasury regulations promulgated thereunder (the “Purchase Price Allocation”). Within thirty (30) days after the completion of the Purchase Price adjustment under Section 1.4(g) above, Pasha shall prepare and deliver to Horizon a schedule (the “Allocation Schedule”) allocating the Purchase Price (and any Transferred Liabilities that are treated as consideration for the Contributed Assets for federal income Tax purposes) among the Contributed Assets, the assets of Sea-Logix and the HSI Shares as well as an allocation of such amount allocable to the HSI Shares (and any liabilities of HSI and HTI treated as purchase price for federal income Tax purposes) among the assets of HSI and HTI, in each case, in a manner consistent with Schedule 2.7; provided, that the parties acknowledge and agree that the amount allocated to any assets of HTI shall be zero (\$0), unless Horizon determines, based on the advice of its accountants, that such allocation is not correct, in which case the allocation provisions in the remainder of this Section 2.7 will apply to determine such allocation (the “HTI Proviso”). Horizon shall have the right to review the Allocation Schedule (subject to the HTI Proviso), and, within thirty (30) days after its receipt thereof, Horizon shall notify Pasha in writing of any proposed changes thereto; provided, that, if Horizon does not provide any written changes within such 30-day period, Horizon shall be deemed to have agreed to the Allocation Schedule as prepared by Pasha. If the parties do not resolve all disputed items relating to the Allocation Schedule within thirty (30) days after Horizon’s written notification to Pasha of proposed changes, the parties shall submit all remaining disputed items to the Independent Accounting Firm for resolution. The Independent Accounting Firm’s review shall be limited to the remaining disputed items and shall be subject to the HTO Proviso, and its determination shall be conclusive and binding on the parties hereto and shall not be subject to appeal or further review. The costs of the Independent Accounting Firm shall be borne by Horizon and Pasha in the same manner in which costs are borne by the parties under Section 1.4(e) above. If the Purchase Price changes by reason of Section 1.4 or Section 6.16, Pasha shall promptly after the completion of such adjustment revise the Allocation Schedule, and the foregoing time periods and dispute resolution mechanisms shall apply to such revised Allocation Schedule as if it were the original Allocation Schedule (the Allocation Schedule, as finally determined pursuant to this Section 2.7, the “Final Allocation Schedule”).”

Section 3.8 Amendment to Section 3.1. Section 3.1(a) of the Purchase Agreement is hereby amended by inserting the following sentence at the end thereof:

“HTI is a corporation duly organized, validly existing and in good standing under the Laws of the State of Hawaii. HTI was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. Except for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated by this Agreement and the Step Plan, HTI will not prior to the Closing Date have incurred, directly or indirectly, any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person.”

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Section 3.9 The first sentence of Section 3.16(b) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows”

“As of the date hereof, Horizon Lines, LLC has good, valid and marketable title to each Hawaii Vessel, free and clear of all Encumbrances and Liens, other than Liens securing the Notes, the SFL Note, and the Horizon Credit Facilities and Permitted Maritime Liens.”

Section 3.10 Amendment to Section 6.5.

(a) Section 6.5(a) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“(a) Immediately prior to the Closing, Horizon shall cause:

(1) Hawaii LLC to (i) become the employer with respect to each Hawaii Employee then actively performing services as a common-law employee or on a leave of absence (including, without limitation, vacation or sick leave, but excluding only those Hawaii Employees who are both (A) not Represented Hawaii Employees (as defined in Section 6.5(f)) and (B) on short-term disability or long-term disability (any such employee on short-term or long-term disability leave shall be referred to as a “Disabled Hawaii Employee”), as of the date of such transfer of employment (other than (w) Hawaii Employees who are already employees of Sea-Logix or HSI, who shall remain employees of Sea-Logix or HSI, respectively, (x) the HTI Transferred Employees, who shall become employees of HTI, (y) the Sea-Logix Transferred Employees, who shall become employees of Sea-Logix, and (z) the HSI Transferred Employees, who shall become employees of HSI), with such employment in the identical geographic location, and with base pay at least equal to his or her base rate of pay as in effect with respect to such individual immediately prior to such transfer of employment to Hawaii LLC and (ii) assume all obligations and Contracts relating to each Hawaii Employee (other than (A) Hawaii Employees who are already employees of Sea-Logix or HSI and the Sea-Logix Transferred Employees, the HSI Transferred Employees and the HTI Transferred Employees, whose obligations and Contracts shall be assumed by and/or remain with Sea-Logix, HSI and HTI, respectively, (B) any collective bargaining agreement with respect to Represented Hawaii Employees (which collective bargaining agreements are addressed elsewhere in this Agreement and the Step Plan) and (C) the Disabled Hawaii Employees, who shall be transferred after the Closing in accordance with Section 6.5(b)) on the same terms as in effect with respect to such Hawaii Employee immediately prior to such date of transfer of employment (for those Hawaii Employees whose employment is transferred) or the Closing Date (for all other Hawaii Employees);

(2) HTI to (i) become the employer with respect to each HTI Transferred Employee (excluding only those Hawaii Employees who are Disabled Hawaii Employees), with such employment in the identical geographic location, and with base pay at least equal to his or her base rate of pay as in effect with respect to such individual immediately prior to such transfer of employment to HTI and (ii) assume all obligations and Contracts relating to each HTI Transferred Employee on the same terms as in effect with respect to such HTI Transferred Employee immediately prior to such date of transfer of employment;

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(3) HSI to (i) become the employer with respect to each HSI Transferred Employee (excluding only those Hawaii Employees who are Disabled Hawaii Employees), with such employment in the identical geographic location, and with base pay at least equal to his or her base rate of pay as in effect with respect to such individual immediately prior to such transfer of employment to HSI and (ii) assume all obligations and Contracts relating to each HSI Transferred Employee on the same terms as in effect with respect to such HSI Transferred Employee immediately prior to such date of transfer of employment; and

(4) Sea-Logix to (i) become the employer with respect to each Sea-Logix Transferred Employee (excluding only those Hawaii Employees who are Disabled Hawaii Employees), with such employment in the identical geographic location, and with base pay at least equal to his or her base rate of pay as in effect with respect to such individual immediately prior to such transfer of employment to Sea-Logix and (ii) assume all obligations and Contracts relating to each Sea-Logix Transferred Employee on the same terms as in effect with respect to such Sea-Logix Transferred Employee immediately prior to such date of transfer of employment.

Such employment and/or assumption by Hawaii LLC, HTI, HSI and Sea-Logix shall commence upon the Closing, and shall be deemed for all purposes to have occurred with no interruption or break in service.

“Hawaii Employees” shall mean: (w) any and all individuals who are, were or prior to the Closing will be (1) a common law employee or a Represented Employee domiciled in California or Hawaii (which includes certain employees who may perform services, in whole or in part, for non-Hawaii tradelanes) or (2) a Represented Employee of MEBA acting as a shore-side port engineer and domiciled in California, Hawaii or Washington; (x) any consultant, independent contractor or other service provider who at any time prior to or as of the Closing Date primarily provides, provided or will provide services with respect to the Hawaii Business, including any Acquired Entity; and (y) any employee, consultant, independent contractor or other service provider performing services on board a Hawaii Vessel at any time prior to or as of the Closing Date. To the Knowledge of Horizon, the Hawaii Employees (other than Represented Hawaii Employees and Disabled Hawaii Employees) as of the date hereof are listed on Part I of Schedule 6.5(a) and Disabled Hawaii Employees as of the date hereof are listed on Part II of Schedule 6.5(a). Such schedules shall be updated by Horizon from time to time prior to the Closing in accordance with Section 6.4, but for avoidance of doubt, the inclusion or exclusion of an individual from Schedule 6.5(a) Part I or II shall not determine whether or not such individual is a Hawaii Employee.” For the avoidance of any doubt, the HTI Transferred Employees, the HSI Transferred Employees and the Sea-Logix Transferred Employees are all considered “Hawaii Employees.”

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(b) The final sentence of Section 6.5(b) of the Purchase Agreement is hereby amended and restated in its entirety read as follows:

“Pasha Parent shall cause Pasha Sub, Hawaii LLC, HSI, HTI and/or Sea-Logix to become the employer with respect to, and assume the obligations and Contracts relating to, each Disabled Hawaii Employee on terms that are the same in all material respects to those set forth in Section 6.5(a) (e.g.,

with base pay at least equal to his or her base rate of pay as in effect immediately prior to such Disabled Hawaii Employee's disability) within an administratively reasonable period of time after Horizon, Pasha or Hawaii LLC has been notified that such Disabled Hawaii Employee has obtained a medical release authorizing such Disabled Hawaii Employee to return to work."

(c) Section 6.5(e) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

"(e) From and after the Closing, Pasha and its Subsidiaries (including Hawaii LLC) shall use its commercially reasonable efforts to honor (or provide reasonable equivalent benefits for) all obligations under the Horizon Plans and compensation and severance arrangements and agreements in accordance with their terms as in effect immediately before the Closing and set forth on Schedule 6.5(e) for the period ending at the Closing and any additional period at or after the Closing during which such Horizon Plan remains in effect, and each of Pasha and Hawaii LLC acknowledges and agrees that the Transactions shall be deemed to constitute a "change in control," "change of control," "corporate transaction" or similar term under each such Horizon Plan, arrangement or agreement."

(d) Section 6.5(h) of the Purchase Agreement is hereby deleted in its entirety.

Section 3.11 Amendment to Section 6.8. Section 6.8 of the Purchase Agreement is hereby amended by inserting a new paragraph at the end thereof:

"In the event that Pasha does not obtain on the Closing Date Guarantees in the amounts and with the payee's listed on Schedule 6.8(A), Pasha agrees that either (a) Horizon and/or its Subsidiaries and Affiliates and/or Pasha will provide cash collateral in the applicable amounts listed in Schedule 6.8(A) to continue to support those Guarantees on the Closing Date in order to allow Pasha and its Subsidiaries to operate the Acquired Hawaii Business on and after the Closing Date (which may thereafter, in the case of cash collateral provided by Pasha, be substituted by Pasha with a letter of credit payable to Horizon and its Subsidiaries and Affiliates as set forth in (b)), or (b) Pasha will provide a "back to back" or direct letter of credit payable to Horizon and its Subsidiaries and Affiliates in the applicable amount listed in Schedule 6.8(A) containing terms and conditions reasonably satisfactory to Horizon. Any and all actions and cooperation by Horizon and its Subsidiaries and Affiliates to support the Guarantees listed on Schedule 6.8(A) shall be considered Transition Services (as defined in the Transition Services Agreement) and subject to the terms of the Transition Services Agreement (including without limitation the indemnity thereunder), and any and all related costs, expenses and Losses (including interest expense and any fees on any cash collateral provided by Horizon and/or its Subsidiaries and Affiliates) incurred by Horizon, its Subsidiaries or any of their Affiliates shall be paid by Pasha and Hawaii LLC pursuant to Article 3 of the Transition Services Agreement. As soon as possible, but no later than June 30, 2015, Pasha shall provide a letter of credit directly to each of the payees listed on Schedule 6.8(A), such that the payee releases in full the Guarantee listed on Schedule 6.8(A). The form of agreement by which Pasha will provide cash collateral or "back to back" letter of credit is attached as Schedule 6.8(B)."

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Section 3.12 Amendment to Section 6.10(e). Section 6.10(e) of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

"(e) On or before the Closing Date, Horizon shall use its reasonable best efforts to seek from each entity (an "Insurer") that issued an insurance policy or agreement listed on the insurance schedule attached to the Step Plan ("Horizon Insurance Agreements") a written consent assigning to Pasha, Pasha Sub, Hawaii LLC and the Four Vessel LLCs (as defined in the Step Plan), as their interests appear, all of the rights that a named insured would have under the Horizon Insurance Agreements relating to the Assumed Liabilities, which consent to assignment shall be effective as of the Closing Date ("Written Consent to Assignment"). Horizon agrees it will use reasonable best efforts as set forth in the Step Plan to assist Pasha to seek the delivery of each such Written Consent to Assignment at least fifteen (15) days prior to the Closing Date; provided however, Horizon shall send to the UK P&I Club a letter in the form set forth on Schedule 6.10(e) ("Letter") and shall name Sunrise Operations LLC, Sunrise Enterprise LLC, Sunrise Pacific LLC, Sunrise Reliance LLC, and Sunrise Spirit LLC as loss payees under its entry of the Hawaii Vessels in the UK P&I Club, as their respective interests may appear, in accordance with the Letter. Any additional premium (including any costs, taxes, fees or commission associated with such coverage, a "Premium") charged by any insurer or underwriter to obtain such Written Consents to Assignment or the Letter shall be paid by Pasha. Neither any Written Consent to Assignment nor the Letter shall have any effect on, apply to, or limit or reduce the coverage that Horizon and/or its Subsidiaries have under any Horizon Insurance Agreement relating to liabilities that are not Assumed Liabilities. For the avoidance of doubt, in no event shall the refusal by any Insurer to provide any Written Consent to Assignment contemplated by this Section 6.10(e), or any action or inaction by any Insurer, including any refusal to accept or follow the terms of the Letter, be deemed a breach by Horizon of its obligations under this Section 6.10(e)."

Section 3.13 Amendment to Section 6.10. Section 6.10 of the Purchase Agreement is hereby amended by inserting a new subsection (i) at the end thereof:

"(i) On the Closing Date, Pasha and its Subsidiaries and Affiliates, including without limitation Sea-Logix, shall cause Horizon and each of its Subsidiaries and Affiliates to be named as an additional insured and loss payee under any and all insurance policies relating or with respect to the Premises (as defined in the Prologis Lease) and any leasehold or other interests in, to or under the Premises, any improvements thereon and/or the Prologis Lease. In addition, after the Closing Date, Horizon, Pasha and their respective Subsidiaries and Affiliates, including without limitation Sea-Logix, shall use reasonable best efforts to obtain the release of Horizon and its Subsidiaries and Affiliates from any and all of its obligations and liabilities under or related to the Prologis Lease, including without limitation a contemporaneous release of the Guaranty referred to and as defined in the Prologis Lease, in accordance with the terms of Section 2.6 of the Purchase Agreement."

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Section 3.14 Amendment to Section 6.12. Section 6.12 of the Purchase Agreement is hereby deleted in its entirety.

Section 3.15 Amendment to Section 6.16. Section 6.16(a) of the Purchase Agreement is hereby amended by inserting "and HTI" at the end of the first sentence thereof.

Section 3.16 Amendment to Section 8.1. Section 8.1 of the Purchase Agreement is hereby amended by inserting new subsections (h) and (i) at the end thereof:

“(h) the Assignments (as defined in Amendment No.1), including but not limited to the transactions contemplated by such Assignments any of (i) that certain Standard Form Industrial Building Lease (Single — Tenant) effective as of June 6, 2008 by and between Prologis USLV NEWCA2, LLC, a Delaware limited liability company, as successor-in-interest to KTR South Bay I LLC, as Landlord (“Prologis”), and Horizon Lines, LLC, as Tenant (the “Prologis Lease”), (ii) that certain Guaranty referred to and as defined in the Prologis Lease, and (iii) any consent, assignment, or other document or instrument related to either (i) or (ii) above.”

Section 3.17 Amendment to Section 8.2. Section 8.2 of the Purchase Agreement is hereby amended by inserting a new subsection (e) at the end thereof:

“(e) the transactions contemplated by that certain Payment and Cooperation Agreement, dated as of May 26, 2015, by and among SFL Holdings, LLC, Horizon and Matson Navigation Company, Inc.; provided that any such Losses shall in no event include any Loss that would have resulted had the agreement described in this Section 8.2(e) not been entered into, and the SFL Note been redeemed on the date on which the merger of Merger Sub with and into Horizon, with Horizon continuing as the surviving corporation is consummated.”

Section 3.18 Amendment to Section 10.13.

(a) The definition of “Acquired Entities” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Acquired Entities” shall mean Hawaii LLC, Sea-Logix, HTI and HSI.”

(b) The definition of “Additional Closing Payment Amount” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Additional Closing Payment Amount” shall mean the amount equal to product of (a) \$250,000 *multiplied* by (b) the number of days that elapse from but excluding (i) May 27, 2015 to and including (ii) the actual Closing Date.”

(c) Section 10.13 of the Purchase Agreement is hereby amended to insert the following definition after the definition of “Allocation Schedule”:

““Amendment No. 1” shall mean Amendment No. 1, dated as of May 29, 2015, to this Agreement.”

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(d) The definition of “Hawaii Business,” shall be amended by inserting “, HTI” immediately after the reference to “HSI” therein.

(e) The definition of “HSI,” shall be amended by replacing “Stevedoring” with “Stevedores”.

(f) Section 10.13 of the Purchase Agreement is hereby amended to insert the following definitions after the definition of “HSI”:

““HSI Assumed Liabilities” shall mean any and all Assumed Liabilities to the extent related to the HSI Transferred Employees, including without limitation those described in Section 6.5.”

““HSI Transferred Employees” shall mean those employees set forth on Schedule C to this Amendment.”

(g) Section 10.13 of the Purchase Agreement is hereby amended to insert the following definitions after the definition of “HSR Act”:

““HTI” shall mean Hawaii Terminals, Inc., a Hawaii corporation and wholly-owned subsidiary of HSI.

““HTI Contributed Assets” shall mean those Contributed Assets set forth on Schedule A to this Amendment.

““HTI Assumed Liabilities” shall mean any and all Assumed Liabilities to the extent related to the HTI Transferred Employees and/or the HTI Contributed Assets, including without limitation those described in Section 6.5.”

““HTI Transferred Employees” shall mean those employees set forth on Schedule B to this Amendment.”

(h) The definition of “Notes Payoff Amount” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Notes Payoff Amount” shall have the meaning set forth in the Section 6.21 and for the avoidance of doubt, exclude any principal or interest on the SFL Note.”

(i) The first sentence of the definition of “Pre-Closing Income Taxes” is hereby amended and restated in its entirety to read as follows:

““Pre-Closing Income Taxes” shall mean (a) Income Taxes attributable to any taxable period (or portion thereof) ending on or before the Closing Date (including any alternative minimum Tax liability payable by Horizon and its Affiliates with respect to the Transactions in excess of any Transaction AMT), (b) Income Taxes other than those

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described in clause (a) above arising solely from the inclusion of an Acquired Entity in an affiliated, consolidated, combined or unitary group for Income Tax purposes at any time prior to the Closing, (c) Income Taxes payable by Pasha and its Affiliates resulting solely and directly from the agreement described in Section 8.2(e) (other than, for the avoidance of doubt, any Income Taxes payable by Pasha and its Affiliates as a result of an indemnity payment received by Pasha or its Affiliates arising from such agreement being treated as income or resulting in a reduction in the basis in an asset) to the extent in excess of the Income Taxes that would be payable by Pasha and its Affiliates if the agreement described in Section 8.2(e) had not been entered into, and the SFL Note had been redeemed on the date on which the merger of Merger Sub with and into Horizon, with Horizon continuing as the surviving corporation, was consummated, and (d) interest, penalties and additions to tax with respect to the foregoing clauses (a), (b) and (c); provided, however, that Pre-Closing Income Taxes shall in no event include any Income Taxes (including any alternative minimum Taxes) resulting from the Assignments (as defined in Amendment No. 1), including but not limited to the transactions contemplated by such Assignments, or otherwise attributable to HTI, in each case, to the extent such Income Taxes exceed the Income Taxes that would have resulted had HTI not been organized, and the assets and liabilities of HTI been transferred (directly or indirectly) to Hawaii LLC and Pasha in the manner provided by this Agreement (in each case, assuming Amendment No. 1 was not entered into).”

follows:

(j) The definition of “Sea-Logix” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as

““Sea-Logix” shall mean Sea-Logix, LLC, a Delaware limited liability company.”

(k) Section 10.13 of the Purchase Agreement is hereby amended to insert the following definitions after the definition of “Sea-Logix”:

““Sea-Logix Assumed Liabilities” shall mean any and all Assumed Liabilities to the extent related to the Sea-Logix Transferred Employees, including without limitation those described in Section 6.5.”

““Sea-Logix Transferred Employees” shall mean those employees set forth on Schedule D to this Amendment.”

Fees”:

(l) Section 10.13 of the Purchase Agreement is hereby amended to insert the following definition after the definition of “Service

““SFL Note” shall mean that certain Second Lien Senior Secured Note due 2016 having a CUIISP number of 44049H AFO.”

(m) The definition of “Second Lien Notes” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Second Lien Notes” shall mean, collectively, each of the Second Lien Senior Secured Notes due 2016 issued by Horizon Lines, LLC and outstanding as of the Closing Date, other than the SFL Note.”

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(n) The definition of “Target Net Working Capital” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Target Net Working Capital” shall mean six million dollars (\$6,000,000).”

(o) The second sentence of the definition of “Transaction AMT” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

“Transaction AMT shall be determined on a “with and without” basis, such that the amount of Transaction AMT shall equal 50% of the amount by which (a) the alternative minimum Tax liability (using the rates specified above) of Horizon and its Affiliates taking into account the effect of the Transactions, exceeds (b) the alternative minimum Tax liability (using the rates specified above) of Horizon and its Affiliates without taking into account the effects of the Transactions; provided, however, that (i) Transaction AMT shall be calculated for all purposes of this Agreement as if (x) HTI had not been organized, and the assets and liabilities of HTI had been transferred (directly or indirectly) to Hawaii LLC and Pasha in the manner provided by this Agreement (in each case, assuming Amendment No. 1 was not entered into), and (y) the agreement described in Section 8.2(e) had not been entered into, and the SFL Note had been redeemed on the date on which the merger of Merger Sub with and into Horizon, with Horizon continuing as the surviving corporation was consummated, and (ii) Transaction AMT shall be subject to adjustment and payment in a manner consistent with Section 1.4 and Section 6.16.”

(p) The definition of “Transfer Taxes” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Transfer Taxes” shall mean any federal, state, county, local, foreign and other sales, use, excise, transfer, conveyance, documentary transfer, recording or other similar Taxes imposed with respect to the Transactions, and any interest, penalties and additions to Tax in respect thereof; provided, however, that Transfer Taxes shall not include any such amounts (i) incurred with respect to the transfer of Hawaii Vessels pursuant to this Agreement and the Step Plan that would not have been incurred if the Hawaii Vessels were transferred directly to the applicable Subsidiary of Hawaii LLC as opposed to being transferred first to Hawaii LLC and then to the applicable Subsidiary of Hawaii LLC, or (ii) resulting from the Assignments (as defined in Amendment No. 1), including but not limited to the transactions contemplated by such Assignments, to the extent such amounts described in this clause (ii) exceed the Transfer Taxes that would have resulted had HTI not been organized, and the assets and liabilities of HTI been transferred (directly or indirectly) to Hawaii LLC and Pasha in the manner provided by this Agreement (in each case, assuming Amendment No. 1 was not entered into) (any amounts described in clauses (i) and (ii) of this proviso, “Excluded Transfer Taxes”).”

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(q) The definition of “Transferred Assets” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Transferred Assets” shall mean the Contributed Assets, together with all other assets held by HSI, HTI and Sea-Logix.”

(r) The definition of “Transferred Liabilities” in Section 10.13 of the Purchase Agreement is hereby amended and restated in its entirety to read as follows:

““Transferred Liabilities” shall mean the Assumed Liabilities, including the HSI Assumed Liabilities, the HTI Assumed Liabilities and the Sea-Logix Assumed Liabilities, together with all other liabilities and obligations of HSI, HTI and Sea-Logix. For the avoidance of doubt, Transferred Liabilities shall not include any Taxes allocated to Horizon under Section 6.16(c)(i).”

(s) The definitions of “Transferred Sea-Logix Assets,” “Transferred Sea-Logix Employees” and “Transferred Sea-Logix Liabilities” in Section 10.13 of the Purchase Agreement are hereby deleted, and all references to such terms in the Purchase Agreement are hereby stricken.

Section 3.19 Amendment to Schedule 2.1(q). Schedule 2.1(q) is hereby amended as set forth in Schedule E hereto.

Section 3.20 Amendment to Schedule 6.23. Schedule 6.23 is hereby amended as set forth in Schedule F hereto.

ARTICLE IV

GENERAL PROVISIONS

Section 4.1 No Further Amendment. Except as expressly amended hereby, the Purchase Agreement is in all respects ratified and confirmed as of the date of this Amendment, and all the terms, conditions, and provisions thereof shall remain in full force and effect. This Amendment is limited precisely as written and shall not be deemed to be an amendment to any other term or condition of the Purchase Agreement.

Section 4.2 Effect of Amendment. This Amendment shall form a part of the Purchase Agreement for all purposes, and each party thereto and hereto shall be bound hereby. From and after the execution of this Amendment by the parties hereto, any reference to the Purchase Agreement shall be deemed a reference to the Purchase Agreement as amended hereby. This Amendment shall be deemed to be in full force and effect from and after the execution of this Amendment by the parties hereto.

Section 4.3 Headings. The headings contained in this Amendment are for reference purposes only and shall not affect in any way the meaning or interpretation of this Amendment.

Section 4.4 Counterparts. This Amendment may be executed in counterparts (each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement) and shall become effective when one or more counterparts have been signed by each of the parties and delivered (by electronic communication, facsimile or otherwise) to the other parties.

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Section 4.5 Governing Law. This Amendment and any dispute, controversy or claim arising out of, relating to or in connection with this Amendment, the negotiation, execution, existence, validity, enforceability or performance of this Amendment, or for the breach or alleged breach thereof (whether in contract, in tort or otherwise) shall be governed by, and construed in accordance with, the Laws of the State of Delaware, without giving effect to any choice or conflict of laws provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware.

Section 4.6 Severability. If any term or other provision of this Amendment is determined by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other terms, provisions and conditions of this Amendment shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Amendment so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable Law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

Section 4.7 Closing Obligations. For the avoidance of doubt, nothing contained in this Amendment shall affect in any way the respective obligations of each party to the Purchase Agreement to consummate the transactions contemplated thereby, nor shall any provision of this Amendment affect the conditions to or timing of the consummation of the transactions contemplated by the Purchase Agreement.

[Remainder of page blank; Signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first above written.

The Pasha Group

By: /s/ George W. Pasha, IV

Name: George W. Pasha, IV

Title: President and Chief Executive

SR Holdings LLC

By: /s/ George W. Pasha, IV
Name: George W. Pasha, IV
Title: President and Chief Executive
Officer

[Signature Page to Amendment No. 1 to the Contribution, Assumption and Purchase Agreement]

Horizon Lines, Inc.

By: /s/ Michael F. Zendan II
Name: Michael F. Zendan II
Title: Executive Vice President, General
Counsel and Secretary

Sunrise Operations LLC

By: /s/ Michael F. Zendan II
Name: Michael F. Zendan II
Title: Executive Vice President, General
Counsel and Secretary

Hawaii Stevedores, Inc.

By: /s/ Michael F. Zendan II
Name: Michael F. Zendan II
Title: Secretary

Hawaii Terminals, Inc.

By: /s/ Michael F. Zendan II
Name: Michael F. Zendan II
Title: Vice President, General Counsel and Secretary

Sea-Logix, LLC

By: /s/ Michael F. Zendan II
Name: Michael F. Zendan II
Title: Secretary

[Signature Page to Amendment No. 1 to the Contribution, Assumption and Purchase Agreement]

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

I, Matthew J. Cox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Matson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Matthew J. Cox
Matthew J. Cox, President and
Chief Executive Officer

Date: August 5, 2015

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

I, Joel M. Wine, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Matson, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Joel M. Wine
Joel M. Wine, Senior Vice President and
Chief Financial Officer

Date: August 5, 2015

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

In connection with the Quarterly Report on Form 10-Q of Matson, Inc. (the "Company") for the quarterly period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Matthew J. Cox, as President and Chief Executive Officer of the Company, and Joel M. Wine, as Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that to their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Matthew J. Cox

Name: Matthew J. Cox
Title: President and Chief Executive Officer
Date: August 5, 2015

/s/ Joel M. Wine

Name: Joel M. Wine
Title: Senior Vice President and Chief Financial Officer
Date: August 5, 2015
