

**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 March 31, 2007
- 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 0-565

**ALEXANDER & BALDWIN, 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.)

P. O. Box 3440, Honolulu, Hawaii  
822 Bishop Street, Honolulu, Hawaii  
(Address of principal executive offices)

96801  
96813  
(Zip Code)

(808) 525-6611  
(Registrant's telephone number, including area code)

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

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

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 March 31, 2007:** **42,905,879**

## PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

## ALEXANDER &amp; BALDWIN, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(In millions, except per-share amounts)

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Revenue:		
Operating revenue	\$ <u>385.0</u>	\$ <u>360.6</u>
Costs and Expenses:		
Costs of goods sold, services and rentals	307.9	293.4
Selling, general and administrative	<u>37.6</u>	<u>35.8</u>
Operating costs and expenses	<u>345.5</u>	<u>329.2</u>
Operating Income	39.5	31.4
Other Income and (Expense)		
Equity in income of real estate affiliates	4.4	13.9
Interest income	1.0	2.2
Interest expense	<u>(4.3)</u>	<u>(3.2)</u>
Income Before Taxes	40.6	44.3
Income taxes	<u>15.9</u>	<u>16.9</u>
Income From Continuing Operations	24.7	27.4
Discontinued Operations (net of income taxes)	<u>—</u>	<u>10.0</u>
Net Income	<u>\$ 24.7</u>	<u>\$ 37.4</u>
Basic Earnings Per Share:		
Continuing operations	\$ 0.58	\$ 0.62
Discontinued operations	<u>—</u>	<u>0.23</u>
Net income	<u>\$ 0.58</u>	<u>\$ 0.85</u>
Diluted Earnings Per Share:		
Continuing operations	\$ 0.58	\$ 0.62
Discontinued operations	<u>—</u>	<u>0.22</u>
Net income	<u>\$ 0.58</u>	<u>\$ 0.84</u>
Average Number of Shares Outstanding	42.5	43.9
Average Number of Dilutive Shares Outstanding	42.9	44.3

See Notes to Condensed Consolidated Financial Statements

**ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES**  
**Industry Segment Data, Net Income**  
(In millions)

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Revenue:		
Transportation:		
Ocean transportation	\$ 231.6	\$ 219.3
Logistics services	102.9	108.4
Real Estate:		
Leasing	28.8	24.6
Sales	6.5	23.8
Less amounts reported in discontinued operations	—	(24.9)
Agribusiness	17.2	15.5
Reconciling Items	(2.0)	(6.1)
Total revenue	<u>\$ 385.0</u>	<u>\$ 360.6</u>
Operating Profit, Net Income:		
Transportation:		
Ocean transportation	\$ 18.8	\$ 18.3
Logistics services	5.6	4.7
Real Estate:		
Leasing	15.0	12.1
Sales	8.8	27.1
Less amounts reported in discontinued operations	—	(16.0)
Agribusiness	3.6	6.5
Total operating profit	51.8	52.7
Interest Expense	(4.3)	(3.2)
General Corporate Expenses	(6.9)	(5.2)
Income From Continuing Operations Before		
Income Taxes	40.6	44.3
Income Taxes	(15.9)	(16.9)
Income From Continuing Operations	24.7	27.4
Discontinued Operations (net of income taxes)	—	10.0
Net Income	<u>\$ 24.7</u>	<u>\$ 37.4</u>

See Notes to Condensed Consolidated Financial Statements.

**ALEXANDER & BALDWIN, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(In millions)

	<b>March 31,</b> <b><u>2007</u></b>	<b>December 31,</b> <b><u>2006</u></b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 49	\$ 45
Accounts and notes receivable, net	172	178
Inventories	36	19
Deferred income taxes	7	10
Prepaid expenses and other assets	<u>28</u>	<u>33</u>
Total current assets	<u>292</u>	<u>285</u>
Investments	<u>150</u>	<u>149</u>
Real Estate Developments	<u>177</u>	<u>147</u>
Property, at cost	2,514	2,485
Less accumulated depreciation and amortization	<u>1,007</u>	<u>986</u>
Property – net	<u>1,507</u>	<u>1,499</u>
Pension Assets	57	56
Other Assets	<u>103</u>	<u>115</u>
Total	<u><u>\$ 2,286</u></u>	<u><u>\$ 2,251</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Notes payable and current portion of long-term debt	\$ 31	\$ 41
Accounts payable	145	136
Other	<u>85</u>	<u>80</u>
Total current liabilities	<u>261</u>	<u>257</u>
Long-term Liabilities:		
Long-term debt	413	401
Deferred income taxes	436	442
Liability for benefit plans	54	52
Other	<u>72</u>	<u>72</u>
Total long-term liabilities	<u>975</u>	<u>967</u>
Commitments and Contingencies		
Shareholders' Equity:		
Capital stock	35	35
Additional capital	185	179
Accumulated other comprehensive loss	(18)	(19)
Retained earnings	859	843
Cost of treasury stock	<u>(11)</u>	<u>(11)</u>
Total shareholders' equity	<u>1,050</u>	<u>1,027</u>
Total	<u><u>\$ 2,286</u></u>	<u><u>\$ 2,251</u></u>

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities	\$ <u>26</u>	\$ <u>40</u>
Cash Flows from Investing Activities:		
Capital expenditures	(14)	(47)
Proceeds from disposal of income-producing property, investments, and other assets	6	30
Deposits into Capital Construction Fund	(10)	(21)
Withdrawals from Capital Construction Fund	8	3
Payments for purchases of investments	(4)	(12)
Proceeds from sale and maturity of investments	<u>—</u>	<u>41</u>
Net cash used in investing activities	<u>(14)</u>	<u>(6)</u>
Cash Flows from Financing Activities:		
Proceeds from issuances of long-term debt	50	—
Payments of long-term debt	(49)	(2)
Proceeds from issuances of capital stock, including excess tax benefit	2	3
Dividends paid	<u>(11)</u>	<u>(10)</u>
Net cash used in financing activities	<u>(8)</u>	<u>(9)</u>
Net Increase in Cash and Cash Equivalents\$	<u>\$ 4</u>	<u>\$ 25</u>
Other Cash Flow Information:		
Interest paid, net of amounts capitalized\$	\$ (4)	\$ (4)
Income taxes refunded (paid) \$	\$ 12	\$ 1
Other Non-cash Information:		
Depreciation expense\$	\$ 23	\$ 21
Tax-deferred property sales\$	\$ —	\$ 21
Tax-deferred property purchases\$	\$ (12)	\$ (8)

See Notes to Condensed Consolidated Financial Statements.

**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

- (1) The Condensed Consolidated Financial Statements are unaudited. Because of the nature of the Company's operations, the results for interim periods are not necessarily indicative of results to be expected for the year. While these condensed consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Therefore, the interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's annual report filed on Form 10-K for the year ended December 31, 2006.
- (2) In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 ("SFAS No. 159"), which is effective for the Company on January 1, 2008. SFAS No. 159 provides an option for companies to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS No. 159, fair value would be used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in value recognized in earnings. At this time, the Company has not completed its review and assessment of the impact upon adoption of SFAS No. 159.
- (3) Commitments and Contingencies: Commitments and financial arrangements that are not recorded on the Company's consolidated balance sheet at March 31, 2007, other than operating lease obligations, included the following (in millions):

Guarantee of HS&TC debt	(a)	\$	—
Standby letters of credit	(b)	\$	23
Bonds	(c)	\$	10
Benefit plan withdrawal obligations	(d)	\$	66

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

- (a) The Company is contingently liable for up to \$21.5 million based on a portion of amounts outstanding under a \$30 million Hawaiian Sugar & Transportation Cooperative ("HS&TC") revolving credit line. This guarantee was issued before December 31, 2002, and therefore, is not subject to the scope of FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." No amounts were borrowed under HS&TC's facility at the end of the first quarter.
- (b) Consists of letters of credit, totaling approximately \$23 million, which enable the Company to qualify as a self-insurer for state and federal workers' compensation liabilities. This balance also includes approximately \$5 million of letters of credit related to certain of the Company's real estate projects.

- (c) Consists of approximately \$6 million in U.S. customs bonds, approximately \$3 million related to real estate construction projects in Hawaii, and approximately \$1 million related to transportation and other matters.
- (d) Represents the withdrawal liabilities for multiemployer pension plans, in which Matson is a participant. The withdrawal liability aggregated approximately \$66 million as of the most recent valuation dates. Management has no present intention of withdrawing from, and does not anticipate termination of any of the aforementioned plans.

*Indemnity Agreements:* For certain real estate joint ventures, the Company may be obligated under bond indemnities to complete construction of the real estate development if the joint venture does not perform. These indemnities are designed to protect the surety or lender. To date, none of these indemnities has been called upon. The Company accounts for these indemnities in accordance with FIN 45. The fair values of the liabilities recorded by the Company in connection with the indemnities were not material.

*Completion Guarantees:* For certain real estate joint ventures, the Company may be required to perform work to complete construction if the joint venture fails to complete construction. These guarantees are intended to assure the joint venture's lender that the project will be completed as represented to the lender. To date, none of these guarantees has been called upon. The Company accounts for these completion guarantees in accordance with FIN 45. The fair values of the liabilities recorded by the Company in connection with the completion guarantees were not material.

*Financing Agreement:* On April 20, 2006, the Company entered into a three-year unsecured note purchase and private shelf agreement with Prudential Investment Management, Inc. and its affiliates (collectively, "Prudential") under which the Company may issue notes in an aggregate amount up to \$400 million less the sum of all principal amounts then outstanding on any notes issued by the Company or any of its subsidiaries to Prudential. In March 2007, the Company received \$50 million that represented the second of three scheduled draws under the facility. The final currently scheduled draw of \$25 million will be received in June 2007.

*Litigation:* The Company and certain subsidiaries are parties to various legal actions and are contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which, in the opinion of management after consultation with legal counsel, will not have a material adverse effect on the Company's financial position or results of operations.

- (4) Earnings Per Share (EPS): The number of shares used to compute basic and diluted earnings per share is as follows (in millions):

	Quarter Ended March 31,	
	<u>2007</u>	<u>2006</u>
Weighted average shares for basic EPS	42.5	43.9
Effect of dilutive securities:		
Employee/director stock options and non-vested common stock	<u>0.4</u>	<u>0.4</u>
Weighted average shares for diluted EPS	<u><u>42.9</u></u>	<u><u>44.3</u></u>

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

The computation of average dilutive shares outstanding excluded non-qualified stock options to purchase 0.2 million and 0.1 million shares of common stock during the three months ended March 31, 2007 and March 31, 2006, respectively. These amounts were excluded because the options' exercise prices were greater than the average market price of the Company's common stock for the periods presented and, therefore, the effect would be anti-dilutive.

- (5) Share-Based Compensation: The Company's various stock option plans are more fully described in its most recent Form 10-K and in other filings with the Securities and Exchange Commission.

On January 24, 2007, the Company granted non-qualified stock options to purchase 279,739 shares of the Company's common stock. The grant-date fair value of each stock option granted, using a Black-Scholes valuation model, was \$10.91 using the following weighted average assumptions: volatility of 19.5%, risk-free interest rate of 4.8%, dividend yield of 2.1%, and expected term of 5.8 years.

Activity in the Company's stock option plans for the first quarter of 2007 was as follows (in thousands, except weighted average exercise price and weighted average contractual life):



	<u>Employee Plans</u>		<u>Directors' Plans</u>		Total Shares	Weighted	Weighted	Aggregate Intrinsic Value
	1998 Plan	1989 Plan	1998 Directors' Plan	1989 Directors' Plan		Average Exercise Price	Average Contractual Life	
Outstanding December 31, 2006	1,234	27	266	30	1,557	\$ 34.47		
Granted	280	—	—	—	280	\$ 48.19		
Exercised	(31)	(11)	(6)	(9)	(57)	\$ 27.29		
Forfeited and expired	(2)	—	—	—	(2)	\$ 35.19		
Outstanding March 31, 2007	<u>1,481</u>	<u>16</u>	<u>260</u>	<u>21</u>	<u>1,778</u>	<u>\$ 36.86</u>	6.7	\$ 23,961
Exercisable March 31, 2007	<u>1,028</u>	<u>16</u>	<u>135</u>	<u>21</u>	<u>1,200</u>	<u>\$ 31.71</u>	5.6	\$ 22,153

On January 24, 2007, the Company granted approximately 166,000 shares of non-vested common stock that vest either (i) over three years, or (ii) after one year, provided certain performance targets are achieved. The grant-date fair value of the non-vested common stock was \$48.19 per share. The following table summarizes non-vested common stock activity through March 31, 2007 (in thousands, except weighted-average, grant-date fair value amounts):

	<u>Non-Vested Common Stock Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding December 31, 2006	274	\$ 47.28
Granted	166	\$ 48.19
Vested	(149)	\$ 48.57
Outstanding March 31, 2007	<u>291</u>	<u>\$ 47.14</u>

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

	Quarter Ended March 31,	
	<u>2007</u>	<u>2006</u>
Share-based expense (net of estimated forfeitures):		
Stock options	\$ 0.8	\$ 0.7
Non-vested common stock	<u>2.1</u>	<u>1.2</u>
Total share-based expense	2.9	1.9
Total recognized tax benefit	<u>(0.7)</u>	<u>(0.5)</u>
Share-based expense (net of tax)	<u>\$ 2.2</u>	<u>\$ 1.4</u>

- (6) Accounting for and Classification of Discontinued Operations: As required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), the sales of certain income-producing assets are classified as discontinued operations if (i) the operations and cash flows of the assets can be clearly distinguished from the remaining assets of the Company, (ii) the cash flows that are specific to the assets sold have been, or will be, eliminated from the ongoing operations of the Company,

(iii) the Company will not have a significant continuing involvement in the operations of the assets sold, and (iv) the amount is considered material. Certain assets that are "held for sale," based on the likelihood and intention of selling the property within 12 months, are also treated as discontinued operations. Depreciation on these assets is discontinued upon reclassification. Sales of land, residential houses, and office condominium units are generally considered inventory and are not included in discontinued operations.

Discontinued operations were as follows (in millions):

	Quarter Ended March 31,	
	<u>2007</u>	<u>2006</u>
Discontinued Operations (net of tax)		
Sales of Assets	\$ —	\$ 9.3
Leasing Operations	\$ —	\$ 0.7
Total	<u>\$ —</u>	<u>\$ 10.0</u>

(7) Other Comprehensive Income for the three months ended March 31, 2007 and 2006 was as follows (in millions):

	Quarter Ended March 31,	
	<u>2007</u>	<u>2006</u>
Net Income	\$ 24.7	\$ 37.4
Company's share of investee's minimum pension liability adjustment	\$ 0.1	\$ —
Amortization of unrealized gain/loss	\$ 0.3	\$ —
Change in valuation of derivative	\$ 0.1	\$ 0.1
Comprehensive Income	<u>\$ 25.2</u>	<u>\$ 37.5</u>

(8) Pension and Post-retirement Plans: The Company has defined benefit pension plans that cover substantially all non-bargaining unit and certain bargaining unit employees. The Company also has unfunded non-qualified plans that provide benefits in excess of the amounts permitted to be paid under the provisions of the tax law to participants in qualified plans. The assumptions related to discount rates, expected long-term rates of return on invested plan assets, salary increases, age, mortality and health care cost trend rates, along with other factors, are used in determining the assets, liabilities and expenses associated with pension benefits. Management reviews the assumptions annually with its independent actuaries, taking into consideration existing and future economic conditions and the Company's intentions with respect to these plans. Management believes that its assumptions and estimates for 2007 are reasonable. Different assumptions, however, could result in material changes to the assets, obligations and costs associated with benefit plans.

The Components of Net Periodic Benefit Cost for the first quarters of 2007 and 2006 were as follows (in millions):

	<b>Pension Benefits</b>		<b>Post-retirement Benefits</b>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service Cost	\$ 1.9	\$ 1.8	\$ 0.4	\$ 0.2
Interest Cost	4.3	4.1	1.0	0.8
Expected Return on Plan Assets	(6.7)	(6.5)	—	—
Amortization of Prior Service Cost	0.1	0.1	—	—
Amortization of Net (Gain) Loss	0.2	0.4	(0.1)	0.3
Net Periodic Benefit Cost	<u>\$ (0.2)</u>	<u>\$ (0.1)</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>

The total year 2007 net periodic pension income is expected to be approximately \$0.7 million. No contributions to the Company's pension plans are expected to be required during 2007.

- (9) Income Taxes: On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a decrease of \$2.3 million in the liability for unrecognized tax benefits, and a corresponding increase to retained earnings as of January 1, 2007. As of the date of adoption, and after the impact of recognizing the decrease in liability noted above, the Company's gross unrecognized tax benefits and related gross accrued interest totaled \$10.0 million. Of this total, \$8.0 million (\$5.8 million net of the federal benefit on state issues) represents the amount of gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods, and \$0.7 million represents gross accrued interest.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. There were no amounts accrued as penalties as of January 1, 2007. To the extent interest and penalties are not ultimately assessed with respect to the settlement of uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

The Company is no longer subject to U.S. federal income tax audits for years before 2003. Substantially all material state, local, and foreign income tax matters have been concluded for years through 2001. Illinois income tax returns for 2003 and 2004 are currently under examination. The final outcome of this review is not determinable at this time.

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

The following analysis of the consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries (collectively, the "Company") should be read in conjunction with the condensed consolidated financial statements and related notes thereto included in Item 1 of this Form 10-Q.

### **FORWARD-LOOKING STATEMENTS**

The Company, from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, Securities and Exchange Commission ("SEC") filings, such as the Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet Web sites (including Web sites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of the Company's 2006 annual report on Form 10-K. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

### **OVERVIEW**

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a discussion of the Company's financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company's 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 on Form 10-K and its accompanying notes as well as the Company's reports on Forms 10-Q and 8-K and other publicly available information. MD&A is presented in the following sections:

- Business Overview
- Consolidated Results of Operations
- Analysis of Operating Revenue and Profit by Segment
- Liquidity and Capital Resources

- Economic and Business Outlook
- Other Matters

## **BUSINESS OVERVIEW**

Alexander & Baldwin, Inc. (“A&B”), founded in 1870, is a Hawaii diversified corporation headquartered in Honolulu that operates in five segments in three industries—Transportation, Real Estate, and Agribusiness (formerly Food Products).

*Transportation:* The Transportation industry is comprised of ocean transportation and integrated logistics service segments. The Ocean Transportation segment is an asset-based business that derives its revenue primarily through the carriage of containerized freight between various U.S. Pacific Coast, Hawaii, Guam, other Pacific island, and China ports. Additionally, the Ocean Transportation segment has a 35 percent interest in an entity that provides terminal and stevedoring services at U.S. Pacific Coast facilities.

The Logistics Services segment is a non-asset based business that is a provider of domestic and international rail intermodal service, long-haul and regional highway brokerage, specialized hauling, flat-bed and project work, less-than-truckload, and expedited/air freight services.

*Real Estate:* The Real Estate business is comprised of two segments that have operations in Hawaii and on the U.S. mainland. The Real Estate Sales segment, a developer headquartered in the State of Hawaii, generates its revenues through the development and sale of land and commercial and residential properties. The Real Estate Leasing segment owns, operates, and manages retail, office, and industrial properties.

*Agribusiness:* The Agribusiness industry, which contains one segment, produces bulk raw sugar, specialty food-grade sugars, and molasses; produces, markets, and distributes roasted coffee and green coffee; provides general trucking services, mobile equipment maintenance, and repair services; and generates and sells, to the extent not used in the Company’s operations, electricity.

## CONSOLIDATED RESULTS OF OPERATIONS

Consolidated – First quarter of 2007 compared with 2006

(dollars in millions, except per share amounts)	Quarter Ended March 31,		
	2007	2006	Change
Operating Revenue	\$ 385.0	\$ 360.6	7%
Operating Costs and Expenses	345.5	329.2	5%
Operating Income	39.5	31.4	26%
Other Income and (Expenses)	1.1	12.9	-91%
Income Before Taxes	40.6	44.3	-8%
Income taxes	(15.9)	(16.9)	-6%
Discontinued Operations	—	10.0	-100%
Net Income	\$ 24.7	\$ 37.4	-34%
Basic Earnings per Share	\$ 0.58	\$ 0.85	-32%
Diluted Earnings per Share	\$ 0.58	\$ 0.84	-31%

Consolidated operating revenue increased 7 percent, or \$24.4 million, to \$385.0 million for the first quarter of 2007 compared with the first quarter of 2006. This increase was due principally to \$12.3 million in higher revenue for ocean transportation, \$6.2 million in higher revenue from real estate leasing (excluding leasing revenue from assets classified as discontinued operations), \$5.6 million in higher revenue from real estate sales (excluding property sales classified as discontinued operations), and \$1.7 million in higher revenue for Agribusiness, partially offset by \$5.5 million of lower revenue for logistics services. The reasons for the revenue growth are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Operating costs and expenses increased 5 percent, or \$16.3 million, to \$345.5 million for the first quarter of 2007 compared with the first quarter of 2006. This increase was due principally to \$10.8 million of higher costs for the ocean transportation segment, \$4.9 million of higher bulk raw sugar and power costs for the Agribusiness segment, and \$1.8 million related to higher general and administrative costs. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Other income and (expenses) decreased \$11.8 million, due primarily to \$9.5 million in lower joint venture earnings in the first quarter of 2007 as a result of the sale of all 247 luxury condominium units through the Company's Hokuia joint venture in the first quarter of 2006, \$1.2 million in lower interest income, and \$1.1 million in higher interest expense.

Income taxes decreased by \$1 million, principally due to lower income, but the decrease was partially offset by a higher effective tax rate of 39.2% for the first quarter of 2007 as compared to 38.0% for the first quarter of 2006. The higher effective tax rate in 2007 is principally due to the impact resulting from the application of FIN 48 in the first quarter of 2007. Additional information regarding the impact of FIN 48 is provided in Note 9 to the financial statements of Item 1 in this Form 10-Q.

# ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

## TRANSPORTATION INDUSTRY

### *Ocean Transportation – First quarter of 2007 compared with 2006*

(dollars in millions)	Quarter Ended March 31,			Change
	2007	2006		
Revenue	\$ 231.6	\$ 219.3		6%
Operating profit	\$ 18.8	\$ 18.3		3%
Operating profit margin	8.1%	8.3%		
Volume (Units)				
Hawaii containers	40,700	41,800		-3%
Hawaii automobiles	22,900	31,800		-28%
China containers	11,700	2,000		5.9x
Guam containers*	3,400	3,400		—

\* Container volumes related to the Federated States of Micronesia (FSM) have been excluded for comparative purposes due to the Company's new deployment in the Guam and Micronesia trades.

Ocean Transportation revenue increased 6%, or \$12.3 million, to \$231.6 million in the first quarter of 2007 compared with the first quarter of 2006. The increase was due principally to \$17.1 million increase in revenue from the China service, \$9.5 million increase related to favorable yields and cargo mix, principally in Hawaii, and a \$4.1 million increase in fuel surcharge revenues. This increase was partially offset by a \$13.1 million decrease related to lower volumes in the Hawaii service, and \$6.4 million in lower charter revenue due to the expiration of the American President Lines, Ltd. alliance in February of 2006. Total Hawaii container volume in the first quarter of 2007 was lower than the first quarter of 2006, primarily reflecting reduced shipments in the lower-margin building materials segment as a result of increased competition from barge operators. Matson's automobile volume for the quarter was 28 percent lower than the first quarter last year, due to reduced fleet and retail auto sales.

Ocean Transportation's operating profit increased 3 percent, or \$0.5 million, to \$18.8 million in the first quarter of 2007 compared with the first quarter of 2006. The change in operating profit was primarily the result of the following increases in operating expenses, which partially offset revenue increases. Operations overhead increased \$6.0 million, primarily due to higher equipment control costs which increased \$4.6 million, and direct and indirect fuel costs increased \$3.7 million. Equipment control expenses increased due to higher repositioning costs primarily related to higher volumes achieved in the China service. In addition to the cost increases cited, the quarter-over-quarter variance includes a \$3.3 million benefit recognized in the first quarter of 2006 related to the sale of two surplus and obsolete vessels.

**Logistics Services – First quarter of 2007 compared with 2006**

(dollars in millions)	Quarter Ended March 31,		
	2007	2006	Change
Intermodal revenue	\$ 65.7	\$ 67.6	-3%
Highway revenue	\$ 37.2	\$ 40.8	-9%
Total revenue	\$ 102.9	\$ 108.4	-5%
Operating profit	\$ 5.6	\$ 4.7	19%
Operating profit margin	5.4%	4.3%	

Logistics revenue decreased 5 percent, or \$5.5 million, to \$102.9 million in the first quarter of 2007 compared with the first quarter of 2006. This change was principally due to a decrease in Highway revenue, which decreased by 9 percent as a result of the loss of a truck brokerage agent in Minnesota through an acquisition by a competitor, but was partially offset by an increase in less-than-truckload freight. Intermodal rail revenue decreased by 3 percent, primarily due to a general softening across the domestic intermodal market, but was partially offset by higher revenue attributable to providing inland rail transportation to Matson's China service customers.

Integrated logistics operating profit increased 19 percent, or \$0.9 million, to \$5.6 million in the first quarter of 2007 compared with the first quarter of 2006. Operating profit margin percentage increased to 5.4% in 2007 from 4.3% in 2006 due to various margin and yield improvement efforts in both the Intermodal and Highway lines of business. The positive margin improvements were partially offset by higher general and administrative expenses. Margins achieved in the first quarter of 2007 were significantly higher than in the first quarter of 2006 and may not be indicative of future results.

**REAL ESTATE INDUSTRY**

Real estate leasing and sales revenue and operating profit are analyzed before subtracting amounts related to discontinued operations. This is consistent with how the Company's management evaluates and makes decisions and allocates resources for the Company's real estate businesses. A discussion of discontinued operations for the real estate business is included separately.

**Real Estate Leasing – First quarter of 2007 compared with 2006**

(dollars in millions)	Quarter Ended March 31,		
	2007	2006	Change
Revenue	\$ 28.8	\$ 24.6	17%
Operating profit	\$ 15.0	\$ 12.1	24%
Operating profit margin	52.1%	49.2%	
Occupancy Rates:			
Mainland	97%	97%	—
Hawaii	98%	98%	—
Leasable Space (million sq. ft.):			
Mainland	3.9	3.7	5%
Hawaii	1.5	1.6	-6%

Real estate leasing revenue and operating profit for the first quarter of 2007, before subtracting amounts treated as discontinued operations, were 17 percent and 24 percent higher, respectively, than the amounts reported for the first quarter of 2006. Higher revenue and operating profit were primarily



attributable to \$1.7 million of nonrecurring items, the addition of three new property acquisitions that occurred subsequent to the first quarter of 2006, and improved performance at existing properties.

**Real Estate Sales –First quarter of 2007 compared with 2006**

(dollars in millions)	Quarter Ended March 31,		
	2007	2006	Change
Improved property sales	\$ —	\$ 15.7	-100%
Development sales	\$ —	\$ 0.6	-100%
Unimproved/other property sales	\$ 6.5	\$ 7.5	-13%
Total revenue	\$ 6.5	\$ 23.8	-73%
Operating profit before joint ventures	\$ 4.4	\$ 13.2	-67%
Equity in earnings of joint ventures	\$ 4.4	\$ 13.9	-68%
Total operating profit	\$ 8.8	\$ 27.1	-69%

2007 First Quarter: Revenue from real estate sales was \$6.5 million. Sales principally included \$5.9 million related to a final payment on an installment sale of an agricultural parcel on Kauai. Joint venture income of \$4.4 million for the quarter principally relates to sales at the Company's Kai Malu residential joint venture development project on Maui.

2006 First Quarter: Revenue, before subtracting amounts treated as discontinued operations, from real estate sales was \$23.8 million. Sales included a Maui office building, three commercial parcels on Maui, a commercial property on Oahu and a vacant parcel on Kauai. The first quarter operating profit benefited from \$13.9 million of the Company's share in net income and losses of joint ventures, including the Company's share of sales of all 247 residential condominium units and a commercial space at its Hokua joint venture, and the sale of a Valencia, California land parcel by a separate joint venture.

Effect of Property Sales Mix on Operating Results: Operating results from period to period are significantly affected by joint venture income and the mix of property sales. Earnings from joint venture investments are not included in segment revenue, but are included in operating profit. The mix of real estate sales in any year or quarter can be diverse and can include developed residential real estate, commercial properties, developable subdivision lots, undeveloped land, and property sold under threat of condemnation. The sale of undeveloped land and vacant parcels in Hawaii generally provides a greater contribution to earnings than does the sale of developed and commercial property, due to the low historical-cost basis of the Company's Hawaii land. Consequently, real estate sales revenue trends, cash flows from the sales of real estate, and the amount of real estate held for sale on the balance sheets do not necessarily indicate future profitability trends for this segment. Additionally, the operating profit reported in each quarter does not necessarily follow a percentage of sales trends because the cost basis of property sold can differ significantly between transactions. The reporting of real estate sales is also affected by the classification of certain real estate sales as discontinued operations.

**Real Estate Discontinued Operations – First quarter of 2007 compared with 2006**

There were no sales of properties treated as discontinued operations in the first quarter of 2007. Revenue and operating profit related to discontinued operations for the first quarter of 2006 were as follows:

(dollars in millions, before tax)	Quarter Ended March 31,	
	2007	2006
Sales revenue	\$ —	\$ 22.9
Leasing revenue	\$ —	\$ 2.0
Sales operating profit	\$ —	\$ 15.0
Leasing operating profit	\$ —	\$ 1.0

Discontinued operations in the first quarter of 2006 included the sales of a Maui office building and several commercial parcels in Hawaii.

The leasing revenue and operating profit for the first quarter of 2006 have been restated to reflect property that was classified as discontinued operations subsequent to March 31, 2006. There were no unsold properties that were classified as discontinued operations at the end of the 2007 first quarter.

**AGRIBUSINESS (FORMERLY FOOD PRODUCTS)****Agribusiness – First quarter of 2007 compared with 2006**

(dollars in millions)	Quarter Ended March 31,		
	2007	2006	Change
Revenue	\$ 17.2	\$ 15.5	11%
Operating profit	\$ 3.6	\$ 6.5	-45%
Tons sugar produced	9,200	800	11.5x

Agribusiness revenue increased 11 percent, or \$1.7 million, to \$17.2 million in the first quarter of 2007 compared with the first quarter of 2006, due principally to a \$2.5 million increase as a result of higher bulk raw sugar volume, partially offset by a \$1 million decrease resulting from lower specialty sugar sales volumes. Operating profit decreased 45%, or \$2.9 million, to \$3.6 million in the first quarter of 2007 due to higher power generation costs, lower margins on sugar sales, and lower power sales volumes.

Sugar production was higher in the first quarter of 2007 compared with the first quarter of 2006 because operations commenced one month later in 2006 and adverse weather conditions in the first quarter of 2006 hindered field and factory operations.

The operating results of the Agribusiness segment are highly dependent on a number of factors, including seasonality and weather conditions. Weather conditions represent one of the most important factors affecting operating results because weather conditions affects yields, volume of electricity generation, plantings, harvesting, and factory operations. Consequently, operating results from the Agribusiness segment will vary from period to period.

## LIQUIDITY AND CAPITAL RESOURCES

**Overview:** Cash flows provided by operating activities continue to be the Company's most significant source of liquidity. Additional sources of liquidity were provided by available cash and cash equivalent balances as well as borrowings on available credit facilities.

**Cash Flows:** Cash Flows from Operating Activities totaled \$26 million for the first quarter of 2007, compared with \$40 million for the first quarter of 2006. This decrease was due principally to proceeds from the return on the Company's investment in its Hokua joint venture development project that were received in the first quarter of 2006, as well as higher capital expenditures on real estate developments during the first quarter of 2007.

Cash Flows used in Investing Activities totaled \$14 million for the first quarter of 2007, compared with \$6 million used in the first quarter of 2006. The increase in cash used in Investing Activities in the first quarter of 2007 compared to the first quarter of 2006 was due principally to the return of Company's investment in its Hokua joint venture development project in the first quarter of 2006 that largely offset higher 2006 capital expenditures, investments, and Capital Construction Fund deposits.

Capital expenditures for the first quarter of 2007 totaled \$14 million compared with \$47 million for the first quarter of 2006. The 2007 expenditures included \$7 million for the purchase of transportation-related assets, \$3 million for real estate related acquisitions, development and property improvements, and \$4 million related to agricultural operations. The \$14 million reported in Capital Expenditures on the Statement of Cash Flows for 2007 excludes \$12 million of tax-deferred purchases since the Company did not actually take control of the cash during the exchange period. Capital expenditures for 2006 included \$26 million for the purchase of transportation-related assets, primarily related to the new China service, \$17 million for real estate related acquisitions, development, and property improvements, and \$4 million of routine asset replacements for agricultural operations. The 2006 amounts reported in Capital Expenditures on the Statement of Cash Flows excluded \$8 million of tax-deferred purchases.

Cash Flows used in Financing Activities totaled \$8 million for the first quarter 2007, which was comparable with \$9 million used for the first quarter 2006. On March 20, 2007, the Company completed the second of three draws on a private shelf agreement with Prudential Investment Management, Inc. The \$50 million of proceeds were principally used to refinance borrowings under the Company's short-term facilities on a long-term basis.

The Company believes that funds generated from results of operations, available cash and cash equivalents, and available borrowings under credit facilities will be sufficient to finance the Company's business requirements for the next fiscal year, including working capital, capital expenditures, dividends, and potential acquisitions and stock repurchases. There can be no assurance, however, that the Company will continue to generate cash flows at or above current levels or that it will be able to maintain its ability to borrow under its available credit facilities.

**Sources of Liquidity:** Funds generated by operating activities continue to be the Company's most significant source of liquidity. Additional sources of liquidity for the Company, comprised of cash and cash equivalents, receivables, and sugar and coffee inventories, totaled \$245 million at March 31, 2007, an increase of \$15 million from December 31, 2006. The increase was due primarily to \$17 million of higher sugar and coffee inventories and \$4 million in higher cash balances, partially offset by \$6 million lower receivable balances. These fluctuations are due to normal operating activities.

The Company also has various revolving credit and term facilities that provide additional sources of liquidity for working capital requirements or investment opportunities on a short-term as well as longer-term basis. Long-term debt, including current portion of long-term debt and current notes payable, was \$444 million as of March 31, 2007 compared with \$442 million at the end of 2006. As of March 31, 2007, available borrowings under these facilities totaled \$474 million.

**Working Capital:** Working capital was \$31 million at March 31, 2007, an increase of \$3 million from the balance carried at the end of 2006. The increase in working capital was due primarily to \$17 million in higher inventory balances, \$10 million decrease in notes payable and current portion of long-term debt, and \$4 million in higher cash balances. These increases were principally offset by a \$15 million increase in income taxes payable and a \$9 million increase in accounts payable balances.

**Tax-Deferred Real Estate Exchanges: Sales** – During the first quarter of 2007, there were no sales or condemnation proceeds that qualified for potential tax-deferral treatment under the Internal Revenue Code Sections 1031 and 1033. However, \$5.9 million in proceeds from the receipt of the final payment under an installment sale collected in 2007 were utilized in a reverse 1031 exchange acquisition that occurred in 2006.

*Purchases* – During the first quarter of 2007, the Company utilized \$12 million in proceeds from tax-deferred sales to purchase a newly constructed retail shopping center located in Las Colinas, Texas.

The proceeds from 1031 tax-deferred sales are held in escrow pending future use to purchase new real estate assets. The proceeds from 1033 condemnations are held by the Company until the funds are redeployed. As of March 31, 2007, there were no proceeds from tax-deferred sales that had not been reinvested.

The funds related to 1031 transactions are not included in the Statement of Cash Flows but are included as non-cash activities below the Statement. For "reverse 1031" transactions, the Company purchases a property in anticipation of receiving funds from a future property sale. Funds used for reverse 1031 purchases are included as capital expenditures on the Statement of Cash Flows and the related sales of property, for which the proceeds are linked, are included as property sales in the Statement.

**Commitments, Contingencies and Off-balance Sheet Arrangements:** A description of commitments, contingencies, and off-balance sheet arrangements at March 31, 2007 is described in Note 3 to the financial statements of Item 1 in this Form 10-Q.

## ECONOMIC AND BUSINESS OUTLOOK

The Company operates in diverse industries in major global markets, and its operations are increasingly impacted by regional, national and international economic and market trends, as described below.

A majority of the Company's operations continues to be centered in Hawaii and the Company's performance is therefore influenced by the fundamentals of the Hawaii economy, which remain stable, according to recent economic forecasts. In 2007, Hawaii is expected to see continued, albeit moderated, growth in real personal income, visitor arrivals and job growth of 1.8 percent, 0.8 percent and 1.6 percent, respectively. (Source: University of Hawaii Economic Research Organization at [www.uhero.hawaii.edu](http://www.uhero.hawaii.edu))

Through recent growth and diversification strategies, most notably Matson Navigation's launch of its new China service and the expansion of real estate development activity in California, the Company is reducing its dependence on the Hawaii market. In 2007 and beyond, the Company will continue to explore growth opportunities that best leverage its operational expertise, maximize asset utilization, and deploy capital efficiently.

**Transportation:** Matson's financial performance in the Hawaii service is impacted by the strength of Hawaii's economy, which, as noted above, has moderated. The Company currently believes that its container volumes in Hawaii are likely to be generally consistent with prior year levels, but volumes could be further impacted by a greater-than-anticipated softening of the Hawaii economy. Matson also expects the trend in reduced auto volumes, which are principally due to market conditions, to continue, at least in the near-term.

The Company's ocean transportation segment continues to be encouraged by the robust growth in its China-Long Beach service and by the market reception to its prospective expanded service offerings. China volume has surpassed expectations and this trend is expected to continue in line with the general export trade growth originating from Ningbo and Shanghai, the two ports served by Matson in this profitable trade lane. In addition, in the past quarter, Matson announced a premium expedited container service from China in partnership with J.B. Hunt Transport Services. The marketing and sales alliance provides brand awareness for Matson, expands its prospective customer universe, and may improve its ability to positively shape its cargo mix from China for higher yields and margins.

Financial performance in 2007 will be affected by cost increases related to International Longshore and Warehouse Union ("ILWU") contractual increases, higher Hawaii labor benefits, and increases in container terminal throughput rates. In response to these anticipated increases, Matson continues to make operational improvements.

Matson Integrated Logistics (MIL) is forecast to produce strong earnings growth in 2007 through the capture of new business opportunities, extension of its product offerings, and expansion of its service area coverage. MIL formed a subsidiary in early April of 2007, Matson Global Distribution Services, which allows it to provide a more complete service offering, including warehousing and freight forwarding in select markets including China and the West Coast of the U.S. While this formation is not expected to affect 2007 profitability, this incremental step brings MIL closer to its strategic goal of becoming a full-service, third-party logistics company.

The positive impact from Matson's focus on its China service, MIL growth initiatives, operational efficiencies, and cost containment is forecast to result in modest growth for the Transportation industry of 5-8 percent, which is slightly below the Company's long-term goal, but consistent with a moderating economic environment.

**Real Estate:** Strong first quarter 2007 results for the real estate leasing portfolio reflect the continuing strength in the commercial real estate markets the Company serves in Hawaii and in select mainland locales. For the balance of 2007, the Company forecasts a positive market environment which is expected to support rent and occupancy levels. The Company expects that operating costs related to insurance, utilities, and property taxes will increase in 2007, but believes the demand for its properties will present opportunities for recapture of these increases. Overall, the Company expects steady year-over-year growth in the core performance of its leased portfolio in 2007.

While a moderation in transaction level and sales volume in Hawaii's residential real estate markets has impacted short-term sales velocity, the financial impact has been mitigated by the Company's underwriting discipline, which has reduced risk through binding contracts and phased development. In addition, while absorption has slowed at certain developments, the Company continues to sell properties at attractive prices, suggesting that the market is not overvalued. Given anticipated property sales and binding residential sales, the Company expects that full-year 2007 results will meet or exceed the Real Estate industry's long-term annual growth target of 13-15 percent.

**Agribusiness:** In 2007, the Company expects only modest profitability, up to 3 percent, for its Agribusiness segment. Production costs of raw sugar, the segment's main revenue component, continue to increase while revenue enhancement initiatives are limited by the domestic market for raw sugar and by trade agreement policies that impact supply. The Company believes that one of its primary growth initiatives—specialty sugar expansion—will help mitigate declining bulk raw sugar margins. The Company continues its evaluation of the expansion of its energy production capacity (primarily the production of ethanol through the use of cane by-products).

## OTHER MATTERS

**Dividends:** The Company's first quarter dividend of \$0.25 per share to shareholders was paid on March 1, 2007 to shareholders of record on February 16, 2007. On April 25, 2007, the Company's Board of Directors authorized an increase in the quarterly dividend from \$0.25 per share to \$0.29 per share, effective with the second quarter of 2007. The second quarter dividend is payable on June 7, 2007 to shareholders of record as of the close of business on May 10, 2007.

**Significant Accounting Policies:** The Company's significant accounting policies are described in Note 1 of the consolidated financial statements included in Item 8 of the Company's most recently filed Form 10-K.

**Critical Accounting Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, upon which the Management's Discussion and Analysis is based, requires that management exercise judgment when making estimates and assumptions about future events that may affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty and actual results will, inevitably, differ from those critical accounting estimates. These differences could be material. The most significant accounting estimates inherent in the preparation of A&B's financial statements were described in Item 7 of the Company's most recently filed Form 10-K.

**Officer and Management Changes:** The following management changes were effective between January 1, 2007 and April 30, 2007.

Son-Jai Paik was named vice president, human resources of A&B, effective January 1, 2007.

Paul K. Ito was promoted to vice president and named assistant treasurer of A&B, effective April 1, 2007, and continues in the position of controller of A&B.

Kevin L. Halloran was promoted to vice president, corporate development and investor relations, effective April 26, 2007.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information concerning market risk is incorporated herein by reference to Item 7A of the Company's Form 10-K for the fiscal year ended December 31, 2006. There has been no material change in the quantitative and qualitative disclosure about market risk since December 31, 2006.

### **ITEM 4. CONTROLS AND PROCEDURES**

- (a) 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 such term is 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 the end of such period, the Company's disclosure controls and procedures are effective.
  
- (b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates 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**

On April 6, 2007, the U.S. District Court for the Eastern District of Virginia dismissed the complaint filed by the Shipbuilders Council of America, Inc. and Pasha Hawaii Transport Lines LLC against the U.S. Department of Homeland Security, the U.S. Coast Guard and the National Vessel Documentation Center regarding work to be performed on Matson's C-9 vessels in foreign and U.S. shipyards, because the preliminary ruling challenged in the complaint was not a final agency action and, therefore, was not ripe for judicial review. The Shipbuilders Council and Pasha may file another complaint when the Coast Guard takes final agency action by issuing a final rebuilding determination or granting an application for a coastwise endorsement for Matson's C-9 vessel after the work is completed.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Jan 1 - 31, 2007	7,371 (1)	\$47.42	--	--
Feb 1 - 28, 2007	50,130 (1)	\$47.64	--	--
Mar 1 - 31, 2007	4,342 (1)	\$51.10	--	--

(1) Represents shares accepted in satisfaction of the exercise price of stock options or tax withholding obligations upon option exercises or the vesting of non-vested common stock.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At the Annual Meeting of Shareholders of the Company held on April 26, 2007, the Company's shareholders voted in favor of: (i) the election of nine directors to the Company's Board of Directors, (ii) the ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors, and (iii) the approval of the Alexander & Baldwin, Inc. 2007 Incentive Compensation Plan. The number of votes for, against or withheld, as well as the number of abstentions and broker non-votes, as to each matter voted upon at the Annual Meeting of Shareholders, were as follows:

(i) Election of Directors	For	Withheld	Broker Non-Votes
W. Blake Baird	39,647,620	318,311	--
Michael J. Chun	39,059,855	906,076	--
W. Allen Doane	39,570,453	395,478	--
Water A. Dods, Jr.	39,566,581	399,350	--
Charles G. King	38,814,655	1,151,276	--
Constance H. Lau	39,639,924	326,007	--
Douglas M. Pasquale	39,637,759	328,172	--
Maryanna G. Shaw	39,044,410	921,521	--
Jeffrey N. Watanabe	38,080,422	1,885,509	--

(ii) Ratification of Appointment of Auditors	For	Against	Abstain	Broker Non-Votes
	39,706,283	183,405	76,586	--

  

(iii) Proposal to Approve 2007 Incentive Compensation Plan	For	Against	Abstain	Broker Non-Votes
	29,497,656	1,727,191	770,831	7,970,253

**ITEM 5. OTHER INFORMATION**

On April 26, 2007, at the 2007 Annual Meeting of Shareholders of Alexander & Baldwin, Inc., the shareholders approved the Alexander & Baldwin, Inc. 2007 Incentive Compensation Plan (the "Plan"), which consists of four separate incentive compensation programs: (i) the discretionary grant program, (ii) the stock issuance program, (iii) the incentive bonus program, and (iv) the automatic grant program for the non-employee members of the Company's Board of Directors. The Plan serves as a successor to the 1998 Stock Option/Stock Incentive Plan, the 1998 Non-Employee Director Stock Option Plan, the Restricted Stock Bonus Plan and the Non-Employee Director Stock Retainer Plan. Officers and employees, as well as independent consultants and contractors, of the Company's parent or subsidiary companies are eligible to participate in the discretionary grant program, the stock issuance program, and the incentive bonus program. The non-employee members of the Board of Directors are also eligible to participate in these three programs, as well as the automatic grant program. 2,215,000 shares are initially reserved for issuance under the Plan. The Plan is further described in Appendix A of the Company's Proxy Statement, dated March 12, 2007. The foregoing summary of the Plan is a general description

only and is subject to the detailed terms of the Plan filed herewith as Exhibit 10.b.1.(xxxi) and incorporated herein by reference.

ITEM 6. EXHIBITS

10.b.1.(xxxi) Alexander & Baldwin, Inc. 2007 Incentive Compensation Plan.

10.b.1.(xxxii) Form of Restricted Stock Unit Award Agreement for Non-Employee Board Member pursuant to Alexander & Baldwin, Inc. 2007 Incentive Compensation Plan.

31.1 Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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 hereunto duly authorized.

ALEXANDER & BALDWIN, INC.  
(Registrant)

Date: April 30, 2007

/s/ Christopher J. Benjamin  
Christopher J. Benjamin  
Senior Vice President,  
Chief Financial Officer and Treasurer

Date: April 30, 2007

/s/ Paul K. Ito  
Paul K. Ito  
Vice President, Controller and  
Assistant Treasurer

**EXHIBIT INDEX**

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ARTICLE ONE

GENERAL PROVISIONS

**I. PURPOSE OF THE PLAN**

This 2007 Incentive Compensation Plan is intended to promote the interests of Alexander & Baldwin, Inc., a Hawaii corporation, by providing eligible persons in the Corporation's service with the opportunity to participate in one or more cash or equity incentive compensation programs designed to encourage them to continue their service relationship with the Corporation.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

**II. STRUCTURE OF THE PLAN**

A. The Plan shall be divided into a series of separate incentive compensation programs:

- the Discretionary Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock or stock appreciation rights tied to the value of such Common Stock,

- the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock pursuant to restricted stock awards, restricted stock units, performance shares or other stock-based awards which vest upon the completion of a designated service period or the attainment of pre-established performance milestones, or such shares of Common Stock may be issued through direct purchase or as a bonus for services rendered the Corporation (or any Parent or Subsidiary),

- the Incentive Bonus Program under which eligible persons may, at the discretion of the Plan Administrator, be provided with incentive bonus opportunities through performance unit awards and special cash incentive programs tied to the attainment of pre-established performance milestones, and

- the Automatic Grant Program under which eligible non-employee Board members will automatically receive equity awards at designated intervals over their period of continued Board service.

B. The provisions of Articles One and Six shall apply to all incentive compensation programs under the Plan and shall govern the interests of all persons under the Plan.

### III. ADMINISTRATION OF THE PLAN

A. The Compensation Committee (either acting directly or through a subcommittee of two or more members of the Compensation Committee) shall have sole and exclusive authority to administer the Discretionary Grant, Stock Issuance and Incentive Bonus Programs with respect to Section 16 Insiders. Administration of the Discretionary Grant, Stock Issuance and Incentive Bonus Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Compensation Committee or a Secondary Board Committee, or the Board may retain the power to administer those programs with respect to all such persons. However, any Awards for members of the Compensation Committee (other than pursuant to the Automatic Grant Program) must be authorized by a disinterested majority of the Board.

B. Members of the Compensation Committee or any Secondary Board Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Board Committee and reassume all powers and authority previously delegated to such committee.

C. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Grant, Stock Issuance and Incentive Bonus Programs and to make such determinations under, and issue such interpretations of, the provisions of those programs and any outstanding Awards thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Grant, Stock Issuance and Incentive Bonus Programs under its jurisdiction or any Award thereunder.

D. Service as a Plan Administrator by the members of the Compensation Committee or the Secondary Board Committee shall constitute service as Board members, and the members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Compensation Committee or the Secondary Board Committee shall be liable for any act or omission made in good faith with respect to the Plan or any Award thereunder.

E. Administration of the Automatic Grant Program shall be self-executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to any Awards made under that program, except that the Compensation Committee (or subcommittee thereof) shall have the express authority to establish from time to time the applicable dollar amount to be used to determine the specific number of shares of Common Stock for which the initial and annual Awards are to be made to the non-employee Board members in accordance with the dollar value formula set forth in Article Five.

#### IV.ELIGIBILITY

A. The persons eligible to participate in the Plan are as follows:

- (i) Employees,
- (ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and
- (iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. The Plan Administrator shall have full authority to determine, (i) with respect to Awards made under the Discretionary Grant Program, which eligible persons are to receive such Awards, the time or times when those Awards are to be made, the number of shares to be covered by each such Award, the time or times when the Award is to become exercisable, the vesting schedule (if any) applicable to the Award, the maximum term for which such Award is to remain outstanding and the status of a granted option as either an Incentive Option or a Non-Statutory Option; (ii) with respect to Awards under the Stock Issuance Program, which eligible persons are to receive such Awards, the time or times when the Awards are to be made, the number of shares subject to each such Award, the vesting and issuance schedules applicable to the shares which are the subject of such Award, the cash consideration (if any) payable for those shares and the form (cash or shares of Common Stock) in which the Award is to be settled; and (iii) with respect to Awards under the Incentive Bonus Program, which eligible persons are to receive such Awards, the time or times when the Awards are to be made, the performance objectives for each such Award, the amounts payable at designated levels of attained performance, any applicable service vesting requirements, the payout schedule for each such Award and the form (cash or shares of Common Stock) in which the Award is to be settled.

C. The Plan Administrator shall have the absolute discretion to grant options or stock appreciation rights in accordance with the Discretionary Grant Program, to effect stock issuances and other stock-based awards in accordance with the Stock Issuance Program and to grant incentive bonus awards in accordance with the Incentive Bonus Program.

D. The individuals who shall be eligible to participate in the Automatic Grant Program shall be limited to (i) those individuals who first become non-employee Board members on or after the Plan Effective Date, whether through appointment by the Board or election by the Corporation's stockholders, and (ii) those individuals who continue to serve as non-employee Board members on or after the Plan Effective Date. A non-employee Board member who has been in the employ of the Corporation (or any Parent or Subsidiary) at any time within the twelve (12)-month period ending with the date he or she first becomes a non-employee Board member shall not be eligible to receive a grant under the Automatic Grant Program upon such commencement of non-employee Board service, but shall be eligible to receive periodic grants under the Automatic Grant Program while he or she continues to serve as a non-employee Board member.



## V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The number of shares of Common Stock initially reserved for issuance over the term of the Plan shall be limited to Two Million Two Hundred Fifteen Thousand (2,215,000) shares. The Plan shall serve as the successor to the Predecessor Plans, and no further stock option grants or unvested share awards shall be made under the Predecessor Plans on or after the Plan Effective Date. However, all option grants and unvested share awards outstanding under the Predecessor Plans on the Plan Effective Date shall continue in full force and effect in accordance with their terms, and no provision of this Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of those awards with respect to their acquisition of shares of Common Stock thereunder. To the extent any options outstanding under the Predecessor Plans on the Plan Effective Date expire or terminate unexercised or any unvested shares outstanding under the Predecessor Plans on the Plan Effective Date are forfeited or repurchased by the Corporation at the original issue price, the number of shares of Common Stock subject to those expired or terminated options at the time of expiration or termination and the number of such forfeited or repurchased shares shall be added to the share reserve under this Plan and shall accordingly be available for issuance hereunder, up to a maximum of an additional Seven Hundred Fifty Thousand (750,000) shares.

B. Each person participating in the Plan shall be subject to the following limitations:

- for Awards designated in terms of shares of Common Stock at the time of grant (whether payable in Common Stock, cash or a combination of both), the maximum number of shares of Common Stock for which such Awards may be made to such person in any calendar year shall not exceed Five Hundred Thousand (500,000) shares of Common Stock in the aggregate, and

- for Awards designated in terms of cash dollars at the time of grant (whether payable in cash, Common Stock or a combination of both), the maximum dollar amount for which such Awards may be made to such person in any calendar year shall not exceed five million dollars (\$5,000,000.00).

C. Shares of Common Stock subject to outstanding Awards made under the Plan shall be available for subsequent issuance under the Plan to the extent those Awards expire or terminate for any reason prior to the issuance of the shares of Common Stock subject to those Awards. Unvested shares issued under the Plan and subsequently forfeited or repurchased by the Corporation, at a price per share not greater than the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for subsequent reissuance. Should the exercise price of an option under the Plan be paid with shares of Common Stock, then the authorized reserve of Common Stock under the Plan shall be reduced

by the gross number of shares for which that option is exercised, and not by the net number of shares issued under the exercised stock option. Upon the exercise of any stock appreciation right under the Plan, the share reserve shall be reduced by the gross number of shares as to which such right is exercised, and not by the net number of shares actually issued by the Corporation upon such exercise. If shares of Common Stock otherwise issuable under the Plan are withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the issuance, vesting or exercise of an Award or the issuance of Common Stock thereunder, then the number of shares of Common Stock available for issuance under the Plan shall be reduced on the basis of the gross number of shares issued, vested or exercised under such Award, calculated in each instance prior to any such share withholding.

D. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares, spin-off transaction or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, or should the value of outstanding shares of Company Stock be substantially reduced as a result of a spin-off transaction or an extraordinary dividend or distribution, or should there occur any merger, consolidation or other reorganization, then equitable adjustments shall be made by the Plan Administrator to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities by which the share reserve under the Plan may increase by reason of the expiration or termination of unexercised options or the forfeiture or repurchase of shares under the Predecessor Plans, (iii) the maximum number and/or class of securities for which any one person may be granted Common Stock-denominated Awards under the Plan per calendar year, (iv) the number and/or class of securities and the exercise or base price per share in effect under each outstanding Award under the Discretionary Grant Program, (v) the number and/or class of securities subject to each outstanding Award under the Stock Issuance Program and the issue price (if any) payable per share, (vi) the number and/or class of securities subject to each outstanding Award under the Automatic Grant Program, (vii) the number and/or class of securities for which Awards may subsequently be made to new and continuing non-employee Board members under the Automatic Grant Program, (viii) the number and/or class of securities subject to each outstanding Award under the Incentive Bonus Program denominated in shares of Common Stock and (ix) the number and/or class of securities subject to the Corporation's outstanding repurchase rights under the Plan and the repurchase price payable per share. The adjustments shall be made in such manner as the Plan Administrator deems appropriate in order to prevent the dilution or enlargement of benefits under the Plan and the outstanding Awards thereunder, and such adjustments shall be final, binding and conclusive. In the event of a Change in Control, however, the adjustments (if any) shall be made solely in accordance with the applicable provisions of the Plan governing Change in Control transactions.

E. Outstanding Awards granted pursuant to the Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

**DISCRETIONARY GRANT PROGRAM**

**I. OPTION TERMS**

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

**A. Exercise Price.**

1. The exercise price per share shall be fixed by the Plan Administrator; ***provided***, ***however***, that such exercise price shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) shares of Common Stock (whether delivered in the form of actual stock certificates or through attestation of ownership) held for the requisite period (if any) necessary to avoid any resulting charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide instructions to (a) a brokerage firm (reasonably satisfactory to the Corporation for purposes of administering such procedure in compliance with the Corporation's pre-clearance/pre-notification policies) to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm on such settlement date in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

**B. Exercise and Term of Options.**

1. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

2. The Plan Administrator shall also have the discretionary authority, consistent with Code Section 162(m), to structure one or more Awards under the Discretionary Grant Program so that those Awards shall vest and become exercisable only after the achievement of pre-established corporate performance objectives based on one or more Performance Goals and measured over the performance period specified by the Plan Administrator at the time of the Award

3. Notwithstanding the foregoing, the following limitations shall apply with respect to the vesting schedules established for the Awards made under the Discretionary Grant Program, subject to the acceleration provisions in Paragraph C.2 below and Section IV of this Article Two:

(i) for any such Award which is to vest on the basis of Service, the minimum vesting period shall be three (3) years, with the rate of vesting over that period to be determined by the Plan Administrator; and

(ii) for any such Award which is to vest on the basis of performance objectives, the performance period shall have a duration of at least one year.

**C. Effect of Termination of Service.**

1. The following provisions shall govern the exercise of any options granted pursuant to the Discretionary Grant Program that are outstanding at the time of the Optionee's cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any option held by the Optionee at the time of the Optionee's death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or by the Optionee's designated beneficiary or beneficiaries of that option.

(iii) Should the Optionee's Service be terminated for Misconduct or should the Optionee otherwise engage in Misconduct while holding one or more outstanding options granted under this Article Two, then all of those options shall terminate immediately and cease to be outstanding.

(iv) During the applicable post-Service exercise period, the option may not be exercised for more than the number of vested shares for which the option is at the time exercisable; **provided, however**, that one or more options under the Discretionary Grant Program may be structured so that those options continue to vest in whole or part during the applicable post-Service exercise period. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any shares for which the option has not been exercised.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service from the limited exercise period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term,

(ii) include an automatic extension provision whereby the specified post-Service exercise period in effect for any option granted under this Article Two shall automatically be extended by an additional period of time equal in duration to any interval within the specified post-Service exercise period during which the exercise of that option or the immediate sale of the shares acquired under such option could not be effected in compliance with applicable federal and state securities laws, but in no event shall such an extension result in the continuation of such option beyond the expiration date of the term of that option, and/or

(iii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

**D. Stockholder Rights.** The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

**E. Repurchase Rights.** The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while such shares are unvested, the Corporation shall have the right to repurchase any or all of those unvested shares at a price per share equal to the **lower** of (i) the exercise price paid per share or (ii) the Fair Market Value per share of Common Stock at the time of repurchase. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

**F. Transferability of Options.** The transferability of options granted under the Plan shall be governed by the following provisions:

(i) **Incentive Options.** During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or the laws of inheritance following the Optionee's death.

(ii) **Non-Statutory Options.** Non-Statutory Options shall be subject to the same limitation on transfer as Incentive Options, except that the Plan Administrator may structure one or more Non-Statutory Options so that the option may be assigned in whole or in part during the Optionee's lifetime to one or more Family Members of the Optionee or to a trust established exclusively for the Optionee and/or such Family Members, to the extent such assignment is in connection with the Optionee's estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

(iii) **Beneficiary Designations.** Notwithstanding the foregoing, the Optionee may designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Two (whether Incentive Options or Non-Statutory Options), and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

## **II. INCENTIVE OPTIONS**

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Six shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall **not** be subject to the terms of this Section II.

**A. Eligibility.** Incentive Options may only be granted to Employees.

**B. Dollar Limitation.** The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000).

To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, then for purposes of the foregoing limitations on the exercisability of those options as Incentive Options, such options shall be deemed to become first exercisable in that calendar year on the basis of the chronological order in which they were granted, except to the extent otherwise provided under applicable law or regulation.

**C. 10% Stockholder.** If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

### **III. STOCK APPRECIATION RIGHTS**

**A. Authority.** The Plan Administrator shall have full power and authority, exercisable in its sole discretion, to grant stock appreciation rights in accordance with this Section III to selected Optionees or other individuals eligible to receive option grants under the Discretionary Grant Program.

**B. Types.** Two types of stock appreciation rights shall be authorized for issuance under this Section III: (i) tandem stock appreciation rights ("Tandem Rights") and (ii) stand-alone stock appreciation rights ("Stand-alone Rights").

**C. Tandem Rights.** The following terms and conditions shall govern the grant and exercise of Tandem Rights.

1. One or more Optionees may be granted a Tandem Right, exercisable upon such terms and conditions as the Plan Administrator may establish, to elect between the exercise of the underlying option for shares of Common Stock or the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate exercise price payable for such vested shares.

2. Any distribution to which the Optionee becomes entitled upon the exercise of a Tandem Right may be made in (i) shares of Common Stock valued at Fair Market Value on the option surrender date, (ii) cash or (iii) a combination of cash and shares of Common Stock, as specified in the applicable Award agreement.

**D. Stand-Alone Rights.** The following terms and conditions shall govern the grant and exercise of Stand-alone Rights:

1. One or more individuals eligible to participate in the Discretionary Grant Program may be granted a Stand-alone Right not tied to any underlying option under this Discretionary Grant Program. The Stand-alone Right shall relate to a specified number of shares of Common Stock and shall be exercisable upon such terms and conditions as the Plan Administrator may establish. In no event, however, may the Stand-alone Right have a maximum term in excess of ten (10) years measured from the grant date. The provisions and limitations of Paragraphs B.2 and B.3 of Section I of this Article Two shall also be applicable to any Stand-Alone Right awarded under the Plan.

2. Upon exercise of the Stand-alone Right, the holder shall be entitled to receive a distribution from the Corporation in an amount equal to the excess of (i) the aggregate Fair Market Value (on the exercise date) of the shares of Common Stock underlying the exercised right over (ii) the aggregate base price in effect for those shares.

3. The number of shares of Common Stock underlying each Stand-alone Right and the base price in effect for those shares shall be determined by the Plan Administrator in its sole discretion at the time the Stand-alone Right is granted. In no event, however, may the base price per share be less than the Fair Market Value per underlying share of Common Stock on the grant date.

4. Stand-alone Rights shall be subject to the same transferability restrictions applicable to Non-Statutory Options and may not be transferred during the holder's lifetime, except if such assignment is in connection with the holder's estate plan and is to one or more Family Members of the holder or to a trust established for the holder and/or one or more such Family Members or pursuant to a domestic relations order covering the Stand-alone Right as marital property. In addition, one or more beneficiaries may be designated for an outstanding Stand-alone Right in accordance with substantially the same terms and provisions as set forth in Section I.F of this Article Two.

5. The distribution with respect to an exercised Stand-alone Right may be made in (i) shares of Common Stock valued at Fair Market Value on the exercise date, (ii) cash or (iii) a combination of cash and shares of Common Stock, as specified in the applicable Award agreement.

6. The holder of a Stand-alone Right shall have no stockholder rights with respect to the shares subject to the Stand-alone Right unless and until such person shall have exercised the Stand-alone Right and become a holder of record of the shares of Common Stock issued upon the exercise of such Stand-alone Right.

**E. Post-Service Exercise.** The provisions governing the exercise of Tandem and Stand-alone Rights following the cessation of the recipient's Service shall be substantially the same as those set forth in Section I.C of this Article Two for the options granted under the Discretionary Grant Program, and the Plan Administrator's discretionary authority under Section I.C.2 of this Article Two shall also extend to any outstanding Tandem or Stand-alone Appreciation Rights.



#### IV. CHANGE IN CONTROL

A. In the event of an actual Change in Control transaction, each outstanding Award under the Discretionary Grant Program shall automatically accelerate so that each such Award shall, immediately prior to the effective date of that Change in Control, become exercisable as to all the shares of Common Stock at the time subject to such Award and may be exercised as to any or all of those shares as fully vested shares of Common Stock. However, an outstanding Award under the Discretionary Grant Program shall **not** become exercisable on such an accelerated basis if and to the extent: (i) such Award is to be assumed by the successor corporation (or parent thereof) or is otherwise to continue in full force and effect pursuant to the terms of the Change in Control transaction or (ii) such Award is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Change in Control on any shares as to which the Award is not otherwise at that time exercisable and provides for subsequent payout of that spread in accordance with the same (or more favorable) exercise/vesting schedule in effect for that Award or (iii) the acceleration of such Award is subject to other limitations imposed by the Plan Administrator.

B. All outstanding repurchase rights under the Discretionary Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, immediately prior to the effective date of an actual Change in Control transaction, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) or are otherwise to continue in full force and effect pursuant to the terms of the Change in Control transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator.

C. Immediately following the consummation of the Change in Control, all outstanding Awards under the Discretionary Grant Program shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or are otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction.

D. Each Award which is assumed in connection with a Change in Control or otherwise continued in effect shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities into which the shares of Common Stock subject to that Award would have been converted in consummation of such Change in Control had those shares actually been outstanding at that time. Appropriate adjustments to reflect such Change in Control shall also be made to (i) the exercise or base price per share in effect under each outstanding Award, provided the aggregate exercise or base price in effect for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan (iii) the maximum number and/or class of securities by which the share reserve under the Plan may increase by reason of the expiration or termination of unexercised options or the forfeiture or repurchase of shares under the Predecessor Plan, (iv) the maximum number and/or class of securities for which any one person may be granted Common Stock-denominated Awards under the Plan per calendar year, (v) the number and/or class of securities and the exercise or base price per share in effect under each outstanding Award under the Discretionary Grant Program, (vi) the number and/or class of securities subject to each outstanding Award under the Stock Issuance Program and the issue

price (if any) payable per share, (vii) the number and/or class of securities subject to each outstanding Award under the Incentive Bonus Program denominated in shares of Common Stock, (viii) the number and/or class of securities subject to each outstanding Award under the Automatic Grant Program, (ix) the number and/or class of securities for which Awards may subsequently be made to new and continuing non-employee Board members under the Automatic Grant Program and (x) the number and/or class of securities subject to the Corporation's outstanding repurchase rights under the Plan and the repurchase price payable per share. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption or continuation of the outstanding Awards under the Discretionary Grant Program, substitute, for the securities underlying those assumed rights, one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction, provided such common stock is readily traded on an established U.S. securities exchange or market.

E. The Plan Administrator shall have the discretionary authority to structure one or more outstanding Awards under the Discretionary Grant Program so that those Awards shall, immediately prior to the effective date of an actual Change in Control transaction, become exercisable as to all the shares of Common Stock at the time subject to those Awards and may be exercised as to any or all of those shares as fully vested shares of Common Stock, whether or not those Awards are to be assumed in the Change in Control transaction or otherwise continued in effect. In addition, the Plan Administrator shall have the discretionary authority to structure one or more of the Corporation's repurchase rights under the Discretionary Grant Program so that those rights shall terminate immediately prior to the effective date of an actual Change in Control transaction, and the shares subject to those terminated rights shall thereupon vest in full.

F. The Plan Administrator shall have full power and authority to structure one or more outstanding Awards under the Discretionary Grant Program so that those Awards shall become exercisable as to all the shares of Common Stock at the time subject to those Awards in the event the Optionee's Service is subsequently terminated by reason of an Involuntary Termination within a designated period following the effective date of any Change in Control transaction in which those Awards do not otherwise fully accelerate. In addition, the Plan Administrator may structure one or more of the Corporation's repurchase rights so that those rights shall immediately terminate with respect to any shares held by the Optionee at the time of such Involuntary Termination, and the shares subject to those terminated repurchase rights shall accordingly vest in full at that time.

G. The portion of any Incentive Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-statutory Option under the Federal tax laws.

**V. PROHIBITION ON REPRICING PROGRAMS**

The Plan Administrator shall not (i) implement any cancellation/regrant program pursuant to which outstanding options or stock appreciation rights under the Plan are cancelled and new options or stock appreciation rights are granted in replacement with a lower exercise price per share, (ii) cancel outstanding options or stock appreciation rights under the Plan with exercise prices per share in excess of the then current Fair Market Value per share of Common Stock for consideration payable in equity securities of the Corporation or (iii) otherwise directly reduce the exercise price in effect for outstanding options or stock appreciation rights under the Plan, without in each such instance obtaining stockholder approval.

ARTICLE THREE

**STOCK ISSUANCE PROGRAM**

**I. STOCK ISSUANCE TERMS**

Shares of Common Stock may be issued under the Stock Issuance Program, either as vested or unvested shares, through direct and immediate issuances. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to performance shares or restricted stock units which entitle the recipients to receive the shares underlying those Awards upon the attainment of designated performance goals or the satisfaction of specified Service requirements or upon the expiration of a designated time period following the vesting of those Awards.

**A. Issue Price.**

1. The issue price per share shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the Award date.

2. Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation,

(ii) past services rendered to the Corporation (or any Parent or Subsidiary); or

(iii) any other valid consideration under the State in which the Corporation is at the time incorporated.

**B. Vesting Provisions.**

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance as a bonus for Service rendered or may vest in one or more installments over the Participant's period of Service or upon the attainment of specified performance objectives. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program shall be determined by the Plan Administrator and incorporated into the Stock Issuance Agreement. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to performance shares or restricted stock units which entitle the recipients to receive the shares underlying those Awards upon the attainment of designated performance goals

or the satisfaction of specified Service requirements or upon the expiration of a designated time period following the vesting of those Awards, including (without limitation) a deferred distribution date following the termination of the Participant's Service. Notwithstanding the foregoing, the following limitations shall apply with respect to the vesting schedules established for the Awards made under the Stock Issuance Program, subject to the acceleration provisions in Paragraphs B.6 and B.7 below and Section II of this Article Three:

(i) for any such Award which is to vest on the basis of Service, the minimum vesting period shall be three (3) years, with the rate of vesting over that period to be determined by the Plan Administrator; and

(ii) for any such Award which is to vest on the basis of performance objectives, the performance period shall have a duration of at least one year.

2. The Plan Administrator shall also have the discretionary authority, consistent with Code Section 162(m), to structure one or more Awards under the Stock Issuance Program so that the shares of Common Stock subject to those Awards shall vest (or vest and become issuable) upon the achievement of pre-established corporate performance objectives based on one or more Performance Goals and measured over the performance period specified by the Plan Administrator at the time of the Award.

3. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares, spin-off transaction, extraordinary dividend or distribution or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate. Equitable adjustments to reflect each such transaction shall also be made by the Plan Administrator to the repurchase price payable per share by the Corporation for any unvested securities subject to its existing repurchase rights under the Plan; provided the aggregate repurchase price shall in each instance remain the same.

4. The Participant shall have full stockholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any dividends paid on such shares, subject to any applicable vesting requirements. The Participant shall not have any stockholder rights with respect to the shares of Common Stock subject to a performance share or restricted stock unit Award until that Award vests and the shares of Common Stock are actually issued thereunder. However, dividend-equivalent units may be paid or credited, either in cash or in actual or phantom shares of Common Stock, on outstanding performance share or restricted stock unit Awards, subject to such terms and conditions as the Plan Administrator may deem appropriate.

5. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent, the Corporation shall repay to the Participant the **lower** of (i) the cash consideration paid for the surrendered shares or (ii) the Fair Market Value of those shares at the time of cancellation.

6. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Any such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives. However, no vesting requirements tied to the attainment of performance objectives may be waived with respect to shares which were intended at the time of issuance to qualify as performance-based compensation under Code Section 162(m), except in the event of the Participant's Involuntary Termination or as otherwise provided in Section II of this Article Three.

7. Outstanding performance shares or restricted stock units under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those Awards, if the performance goals or Service requirements established for those Awards are not attained or satisfied. The Plan Administrator, however, shall have the discretionary authority to issue vested shares of Common Stock under one or more outstanding Awards of performance shares or restricted stock units as to which the designated performance goals or Service requirements have not been attained or satisfied. However, no vesting requirements tied to the attainment of performance goals may be waived with respect to Awards which were intended, at the time those Awards were made, to qualify as performance-based compensation under Code Section 162(m), except in the event of the Participant's Involuntary Termination or as otherwise provided in Section II of this Article Three.

8. The following additional requirements shall be in effect for any performance shares awarded under this Article Three:

(i) At the end of the performance period, the Plan Administrator shall determine the actual level of attainment for each performance objective and the extent to which the performance shares awarded for that period are to vest and become payable based on the attained performance levels.

(ii) The performance shares which so vest shall be paid as soon as practicable following the end of the performance period, unless such payment is to be deferred for the period specified by the Plan Administrator at the time the performance shares are awarded or the period selected by the Participant in accordance with the applicable requirements of Code Section 409A.

(iii) Performance shares may be paid in (i) cash, (ii) shares of Common Stock or (iii) any combination of cash and shares of Common Stock, as determined by the Plan Administrator in its sole discretion.

(iv) Performance shares may also be structured so that the shares are convertible into shares of Common Stock, but the rate at which each performance share is to so convert shall be based on the attained level of performance for each applicable performance objective.

## **II. CHANGE IN CONTROL**

A. All of the Corporation's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall vest in full, immediately prior to the effective date of an actual Change in Control transaction, except to the extent (i) the Awards to which those repurchase rights are to be assumed by the successor corporation (or parent thereof) or are otherwise to continue in full force and effect pursuant to the terms of the Change in Control transaction, (ii) those Awards are to be replaced with a cash incentive program of the successor corporation which preserves, for each such Award, the Fair Market Value of the underlying shares of Common Stock at the time of the Change in Control and provides for the subsequent payout of that value in accordance with the same (or more favorable) vesting schedule in effect for those shares at the time of such Change in Control or (iii) such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement.

B. Each outstanding Award under the Stock Issuance Program which is assumed in connection with a Change in Control or otherwise continued in effect shall be adjusted immediately after the consummation of that Change in Control so as to apply to the number and class of securities into which the shares of Common Stock subject to that Award immediately prior to the Change in Control would have been converted in consummation of such Change in Control had those shares actually been outstanding at that time, and appropriate adjustments shall also be made to the consideration (if any) payable per share thereunder, provided the aggregate amount of such consideration shall remain the same. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption or continuation of the outstanding Awards, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction, provided such common stock is readily traded on an established U.S. securities exchange or market.

C. If an Award under the Stock Issuance Program is not assumed or otherwise continued in effect or replaced with a cash incentive program of the successor corporation which preserves the Fair Market Value of the underlying shares of Common Stock at the time of the Change in Control and provides for the subsequent payout of that value in accordance with the same (or more favorable) vesting schedule in effect for those shares at the time of such Change in Control, then such Award shall vest, and the shares of Common Stock subject to that Award shall be issued as fully-vested shares, immediately prior to the effective date of the Change in Control.

D. The Plan Administrator shall have the discretionary authority to structure one or more unvested Awards under the Stock Issuance Program so that the shares of Common Stock subject to those Awards shall automatically vest (or vest and become issuable) in whole or in part immediately prior to the effective date of an actual Change in Control transaction or upon the subsequent termination of the Participant's Service by reason of an Involuntary Termination within a designated period following the effective date of that Change in Control transaction.

E. The Plan Administrator's authority under Paragraphs D and E of this Section II shall also extend to any Awards intended to qualify as performance-based compensation under Code Section 162(m), even though the automatic vesting of those Awards pursuant to Paragraph D or E of this Section II may result in their loss of performance-based status under Code Section 162(m).



## ARTICLE FOUR

### INCENTIVE BONUS PROGRAM

#### I. INCENTIVE BONUS TERMS

The Plan Administrator shall have full power and authority to implement one or more of the following incentive bonus programs under the Plan:

- (i) cash bonus awards ("Cash Awards"),
- (ii) performance unit awards ("Performance Unit Awards"), and
- (iii) dividend equivalent rights ("DER Awards")

**A. Cash Awards.** The Plan Administrator shall have the discretionary authority under the Plan to make Cash Awards which are to vest in one or more installments over the Participant's continued Service with the Corporation or upon the attainment of specified performance goals. Each such Cash Award shall be evidenced by one or more documents in the form approved by the Plan Administrator; ***provided however***, that each such document shall comply with the terms specified below.

1. The elements of the vesting schedule applicable to each Cash Award shall be determined by the Plan Administrator and incorporated into the Incentive Bonus Award Agreement.

2. The Plan Administrator shall also have the discretionary authority, consistent with Code Section 162(m), to structure one or more Cash Awards so that those Awards shall vest upon the achievement of pre-established corporate performance objectives based upon one or more Performance Goals.

3. Should the Participant cease to remain in Service while holding one or more unvested Cash Awards or should the performance objectives not be attained with respect to one or more such Cash Awards, then those Awards shall be immediately terminate, and the Participant shall not be entitled to any cash payment or other consideration with respect to those terminated Awards.

4. Outstanding Cash Awards shall automatically terminate, and no cash payment or other consideration shall be due the holders of those Awards, if the performance goals or Service requirements established for the Awards are not attained or satisfied. The Plan Administrator may in its discretion waive the cancellation and termination of one or more unvested Cash Awards which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those Awards. Any such waiver shall result in the immediate vesting of the Participant's interest in the Cash Award as to which the waiver applies. Such wavier may be effected at any time, whether before or after

the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives. However, no vesting requirements tied to the attainment of performance goals may be waived with respect to awards which were intended, at the time those awards were granted, to qualify as performance-based compensation under Code Section 162(m), except in the event of the Participant's Involuntary Termination or as otherwise provided in Section II of this Article Four.

5. Cash Awards which become due and payable following the attainment of the applicable performance goals or satisfaction of the applicable Service requirement (or the waiver of such goals or Service requirement) may be paid in (i) cash, (ii) shares of Common Stock valued at Fair Market Value on the payment date or (iii) a combination of cash and shares of Common Stock as the Plan Administrator shall determine.

**B. Performance Unit Awards.** The Plan Administrator shall have the discretionary authority to make Performance Unit Awards in accordance with the terms of this Article Four. Each such Performance Unit Award shall be evidenced by one or more documents in the form approved by the Plan Administrator; ***provided however***, that each such document shall comply with the terms specified below.

1. A Performance Unit shall represent a participating interest in a special bonus pool tied to the attainment of pre-established corporate performance objectives based on one or more Performance Goals. The amount of the bonus pool may vary with the level at which the applicable performance objectives are attained, and the value of each Performance Unit which becomes due and payable upon the attained level of performance shall be determined by dividing the amount of the resulting bonus pool (if any) by the total number of Performance Units issued and outstanding at the completion of the applicable performance period.

2. Performance Units may also be structured to include a Service requirement which the Participant must satisfy following the completion of the performance period in order to vest in the Performance Units awarded with respect to that performance period.

3. Performance Units which become due and payable following the attainment of the applicable performance objectives and the satisfaction of any applicable Service requirement may be paid in (i) cash, (ii) shares of Common Stock valued at Fair Market Value on the payment date or (iii) a combination of cash and shares of Common Stock as the Plan Administrator shall determine.

**C. DER Awards.** The Plan Administrator shall have the discretionary authority to make DER Awards in accordance with the terms of this Article Four. Each such DER Award shall be evidenced by one or more documents in the form approved by the Plan Administrator; ***provided however***, that each such document shall comply with the terms specified below.

1. The DER Awards may be made as stand-alone awards or in tandem with other Awards made under the Plan. The term of each such DER Award shall be established by the Plan Administrator at the time of grant, but no DER Award shall have a term in excess of ten (10) years.

2. Each DER shall represent the right to receive the economic equivalent of each dividend or distribution, whether in cash, securities or other property (other than shares of Common Stock), which is made per issued and outstanding share of Common Stock during the term the DER remains outstanding. A special account on the books of the Corporation shall be maintained for each Participant to whom a DER Award is made, and that account shall be credited per DER with each such dividend or distribution made per issued and outstanding share of Common Stock during the term of that DER remains outstanding.

3. Payment of the amounts credited to such book account may be made to the Participant either concurrently with the actual dividend or distribution made per issued and outstanding share of Common Stock or may be deferred for a period specified by the Plan Administrator at the time the DER Award is made or selected by the Participant in accordance with the requirements of Code Section 409A.

4. Payment may be paid in (i) cash, (ii) shares of Common Stock or (iii) a combination of cash and shares of Common Stock as the Plan Administrator shall determine. If payment is to be made in the form of Common Stock, the number of shares of Common Stock into which the cash dividend or distribution amounts are to be converted for purposes of the Participant's book account may be based on the Fair Market Value per share of Common Stock on the date of conversion, a prior date or an average of the Fair Market Value per share of Common Stock over a designated period, as the Plan Administrator shall determine in its sole discretion.

5. The Plan Administrator shall also have the discretionary authority, consistent with Code Section 162(m), to structure one or more DER Awards so that those Awards shall vest only after the achievement of pre-established corporate performance objectives based upon one or more Performance Goals.

## **II. CHANGE IN CONTROL**

A. The Plan Administrator shall have the discretionary authority to structure one or more incentive bonus awards under this Article Four so that the awards shall automatically vest in whole or in part immediately prior to the effective date of an actual Change in Control transaction or upon the subsequent termination of the Participant's Service by reason of an Involuntary Termination within a designated period following the effective date of such Change in Control.

B. The Plan Administrator's authority under Paragraph A of this Section II shall also extend to any performance bonus awards intended to qualify as performance-based compensation under Code Section 162(m), even though the automatic vesting of those awards pursuant to such Paragraph A may result in their loss of performance-based status under Code Section 162(m).

**AUTOMATIC GRANT PROGRAM**

**I. AWARD TERMS**

**A. Automatic Grants.** The Automatic Grant Program shall, as of the Plan Effective Date, supersede and replace the Corporation's 1998 Non-Employee Director Stock Option Plan and the Non-Employee Director Stock Retainer Plan. The Awards for the non-employee Board members at the 2007 Annual Meeting shall be made pursuant to the Automatic Grant Program in effect under this Article Five, and no further option grants or stock issuances shall be made to the non-employee Board members under the 1998 Non-Employee Director Stock Option Plan or the Non-Employee Director Stock Retainer Plan on or after the 2007 Annual Meeting, if this Plan is approved by the stockholders at such meeting. The Awards to be made pursuant to the Automatic Grant Program shall be as follows:

1. Each individual who is first elected or appointed as a non-employee Board member at any time on or after the date of the 2007 Annual Meeting shall automatically be granted, on the date of such initial election or appointment, an Award in the form of restricted stock units covering that number of shares of Common Stock (rounded up to the next whole share) determined by dividing the Applicable Dollar Amount by the Fair Market Value per share on such date, provided that individual has not been in the employ of the Corporation or any Parent or Subsidiary during the preceding twelve (12) months (the "Initial Grant"). The Applicable Dollar Amount shall be determined by the Plan Administrator at the time of each such grant, but in no event shall such amount exceed Three Hundred Thousand Dollars (\$300,000.00) per non-employee Board member.

2. On the date of each annual stockholders meeting, beginning with the 2007 Annual Meeting, each individual who is to continue to serve as a non-employee Board member, whether or not that individual is standing for re-election to the Board at that particular annual meeting, shall automatically be granted an Award in the form of restricted stock units covering that number of shares of Common Stock (rounded up to the next whole share) determined by dividing the Applicable Annual Amount by the Fair Market Value per share on such date, provided that such individual has served as a non-employee Board member for a period of at least six (6) months (the "Annual Grant"). There shall be no limit on the number of such Annual Grants any one continuing non-employee Board member may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the Corporation (or any Parent or Subsidiary) shall be eligible to receive one or more such Annual Grants over their period of continued Board service. The Applicable Annual Amount shall be determined by the Plan Administrator on or before the date of the annual stockholders meeting at which those Annual Grants are to be made, but in no event shall exceed Three Hundred Thousand Dollars (\$300,000.00).

3. Each restricted unit awarded under this Article Five shall entitle the non-employee Board member to one share of Common Stock on the applicable issuance date following the vesting of that unit.

**B. Vesting of Awards and Issuance of Shares.** Each Initial and Annual Grant made under this Article Five shall vest in a series of in three (3) successive equal annual installments upon the non-employee Board member's completion of each year of Board service over the three (3)-year period measured from the Award date; ***provided, however***, that should such non-employee Board member cease Board service by reason of (i) death or Permanent Disability or (ii) retirement at or after age seventy two (72), then each Initial and Annual Grant made to such individual under this Article Five and outstanding at the time of such cessation of Board service shall immediately vest in full. The shares of Common Stock underlying each Initial or Annual Grant which vests in accordance with the foregoing vesting provisions shall be issued as they vest; ***provided, however***, that the Plan Administrator may allow one or more non-employee Board members to defer, in accordance with the applicable requirements of Code Section 409A and the regulations thereunder, the issuance of the shares beyond the vesting date to a designated date or until cessation of Board service or an earlier Change in Control.

**C. Dividend Equivalent Rights.** Each restricted stock unit shall include a dividend equivalent right pursuant to which a book account shall be established for the non-employee Board member and credited from time to time with each dividend or distribution, whether in cash, securities or other property (other than shares of Common Stock) which is made per issued and outstanding share of Common Stock during the period the share of Common Stock underlying that restricted stock unit remains unissued. The amount credited to the book account with respect to such restricted stock unit shall be paid to the non-employee Board member concurrently with the issuance of the share of Common Stock underlying that unit, subject to the Corporation's collection of any applicable withholding taxes.

## **II. CHANGE IN CONTROL**

Should the non-employee Board member continue in Board service until the effective date of an actual Change in Control transaction, then the shares of Common Stock subject to each outstanding Initial and Annual Award made to such Board member shall, immediately prior to the effective date of that Change in Control transaction, vest in full and shall be issued to him or her as soon as administratively practicable thereafter, but in no event more than fifteen (15) business days after such effective date, or shall otherwise be converted into the right to receive the same consideration per share of Common Stock payable to the other stockholders in the Change in Control and distributed at the same time as such stockholder payments).

## ARTICLE SIX

### MISCELLANEOUS

#### I. DEFERRED COMPENSATION

A. The Plan Administrator may, in its sole discretion, structure one or more Awards under the Stock Issuance or Incentive Bonus Programs so that the Participants may be provided with an election to defer the compensation associated with those Awards for federal income tax purposes. Any such deferral opportunity shall comply with all applicable requirements of Code Section 409A.

B. To the extent the Corporation maintains one or more separate non-qualified deferred compensation arrangements which allow the participants the opportunity to make notional investments of their deferred account balances in shares of Common Stock, the Plan Administrator may authorize the share reserve under the Plan to serve as the source of any shares of Common Stock that become payable under those deferred compensation arrangements. In such event, the share reserve under the Plan shall be reduced on a share-for-one share basis for each share of Common Stock issued under the Plan in settlement of the deferred compensation owed under those separate arrangements.

#### II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise, issuance or vesting of an Award under the Plan shall be subject to the satisfaction of all applicable income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide Optionees and Participants to whom Awards are made under the Plan (other than the Awards made under the Automatic Grant Program) with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes to which such holders may become subject in connection with the exercise, issuance or vesting of those Awards or the issuance of shares of Common Stock thereunder. Such right may be provided to any such holder in either or both of the following formats:

1. Stock Withholding: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the issuance, exercise or vesting of such Award or the issuance of shares of Common Stock thereunder, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by such individual. The shares of Common Stock so withheld shall reduce the number of shares of Common Stock authorized for issuance under the Plan.

2. Stock Delivery: The election to deliver to the Corporation, at the time of the issuance, exercise or vesting of such Award or the issuance of shares of Common Stock thereunder, one or more shares of Common Stock previously acquired by such individual (other than in connection with the exercise, share issuance or share vesting triggering the

Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by the individual. The shares of Common Stock so delivered shall neither reduce the number of shares of Common Stock authorized for issuance under the Plan nor be added to the number of shares of Common Stock authorized for issuance under the Plan.

### III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

### IV. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective on the Plan Effective Date.

B. The Plan shall serve as the successor to each of the Predecessor Plans, and no further option grants or unvested share issuances shall be made under the Predecessor Plans if this Plan is approved by the stockholders at the 2007 Annual Meeting. Such stockholder approval shall not affect the option grants and unvested share awards outstanding under the Predecessor Plans at the time of the 2007 Annual Meeting, and those option grants and unvested share awards shall continue in full force and effect in accordance with their terms. However, should any of those options expire or terminate unexercised or those unvested shares be forfeited or repurchased by the Corporation at the original issue price, the shares of Common Stock subject to those options at the time of expiration or termination and those forfeited or repurchased shares shall be added to the share reserve of this Plan, up to the maximum number of additional shares permissible hereunder.

C. The Plan shall terminate upon the *earliest* to occur of (i) April 26, 2017, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully vested shares or (iii) the termination of all outstanding Awards in connection with a Change in Control. Should the Plan terminate on April 26, 2017, then all Awards outstanding at that time shall continue to have force and effect in accordance with the provisions of the documents evidencing those Awards.

### V. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects; **provided, however**, that stockholder approval shall be required for any amendment to the Plan which materially increases the number of shares of Common Stock authorized for issuance under the Plan (other than pursuant to Section V.D of Article One), materially increases the benefits accruing to Optionees or Participants, materially expands the class of individuals eligible to participate in the Plan, expands the types of awards which may be made under the Plan or extends the term of the Plan or to the extent such stockholder approval may otherwise required under applicable law or regulation or pursuant to

the listing standards of the Stock Exchange on which the Common Stock is at the time primarily traded. However, no such amendment or modification shall adversely affect the rights and obligations with respect to Awards at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification.

B. The Compensation Committee shall have the discretionary authority to adopt and implement from time to time such addenda or subplans to the Plan as it may deem necessary in order to bring the Plan into compliance with applicable laws and regulations of any foreign jurisdictions in which grants or awards are to be made under the Plan and/or to obtain favorable tax treatment in those foreign jurisdictions for the individuals to whom the grants or awards are made.

C. Awards may be made under the Plan that involve shares of Common Stock in excess of the number of shares then available for issuance under the Plan, provided no shares shall actually be issued pursuant to those Awards until the number of shares of Common Stock available for issuance under the Plan is sufficiently increased by stockholder approval of an amendment of the Plan authorizing such increase. If such stockholder approval is not obtained within twelve (12) months after the date the first excess Award is made, then all Awards granted on the basis of such excess shares shall terminate and cease to be outstanding.

#### **VI. USE OF PROCEEDS**

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

#### **VII. REGULATORY APPROVALS**

A. The implementation of the Plan, the granting of any Award under the Plan and the issuance of any shares of Common Stock in connection with the issuance, exercise or vesting of any Award under the Plan shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the Awards made under the Plan and the shares of Common Stock issuable pursuant to those Awards.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of applicable securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any Stock Exchange on which Common Stock is then listed for trading.

#### **VIII. NO EMPLOYMENT/SERVICE RIGHTS**

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.



## APPENDIX

The following definitions shall be in effect under the Plan:

A. **Annual Meeting** shall mean the 2007 annual meeting of the Corporation's stockholders.

B. **Automatic Grant Program** shall mean the automatic grant program in effect for non-employee Board members under Article Five of the Plan.

C. **Award** shall mean any of the following awards authorized for issuance or grant under the Plan: stock options, stock appreciation rights, direct stock issuances, restricted stock or restricted stock unit awards, performance shares, performance units, dividend-equivalent rights and cash incentive awards.

D. **Award Agreement** shall mean the agreement(s) between the Corporation and the Optionee or Participant evidencing a particular Award made to that individual under the Plan, as such agreement(s) may be in effect from time to time.

E. **Board** shall mean the Corporation's Board of Directors.

F. **Cause** shall, with respect to each Award made under the Plan, be defined in accordance with the following provisions:

- Cause shall have the meaning assigned to such term in the Award Agreement for the particular Award or in any other agreement incorporated by reference into the Award Agreement for purposes of defining such term.

- In the absence of any other Cause definition in the Award Agreement for a particular Award (or in any other agreement incorporated by reference into the Award Agreement), an individual's termination of Service shall be deemed to be for Cause if such termination occurs by reason his or her commission of any act of fraud, embezzlement or dishonesty, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner.

G. **Change in Control** shall, with respect to each Award made under the Plan, be defined in accordance with the following provisions:

- Change in Control shall have the meaning assigned to such term in the Award Agreement for the particular Award or in any other agreement incorporated by reference into the Award Agreement for purposes of defining such term.

- In the absence of any other Change in Control definition in the Award Agreement (or in any other agreement incorporated by reference into the Award Agreement), Change in Control shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

(i) a merger, consolidation or other reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction,

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets,

(iii) the closing of any transaction or series of related transactions pursuant to which any person or any group of persons comprising a "group" within the meaning of Rule 13d-5(b)(1) of the 1934 Act (other than the Corporation or a person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with, the Corporation) becomes directly or indirectly (whether as a result of a single acquisition or by reason of one or more acquisitions within the twelve (12)-month period ending with the most recent acquisition) the beneficial owner (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing (or convertible into or exercisable for securities possessing) thirty-five percent (35%) of the total combined voting power of the Corporation's securities (as measured in terms of the power to vote with respect to the election of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from the Corporation or the acquisition of outstanding securities held by one or more of the Corporation's existing stockholders, or

(iv) a change in the composition of the Board over a period of twelve (12) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

**H. Code shall mean the Internal Revenue Code of 1986, as amended.**

I. **Common Stock** shall mean the Corporation's common stock.

J. **Compensation Committee** shall mean the Compensation Committee of the Board comprised of two (2) or more non-employee Board members.

K. **Corporation** shall mean Alexander & Baldwin, Inc., a Hawaii corporation, and any corporate successor to all or substantially all of the assets or voting stock of Alexander & Baldwin, Inc. which has by appropriate action assumed the Plan.

L. **Discretionary Grant Program** shall mean the discretionary grant program in effect under Article Two of the Plan pursuant to which stock options and stock appreciation rights may be granted to one or more eligible individuals.

M. **Employee** shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary, whether now existing or subsequently established), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

N. **Exercise Date** shall mean the date on which the Corporation shall have received written notice of the option exercise.

O. **Fair Market Value** per share of Common Stock on any relevant date shall be the closing selling price per share of Common Stock at the close of regular hours trading (i.e., before after-hours trading begins) on date on question on the Stock Exchange serving as the primary market for the Common Stock, as such price is reported by the National Association of Securities Dealers (if primarily traded on the Nasdaq Global Select Market) or as officially quoted in the composite tape of transactions on any other Stock Exchange on which the Common Stock is then primarily traded. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

P. **Family Member** means, with respect to a particular Optionee or Participant, any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law.

Q. **Good Reason** shall, with respect to each Award made under the Plan, be defined in accordance with the following provisions:

- Good Reason shall have the meaning assigned to such term in the Award Agreement for the particular Award or in any other agreement incorporated by reference into the Award Agreement for purposes of defining such term.

- In the absence of any other Good Reason definition in the Award Agreement (or in any other agreement incorporated by reference into the Award Agreement), Good Reason shall mean an individual's voluntary resignation following (A) a change in his or her position with the Corporation (or any Parent or Subsidiary) which materially reduces his or her duties and responsibilities or the level of management to which he or she reports, (B) a

reduction in his or her level of compensation (including base salary, fringe benefits and target bonus under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation (or any Parent or Subsidiary) without the individual's consent.

**R. Incentive Bonus Program** shall mean the incentive bonus program in effect under Article Four of the Plan.

**S. Incentive Option** shall mean an option which satisfies the requirements of Code Section 422.

**T. Involuntary Termination** shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation (or any Parent or Subsidiary) for reasons other than for Cause, or

(ii) such individual's voluntary resignation for Good Reason.

**U. 1934 Act** shall mean the Securities Exchange Act of 1934, as amended.

**V. Non-Statutory Option** shall mean an option not intended to satisfy the requirements of Code Section 422.

**W. Optionee** shall mean any person to whom an option is granted under the Discretionary Grant or Automatic Grant Program.

**X. Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**Y. Participant** shall mean any person who is issued (i) shares of Common Stock, restricted stock units, performance shares, performance units or other stock-based awards under the Stock Issuance Program or (ii) an incentive bonus award under the Incentive Bonus Program.

**Z. Permanent Disability or Permanently Disabled** shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

**AA. Performance Goals** shall mean any of the following performance criteria upon which

the vesting of one or more Awards under the Plan may be based: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, earnings before interest, taxes, depreciation, amortization and charges for stock-based compensation, earnings before interest, taxes, depreciation and amortization, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average stockholder equity; (vii) total stockholder return or growth in total stockholder return either directly or in relation to a comparative group; (viii) return on capital; (ix) return on assets or net assets; (x) invested capital, required rate of return on capital or return on invested capital; (xi) revenue, growth in revenue or return on sales; (xii) income or net income; (xiii) operating income, net operating income or net operating income after tax; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue or return on operating profit; (xvii) collections and recoveries, (xviii) property purchases, sales, investments and construction goals, (xix) application approvals, (xx) litigation and regulatory resolution goals, (xxi) occupancy or occupancy rates, (xxii) leases, contracts or financings, including renewals, (xxiii) overhead, savings, G&A and other expense control goals, (xxiv) budget comparisons, (xxv) growth in stockholder value relative to the growth of the S&P 400 or S&P 400 Index, the S&P Global Industry Classification Standards (“GICS”) or GICS Index, or another peer group or peer group index; (xxvi) credit rating; (xxvii) development and implementation of strategic plans and/or organizational restructuring goals; (xxviii) development and implementation of risk and crisis management programs; (xxix) improvement in workforce diversity; (xxx) net cost per ton, (xxxi) price per container or average price of container; (xxxii) voyage days or vessel scheduling; (xxxiii) lift volume of containers, volume of containers, number of units or size of units; (xxxiv) compliance requirements and compliance relief; (xxxv) safety goals; (xxxvi) productivity goals; (xxxvii) workforce management and succession planning goals; (xxxviii) economic value added (including typical adjustments consistently applied from generally accepted accounting principles required to determine economic value added performance measures); (xxxix) measures of customer satisfaction, employee satisfaction or staff development; (xl) development or marketing collaborations, formations of joint ventures or partnerships or the completion of other similar transactions intended to enhance the Corporation’s revenue or profitability or enhance its customer base; (xli) merger and acquisitions; and (xlii) other similar criteria consistent with the foregoing. In addition, such performance criteria may be based upon the attainment of specified levels of the Corporation’s performance under one or more of the measures described above relative to the performance of other entities and may also be based on the performance of any of the Corporation’s business units or divisions or any Parent or Subsidiary. Each applicable Performance Goal may include a minimum threshold level of performance below which no Award will be earned, levels of performance at which specified portions of an Award will be earned and a maximum level of performance at which an Award will be fully earned. Each applicable performance goal may be structured at the time of the Award to provide for appropriate adjustment for one or more of the following items: (A) asset impairments or write-downs; (B) litigation judgments or claim settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; (E) any extraordinary nonrecurring items as described in Accounting Principles Board Opinion

No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Corporation's annual report to stockholders for the applicable year; (F) the operations of any business acquired by the Corporation; and (G) any other adjustment consistent with the operation of the Plan.

**BB.** Plan shall mean the Corporation's 2007 Incentive Compensation Plan, as set forth in this document.

**CC.** Plan Administrator shall mean the particular entity, whether the Compensation Committee (or subcommittee thereof), the Board or the Secondary Board Committee, which is authorized to administer the Discretionary Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under the Plan with respect to the persons under its jurisdiction.

**DD.** Plan Effective Date shall mean the April 26, 2007 date on which the Plan is approved by the stockholders at the 2007 Annual Meeting.

**EE.** Predecessor Plans shall mean (i) the Corporation's 1998 Stock Option/Stock Incentive Plan, (ii) the Corporation's 1998 Non-Employee Director Stock Option Plan, (iii) the Restricted Stock Bonus Plan and (iv) the Non-Employee Director Stock Retainer Plan, as each such plan is in effect immediately prior to the 2007 Annual Meeting.

**FF.** Secondary Board Committee shall mean a committee of one or more Board members appointed by the Board to administer the Plan with respect to eligible persons other than Section 16 Insiders.

**GG.** Section 16 Insider shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

**HH.** Service shall mean the performance of services for the Corporation (or any Parent or Subsidiary, whether now existing or subsequently established) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance. For purposes of the Plan, an Optionee or Participant shall be deemed to cease Service immediately upon the occurrence of either of the following events: (i) the Optionee or Participant no longer performs services in any of the foregoing capacities for the Corporation or any Parent or Subsidiary or (ii) the entity for which the Optionee or Participant is performing such services ceases to remain a Parent or Subsidiary of the Corporation, even though the Optionee or Participant may subsequently continue to perform services for that entity. Service shall not be deemed to cease during a period of military leave, sick leave or other personal leave approved by the Corporation; **provided, however,** that should such leave of absence exceed three (3) months, then for purposes of determining the period within which an Incentive Option may be exercised as such under the federal tax laws, the Optionee's Service shall be deemed to cease on the first day immediately following the expiration of such three (3)-month period, unless Optionee is provided with the right to return to Service following such leave either by statute or by written contract. Except to the extent

otherwise required by law or expressly authorized by the Plan Administrator or by the Corporation's written policy on leaves of absence, no Service credit shall be given for vesting purposes for any period the Optionee or Participant is on a leave of absence.

**II. Stock Exchange** shall mean the American Stock Exchange, the Nasdaq Global Market or the New York Stock Exchange.

**JJ. Stock Issuance Agreement** shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

**KK. Stock Issuance Program** shall mean the stock issuance program in effect under Article Three of the Plan.

**LL. Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

**MM. 10% Stockholder** shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

**NN. Withholding Taxes** shall mean the applicable federal and state income and employment withholding taxes to which the holder of an Award under the Plan may become subject in connection with the issuance, exercise or vesting of that Award or the issuance of shares of Common Stock thereunder.

ALEXANDER & BALDWIN, INC.  
RESTRICTED STOCK UNIT AWARD AGREEMENT

**RECITALS**

A. The Corporation has implemented an automatic award program under the Plan pursuant to which eligible non-employee members of the Board will automatically receive special awards of restricted stock units at periodic intervals over their period of Board service in order to provide such individuals with a meaningful incentive to continue to serve as members of the Board.

B. Participant is an eligible non-employee Board member, and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the automatic award of restricted stock units under the Plan.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix A.

**NOW, THEREFORE**, it is hereby agreed as follows:

1. **Grant of Restricted Stock Units.** The Corporation hereby awards to Participant, as of the Award Date, an award (the "Award") of restricted stock units under the Plan. Each restricted stock unit represents the right to receive one share of Common Stock on the vesting date of that unit. The number of shares of Common Stock subject to the awarded restricted stock units, the applicable vesting schedule for the restricted stock units and the underlying shares, the dates on which those vested shares shall be issued to Participant and the remaining terms and conditions governing the Award shall be as set forth in this Agreement.

**AWARD SUMMARY**

Participant: \_\_\_\_\_

Award Date: \_\_\_\_\_

Number of Shares

Subject to Award: \_\_\_\_\_ shares of Common Stock (the "Shares")



Vesting Schedule: Participant shall vest with respect to the Shares in a series of three (3) successive equal annual installments upon his or her completion of each year of Board service over the three (3)-year period measured from the Award Date. The Shares may vest in whole or in part on an accelerated basis in accordance with the provisions of Paragraphs 3 and 5 of this Agreement. In no event shall any Shares vest after the date of Participant's termination of Board service.

2. **Limited Transferability.** Prior to the actual issuance of the Shares which vest hereunder, Participant may not transfer any interest in the restricted stock units subject to the Award or the underlying Shares or pledge or otherwise hedge the sale of those units or Shares, including (without limitation) any short sale or any acquisition or disposition of any put or call option or other instrument tied to the value of those Shares. However, any Shares which vest hereunder but otherwise remain unissued at the time of Participant's death may be transferred pursuant to the provisions of Participant's will or the laws of inheritance or to Participant's designated beneficiary or beneficiaries of this Award. Participant may also direct the Corporation to issue the stock certificates for any Shares which in fact vest and become issuable hereunder to one or more designated Family Members or a trust established for Participant and/or his or her Family Members. Participant may make such a beneficiary designation or certificate directive at any time by filing the appropriate form with the Plan Administrator or its designee.

3. **Cessation of Service.** The restricted stock units subject to this Award shall immediately vest in full upon Participant's cessation of Board service by reason of death, Permanent Disability or Retirement. Should Participant cease Board service for any other reason prior to vesting in one or more Shares subject to this Award, then the Award will be immediately cancelled with respect to those unvested Shares, and the number of restricted stock units will be reduced accordingly. Participant shall thereupon cease to have any right or entitlement to receive any Shares under those cancelled units.

4. **Stockholder Rights and Dividend Equivalents**

(a) Participant shall not have any stockholder rights, including voting, dividend or liquidation rights, with respect to the Shares subject to the Award until Participant becomes the record holder of those Shares following their actual issuance.

(b) Notwithstanding the foregoing, should any dividend or other distribution payable other than in shares of Common Stock, whether regular or extraordinary, be declared and paid on the outstanding Common Stock while one or more Shares remain subject to this Award (i.e., those Shares are not otherwise issued and outstanding for purposes of entitlement to the dividend or distribution), then a special book account shall be established for Participant and credited with a phantom dividend equivalent to the actual dividend or distribution which would have been paid on those Shares had they been issued and outstanding and entitled to that dividend or distribution. As the Shares subsequently vest hereunder, the phantom dividend equivalents credited to those Shares in the book account shall be distributed to Participant (in cash or such other form as the Plan Administrator may deem appropriate in its sole discretion) concurrently with the issuance of the vested Shares to which those phantom dividend equivalents relate.

5. **Special Vesting Acceleration.** The restricted stock units subject to this Award shall immediately vest in full upon Participant's continuation in Board service until the effective date of any Change in Control transaction. The vested Shares will be issued immediately upon such effective date or as soon as administratively practicable thereafter, but in no event more than fifteen (15) business days after such effective date, or will otherwise be converted into the right to receive the same consideration per share of Common Stock payable to the other shareholders of the Corporation in consummation of the Change in Control and distributed at the same time as such stockholder payments.

6. **Adjustment in Shares.** Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares, spin-off transaction or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, or should the value of outstanding shares of Common Stock be substantially reduced as a result of a spin-off transaction or an extraordinary dividend or distribution, or should there occur any merger, consolidation or other reorganization, then equitable adjustments shall be made by the Plan Administrator to the total number and/or class of securities issuable pursuant to this Award in order to reflect such change and thereby prevent a dilution or enlargement of benefits hereunder. In making such equitable adjustments, the Plan Administrator shall take into account any amounts to be credited to Participant's book account under Paragraph 4(b) in connection with the transaction, and the determination of the Plan Administrator shall be final, binding and conclusive.

7. **Issuance of Shares of Common Stock.**

(a) Except as otherwise provided in Paragraph 5, on the applicable date on which the Shares vest in accordance with the terms of this Agreement or as soon as administratively practicable following such vesting date, but in no event more than fifteen (15) business days after such vesting date, the Corporation shall issue to or on behalf of Participant a certificate (which may be in electronic form) for the vested shares of Common Stock and shall concurrently distribute to Participant any phantom dividend equivalents with respect to those vested Shares.

(b) Except as otherwise provided in Paragraph 5, the settlement of all restricted stock units which vest under this Award shall be made solely in shares of Common Stock. In no event, however, shall any fractional shares be issued. Accordingly, the total number of shares of Common Stock to be issued at the time the Award vests shall, to the extent necessary, be rounded down to the next whole share in order to avoid the issuance of a fractional share.

8. **Compliance with Laws and Regulations.**

(a) The issuance of shares of Common Stock pursuant to the Award shall be subject to compliance by the Corporation and Participant with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which the Common Stock may be listed for trading at the time of such issuance.

(b) The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance of any Common Stock hereby shall relieve the Corporation of any liability with respect to the non-issuance of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

9. **Successors and Assigns.** Except to the extent otherwise provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and Participant, Participant's assigns, the legal representatives, heirs and legatees of Participant's estate and any beneficiaries of the Award designated by Participant.

10. **Notices.** Any notice required to be given or delivered to the Corporation under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal corporate offices. Any notice required to be given or delivered to Participant shall be in writing and addressed to Participant at the address indicated below Participant's signature line on this Agreement. All notices shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

11. **Construction.** This Agreement and the Award evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in the Award.

12. **Governing Law.** The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Hawaii without resort to that State's conflict-of-laws rules.

13. **No Impairment of Rights.** This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets. In addition, this Agreement shall not in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Corporation or its shareholders to remove Participant from the Board at any time in accordance with the provisions of applicable law.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

**ALEXANDER & BALDWIN, INC.**

By:

Title:

Address:

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**PARTICIPANT**

Signature:

Address:

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**APPENDIX A**  
**DEFINITIONS**

A. **Agreement** shall mean this Restricted Stock Unit Award Agreement.

B. **Automatic Grant Program** shall mean the automatic grant program for non-employee Board members in effect under Article Five of the Plan.

C. **Award** shall mean the award of restricted stock units made to Participant pursuant to the terms of this Agreement.

D. **Award Date** shall mean the date the restricted stock units are awarded to Participant pursuant to the Agreement and shall be the date indicated in Paragraph 1 of the Agreement.

E. **Board** shall mean the Corporation's Board of Directors.

F. **Change in Control** shall mean a change of ownership or control of the Corporation effected through any of the following transactions:

(i) a merger, consolidation or other reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction,

(ii) a sale, transfer or other disposition of all or substantially all of the Corporation's assets,

(iii) the closing of any transaction or series of related transactions pursuant to which any person or any group of persons comprising a "group" within the meaning of Rule 13d-5(b)(1) of the 1934 Act (other than the Corporation or a person that, prior to such transaction or series of related transactions, directly or indirectly controls, is controlled by or is under common control with, the Corporation) becomes directly or indirectly (whether as a result of a single acquisition or by reason of one or more acquisitions within the twelve (12)-month period ending with the most recent acquisition) the beneficial owner (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing (or convertible into or exercisable for securities possessing) thirty-five percent (35%) or more of the total combined voting power of the Corporation's securities (as measured in terms of the power to vote with respect to the election of Board members) outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from the Corporation or the acquisition of outstanding securities held by one or more of the Corporation's existing stockholders, or

(iv) a change in the composition of the Board over a period of twelve (12) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

G. **Code** shall mean the Internal Revenue Code of 1986, as amended.

H. **Common Stock** shall mean shares of the Corporation's common stock.

I. **Corporation** shall mean Alexander & Baldwin, Inc., a Hawaii corporation, and any successor corporation to all or substantially all of the assets or voting stock of Alexander & Baldwin, Inc. which shall by appropriate action adopt the Plan.

J. **Family Members** shall mean, with respect to the Participant, any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law.

K. **1934 Act** shall mean the Securities Exchange Act of 1934, as amended.

L. **Participant** shall mean the non-employee Board member to whom the Award is made pursuant to the Automatic Grant Program.

M. **Permanent Disability** shall mean the inability of Participant to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

N. **Plan** shall mean the Corporation's 2007 Incentive Compensation Plan.

O. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

P. **Retirement** shall mean the cessation of Board service by reason of retirement at or after the attainment of age seventy-two (72).

**CERTIFICATION**

I, Christopher J. Benjamin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alexander & Baldwin, 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/ Christopher J. Benjamin  
Christopher J. Benjamin, Senior Vice President,  
Chief Financial Officer and Treasurer

Date: April 30, 2007

**Certification of Chief Executive Officer and  
Chief Financial Officer Pursuant to  
18 U.S.C. Section 1350, As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Alexander & Baldwin, Inc. (the "Company") for the quarterly period ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), W. Allen Doane, as Chairman, President and Chief Executive Officer of the Company, and Christopher J. Benjamin, as Senior Vice President, Chief Financial Officer and Treasurer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

/s/ W. Allen Doane

Name: W. Allen Doane

Title: Chairman, President and Chief Executive Officer

Date: April 30, 2007

/s/ Christopher J. Benjamin

Name: Christopher J. Benjamin

Title: Senior Vice President, Chief Financial Officer and Treasurer

Date: April 30, 2007



**CERTIFICATION**

I, W. Allen Doane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alexander & Baldwin, 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/ W. Allen Doane  
W. Allen Doane, Chairman, President and  
Chief Executive Officer

Date: April 30, 2007