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PRESENTATION

Operator

Thank you for your patience, ladies and gentlemen, and welcome to the Q2 2006 Alexander & Baldwin earnings conference call. [OPERATOR INSTRUCTIONS] As a reminder this conference is being recorded. I would now like the turn the presentation over to your host for today's conference Senior Vice President, Chief Financial Officer, and Treasurer, Mr. Christopher Benjamin. Please proceed.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Okay. This is not Christopher Benjamin. It is Allen Doane, the CEO of A&B. Apparently we have a technical issue with Honolulu. I am sitting in Oakland at the moment, and Chris Benjamin is in Honolulu. I can see him on a video monitor, and he is waving, but I guess he is not in the conference.

With that I am going to read the disclaimer and just start with my part of the presentation, and then we'll circle back to Chris and what will not then be introductory remarks. Statements in this call that set forth expectations or predictions are based on facts and situation that are known to us today, July 28, 2006, actual results may differ materially due to risks and uncertainties such as those described on pages 16 to 21 of the Form 10-K and our 2005 annual report and our other subsequent filings with the SEC. Statements in this call are not guarantees of future performance.

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

I am here now.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Are you there now, Chris?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Yes, I am.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Oh, good. Hello. Okay. Let's go back to the quick introduction, and then I will make a quick run through the second quarter performance.

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Okay. All right. Thanks for that, and I apologize for the technical difficulties. This is Chris Benjamin in Honolulu and you already know that I am joined by Allen Doane who is in our Oakland office.

Before we begin the call today, I would like to thank so many of you who have sent remembrances and expressions of condolence following the passing of A&B's long time Investor Relations Vice President, John Kelley. The loss of John to a very aggressive form of brain cancer on May 24, left a great void for all of us at A&B. It was heartwarming and comforting to know that John meant as much to many of you as he did to us. John's contributions to our community were remembered in a beautiful service in one of his favorite spots on the beach in Waikiki. Both the A&B family and the Kelley family greatly appreciate your acts of kindness during his illness and since his passing.

Turning to today's call. Allen will follow this introduction with a brief overview of the quarter and our outlook. Allen also will provide a brief update on China and the housing market in Hawaii as well as the Kukui'ula project. I will conclude the formal portion of the call with comments on our recent share repurchases and our financial statements. We will then open for your questions.

Please note that you have the option to enlarge this slides on your screen. You also can print them out using the PDF link on our home page, www.alexanderbaldwin.com and also copies of the earnings release are available on our home page. There will be a replay available, and I will be available to take calls later today. Having already gone through the disclaimer, thanks to Allen, I will now turn it over to Allen for discussion of A&B's second quarter performance.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Thank you, Chris. These stacked bars show our fully diluted earnings per share for the four quarters of 2005, the first quarter of 2006, and the just reported $0.68 per share in the second quarter of 2006. We are pleased with second quarter results which exceeded last year's strong second quarter performance, and we are on course for a successful 2006.

Let me now turn to operating profit for the second quarter. The next slide shows the composition of total operating profit in the second quarter 2005 versus 2006. As you can see, our real estate and food products businesses, which we call our land group, had an excellent quarter as did our transportation logistics business. As expected ocean transportations results reflected our strategic transition to the new Guam and China services. Let's take a closer look now at the second quarter performance within each unit.

Ocean transportationâ€™s profitability dropped during the second quarter. This was primarily the result of a full quarter of loss of charter revenue from the APL alliance, along with the full fixed costs of the new Guam China service while the ships are only partially full. We did make good progress in our sales activities during the quarter, and I will comment on the new service in a few moments. A minor drop in container volume in Hawaii and Guam, along with a more significant drop in order volumes in Hawaii, contributed to the decline while our affiliate SSAT's earnings were slightly above 2005.

Next slide shows the operating profit margins by quarter for '05 and '06. As we've noted before, last year's margins were historically high, and we don't expect to repeat them. This quarter's 10% margin is within our historical normalized range of 10 to 12% for our ocean transportation segment.

On the next slide we show our Hawaii service volumes. Hawaii container volume westbound and eastbound combined was 100 containers below the second quarter of last year, reflecting primarily lower eastbound volumes as a result of lower agricultural product shipments and lower military-related household good movements. Total Hawaii order volumes were down 22% due to reduced incentives to rental car agencies that have resulted in lower rental car turnover and therefore shipments, as well as competitive pressures with the entry of Pasha into the Hawaii trade during the second quarter of 2005.

Container yields in the westbound Hawaii service were 11% higher than the second quarter of 2005. Besides the fuel surcharge, which accounted for the majority of the increase, the general rate increase and an increase in terminal handling charges together combined for just over 3% of the increase. Most of the 11% increase was really the increase in the fuel service charge. The rate chart shows flat order rates compared to last year's second quarter, and a moderate increase in this year's second quarter compared to the first.

Fuel costs remain a significant factor, with an increase of 29% over the same period a year ago. However, Matson's fuel surcharge effectively offset higher fuel costs during the second quarter. We'll continue to evaluate the need for future changes based upon Matson's fuel costs.

In summarizing the ocean transportation segment, while we did have a large year-over-year drop in operating profit, results are consistent with our annual operating plan, and we expect that we have seen the vast majority of any year-over-year declines. Said another way, we expect profitability for the balance of the year to approach or perhaps match the 2005 second half.

Moving on to the logistics services segment of transportation, operating profit increased 47% on increased volumes in the highway and expedited lines of business, and higher yields across all lines. We continue to feel good about the performance and growth of this business, especially the growth of our higher margin highway brokerage line of business.

Logistics operating metrics remain quite positive, with revenue increasing 9% over the second quarter of 2005 for reasons enumerated on the previous slide. Volume growth, yield improvement and economies of scale combined to generate an operating margin of 4.6%, up from 3.4% during the second quarter of 2005. Looking forward we expect Matson Integrated Logistics to show favorable year-over-year comparisons in the second half of the year, although margins may moderate somewhat.

Turning now to real estate, operating profit increased an unusually large 16% to $12.2 million in our real estate leasing segment. Results benefited from increased occupancy rates as well as additions to our property portfolio. We remain active in improving our portfolio, acquiring a two-building office complex in the Dallas area plus a third office building in the Sacramento market during the quarter.

Operating metrics for real estate leasing occupancies are at an all-time record for A&B of 98% across both our mainland and Hawaii portfolios. Clearly we don't expect much improvement over these levels, but we do anticipate continued strength in the portfolio, and we're more than happy with the performance in the management of our income generating properties. Looking forward in our leased income segment, we expect quarterly results to compare favorably with prior year periods through the balance of 2006.

Turning now to property sales, Property sales had another excellent quarter, generating $6.1 million of increase in operating profit on $22.2 million of additional sales revenue. The results were due primarily to the sale of two Phoenix area retail centers for a combined $35.6 million. Our property sales segment has outpaced 2005 in the first half of this year, but we always note that this segment is episodic by its very nature. We expect full year combined profitability for this and our leasing segment together to match or exceed our stated growth objective of 13 to 15% annually. We anticipate little if any sales activity in the third quarter, but an active fourth quarter.

Turning now to food products, second quarter operating profit grew $2.8 million over the same period of 2005, primarily on favorable pricing and volumes in the sale of electricity to local utilities on both Maui and Kauai, as well as improved molasses and sugar prices. Assuming that we meet our second half production targets, we expect our food product segment to achieve modest profitability in the second half of 2006.

Before I summarize the outlook for the year I would like to update you on a couple of strategic investments. The first is our China service, and the second is our Kukui'ula project.

Our China service is underway and off to a good start. We're established our reputation for reliability. To date all of our 23 departures and 20 of our 21 arrivals have been on time. For those of us who know Matson well, this comes as no big surprise. Matson was recently recognized by the Journal of Commerce as the world's third best shipping company in terms of on-time performance, with approximately 60 plus international shippers rated.

On the sales front we've signed 138 contracts to date, and we're making progress in filling the ships. We have progressively shown increases each month, April, May, and June, and had a very good volume quarter with our vessels now filled up between 50 to 75%.

A few more comments on the initial China service launch. Rates in our China service are below our expectations. Fortunately as noted previously Matson has exceeded expectations in securing volumes for the quarter and in containing costs. As a result financial performance at the early stage in our China service is on target. The outlook for China is, certainly for the second half of 2006, a better one. We expect improved profitability based upon volume increases, a shift in mix to higher margin cargo, and modestly higher prices as we leverage our premium service. We remain confident that our investment decision was a good one. Growth in the China market remains strong, and we believe that we did make the right strategic call in serving the ports of Ningbo and Shanghai and Long Beach.

As a way to talk about real estate, I will now turn to the Hawaii economy as a backdrop. Hawaii's economic expansion continues, but at a slightly slower pace than 2005. This is reflected in the latest data for all key economic indicators. The visitor industry, jobs and personal income all continue to expand at levels that are more sustainable than in recent years. As has been the recent trend, construction is expected to continue to lead job growth this year, with transportation and utilities also healthy. And Hawaii's unemployment rate remains a particularly low 3.1%. With that context in mind, I would like to take a closer look at Hawaii's real estate markets.

First, on the commercial side of the market, we have a decidedly positive environment in the commercial sector in Hawaii, where about half of our commercial real estate income is generated. Vacancy rates are low, and rental rates are improving. We expect a favorable environment and strong values for commercial properties to continue.

On the residential front, prices are up from 2005 and are at historically high levels. Prices have gotten ahead of income gains and are plateauing as a result. Sales volumes are down year-over-year on all three of the major islands that we serve, and we're seeing increases in inventories and days on market, although the days on market metrics appear to be much lower than what we see on the mainland. Looking forward, we anticipate a soft landing for Hawaii's residential market based on several factors. The local economy is expected to be sound, and new housing supply remains constrained by entitlement and infrastructure issues. In addition, although outside investors do impact the resort residential sector, Hawaii's residential market as a whole does not appear to be driven by irrational outside investment.

It is worth putting A&B's overall exposure to the residential market into perspective. Given the binding nature of existing contracts and the diversified nature of our earnings among shipping, real estate, and agriculture, we expect the percentage of A&B's total operating profit exposed to residential real estate market changes to be negligible in 2006 and to be in the 10 to 15% range for 2007.

Turning to Kukui'ula, our largest real estate project, the joint venture there on Kauai is moving ahead in permitting, sales and development. Since our last quarterly conference call in April, the joint venture has secured two important permits. One is for the major road serving the Kukui'ula development, and the other is for two subdivision permits that we have been seeking and have received. In all we've secured three of the four permits we require to meet this year's closing objectives. We're on track to receive the other subdivision permit by the end of the third quarter.

On the sales front, Kukui'ulaâ€™s Founders Club, including visits and lot selections, is well underway, and our 2006 closing goals and pricing remain unchanged. However, it is important to remember that we're still in the non-binding phase of the sales process. Binding contracts are not expected to be signed until later on in this quarter, with closings expected in the fourth quarter of this year. Regarding development work, we received bids for the first $53 million of project costs, all within budget.

Let me conclude with an outlook for 2006. I am pleased with where we are halfway through the year. It is a year that we have acknowledged was going to be an unusual one for A&B. We are somewhat more optimistic for our full year outlook and believe that we are narrowing the gap we had expected between 2005 and 2006 income. However, I am mindful of broader macro-economic concerns with the national economy, residential real estate markets, and shipping that could make for a more challenging environment as we finish 2006 and enter 2007.

The components of our earnings for the rest of the year will be slightly different than we had anticipated, with food products and logistics outperforming our expectations. Meanwhile, accounting rules will limit our earnings recognition at Kukui'ula, but we have always stressed that milestones at Kukui'ula are more important than earnings at this point. The accounting will not affect cash flow. Overall, Matson is on track for a good year in a mixed ocean transportation environment. With that, I will turn the remainder of the presentation over to Chris Benjamin.

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Thank you, Allen. I would first like to talk about our recent share repurchases, which we announced on July 10. We repurchased 200,000 shares in the open market in June at an average price of 42.35. Then we executed an agreement with Goldman Sachs for an accelerated share repurchase, which I will describe in a moment. These repurchases further demonstrate our commitment to returning cash to shareholders, as did our 11% increase in our quarterly dividend earlier this year. Since 1996 we have distributed 70% of our net income to shareholders through both dividends and repurchases.

As for the rationale behind the most recent repurchase decision, it was first and foremost an investment decision. We believe that the stock is an attractive investment at current levels. This is not an indication of a lack of alternative investments, as we continue to have an active pipeline of strategic projects, and we expect to identify additional investment opportunities. However, with our debt to capital at 24% at the end of the first quarter, we felt that we had sufficient capacity to make this investment and pursue these other opportunities. We anticipate increasing our leverage, which we measure as debt over debt plus equity, to the 35 to 40% range over the course of the next 18 months. That's a range that we believe is optimal.

With a desire to undertake a meaningful repurchase, we chose an accelerated share repurchase, or ASR, as the best means of doing so. For those of you that are not familiar with an ASR, a broker borrows stock to sell to the acquiring company up front and receives payment for the shares. The shares are immediately retired. The broker then, through open market transactions, purchases shares to replace the borrowed shares. In our case that process is estimated to take two to four months. At the end of that time the acquiring company and the broker settle based on the volume weighted average price, or VWAP, of the stock during that period. So in the end the Company pays roughly what it would have paid if it had simply bought the shares on the open market, but it has the advantage of the immediate retirement of the shares.

In our case, working with Goldman Sachs, we chose a fixed dollar amount, $63 million, and opted to set a collar around the expected price. Using the maximum price and our total dollar amount of $63 million, we calculated the minimum shares that we would be entitled to, which was 1.35 million. We received these shares from Goldman and have already retired them. When Goldman has completed its purchases we may receive up to an additional 184,000 shares, depending on what the final VWAP is. In no case would we have to give any shares back or provide additional cash.

Moving now to our balance sheet, the $30 million drop in investments for the year-to-date is due primarily to the return of equity from our Hokua joint adventure. Property is up by $52 million, primarily as a result of additions to the leased income portfolio and additions of new equipment at Matson. I should note that subsequent to the end of the quarter we did take delivery of the MV Maunalei, but that is not reflected in these numbers. Its impact in the third quarter will be to increase the property line and virtually eliminate or significantly reduce the capital construction fund balance.

As for our liabilities, I will simply note that capital expenditures and share repurchases have increased our total debt, including current portion, by $80 million since year end. That debt also funded some increases in our capital construction fund in anticipation of the ship purchase. As a result of this increase, our debt ratio has increased to 29.2% from 24.4% at the end of last year, with our share repurchases responsible for the reduction in shareholders equity. The July purchase of the ship will have a modest effect on our debt levels because the ship was funded primarily through CCF withdrawals and cash, and only 36 million of incremental debt.

Looking now at cash flows, the $89 million decrease in operating cash flows from the same period last year, despite similar earnings, is due to several factors including the treatment of 1031 exchange proceeds as non-cash activities, changes in current and deferred income tax and accounts receivable balances, and lower operating profit at Matson. CapEx is much lower than last year primarily because of the timing of vessel purchases in the two years, and you can see the impact of our share repurchase in the open market and through our ASR.

There is not much change in our capital outlook from last quarter. We're still expecting about $470 million of total capital expenditures this year. All I will say on this slide really is to repeat that we have similar aspirations for next year, excluding the new vessel spending which will not repeat next year, and with that I will conclude our formal remarks and turn it back to the Operator for the question and answer session.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question comes from the line of Jonathan Chappell of JP Morgan. Please proceed.

Jonathan Chappell - *JP Morgan - Analyst*

Thank you. Good morning, guys.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Good morning.

Jonathan Chappell - *JP Morgan - Analyst*

My first question is regarding the shipping business, the ocean transportation, and the guidance you gave both in the press release and in the call of second half profitability, either matching or approaching last year's levels. A little bit surprising given the volumes thus far this year. Just wondering if you can give a little more detail into your confidence in that business. Is it you think the volumes might come back? Is it mix issues? What are you seeing that gives you the confidence in the shipping business second half of the year?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Well, the single biggest factor will be the continuing ramp-up of profitability in Guam China, so that factor, you have to remember that the second quarter was really our first full quarter of operation in that new service, and we started at a fairly low level of container carriage which is increasing pretty significantly. Also in Guam China, particularly with China, there is a seasonality aspect to that trade which makes the third quarter a very strong one. That should boost up that part of the business. In addition, we're not expecting any unusual increases or decreases in Hawaii market activity during the quarters ahead. I think it is that and probably a few other factors related to some initiatives that Matson is taking on just continuing to improve its efficiencies.

Jonathan Chappell - *JP Morgan - Analyst*

And Allen, you mentioned in the China Guam couple slides that the ships are about 50 to 75% full and the volumes are meeting your expectations or exceeding them. What's your plan for, let's say, by year end this year looking to '07 for capacity utilization? Do you think you can beat that plan as you sit here today?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Well, what I said was 50 to 75, we have not hit 75 yet. We're in that quartile of 50 to 75. We were in the second quarter, which is actually a good result when you start with zero. But we think that we're going to be getting close for a couple months to capacity. That's certainly our hope during the peak season in shipping, and then for normal seasonal reasons those effective utilization numbers will start to go down as the seasonality and the cycle changes toward the end of the year. We're not at this point giving specific projections on 2007, but we believe that we'll have a pretty good period of low volume to lap in the first half of 2007, but if our projections for the second half of 2006 occur, that our second half 2007 year-over-year increases will be a lot less significant.

Overall I guess it is a bit early for us, having been in the service now for five months to be too far out on a limb in terms of what we think our total utilization will be, but I am certainly more optimistic now, basically because of Matson's premium service. We really are earning our stripes right now and would expect that as we've got more time and more ability to show major customers that Matson can really continue to deliver this premium service, that that's not only going to have a benefit to our volumes, but we'll much more slowly start to increase our pricing.

Jonathan Chappell - *JP Morgan - Analyst*

Okay. Great, Allen, and then just one last quick thing. On the last conference call and when you were touring the mainland earlier in the spring you had made mention the food product side about exploring alternative energy and potentially ethanol as part of that decision. Has there been any developments in looking at those?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

We're moving along pretty smartly. We've committed internally to be in a position to make a decision by the end of the year on ethanol. If we made a decision to go ahead on ethanol, it would be building a plant that would in effect serve the needs of Maui. It would be relatively small compared to the overall ethanol market in Hawaii, but at least it would certainly be a start, so on that part of our energy strategy, we'll be in a go/no-go mode, I am hopeful by the end of the year. We've got a broader but less defined strategy of becoming much more of an energy plantation with the use of biomass from sugar cane. That could be 18 months to two years off before we really, really know what we've got there. That strategy in comparison to ethanol would be a much more significant transformational one for our Ag businesses.

Jonathan Chappell - *JP Morgan - Analyst*

Great. Thanks a lot, Allen.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Thank you.

Operator

Our next question comes from the line of Alex Barron of JMP Securities. Please proceed, sir.

Alex Barron - *JMP Securities - Analyst*

Yes, thank you. Hello, everybody.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Hello.

Alex Barron - *JMP Securities - Analyst*

I wanted to focus a little bit on Kukui'ula. I guess I was wondering if you could give us a bit more details of how many people you guys I guess are thinking are going to be closing this year or have you gotten contracts at the moment?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes. We'll be in a lot better position on our next call to give you completed information, but we've got a target of 123 closings this year, Alex, and we're staying with that target. We'll see how well we achieve that target as we get through the third and the fourth quarter. Right now of the 123 we had had planned and were actually relatively on schedule on that plan to get to a point where we're binding at the end of the third quarter, but right now we've got approximately 100 nonbinding contracts, but they're not just nonbinding. They're nonbinding and going to binding. We're going through a sort of a secondary stage of converting them into binding with the objective of having as many as we can binding by the end of the third quarter. Right now we've got about 100 nonbinding and we'll give you a report later on when we meet and talk at our next webcast.

Alex Barron - *JMP Securities - Analyst*

Got it. How many other people do you have sort of in some sort of wait list or backlog or something like that if some of these people decided not to go forward?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Right now I'm not exactly sure what the number is. It is probably in the range of 100 or so.

Alex Barron - *JMP Securities - Analyst*

Okay. And based on this percentage of completion accounting method, let's assume all 123 closed, like how much are we talking about contribution to EPS based on those guidance?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Chris, why don't you respond to that on the accounting and how it is done and what it means.

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Sure. I think the best way to characterize it, Alex, is that this year because of the percentage of completion being relatively low, and -- I do want to clarify, there was a reference in our press release to, I believe we said margins would be nominal this year. What we meant by that is the dollar amount would be fairly nominal, not the percentage margins. The dollar amount is low because of the percentage of completion being in the 10 to 20% range for these sales, so when you start with what should be somewhere in the range of 140 to $145 million of revenue, and then you take -- you consider our ownership interest in it, then you consider the margin on that, and then you consider 10 to 20% completion, you can get a ballpark of what the contribution is, and it is certainly less than -- it is certainly less than $10 million.

We also have to remember that offsetting that we do have ongoing costs in the joint venture related to marketing activities and that sort of thing, so that's why we say that for the full year the Kukui'ula contribution is really negligible and not the big consideration. We're much more focused on the milestones and the project. It is important to remember that that cash will come into the project from those closings and will fund our construction activity, which is very attractive from a financial management perspective because we don't have to use debt to finance -- or our cash to finance that construction activity.

Alex Barron - *JMP Securities - Analyst*

Okay. Got it. Moving onto Wailea, your Kai Malu project, how many of these homes are schedule to close in the fourth quarter?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Chris, I don't think we've disclosed that, have we?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Kai Malu, I think we talked about it.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

I know the number. It is somewhere between 40 to 50.

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Allen, I think it is closer to 35 this year.

Alex Barron - *JMP Securities - Analyst*

Okay. You guys haven't put out any sort of margin expectations or anything on the project?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

We have not.

Alex Barron - *JMP Securities - Analyst*

Okay. And then lastly I think you guys got some project with Brookfield Homes in the big island. When is that project scheduled to have any closings?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

That's one that -- we've actually got several active projects. The joint venture with Brookfield is moving along a little slower than some of the other projects, and I can't tell you right now what the closing date of that is going to be. There were 48 units that were in the initial tranche of development, and right now they are still working on getting enough binding contracts to go ahead with it. I would say of all the projects we have, that's probably the one that is moving along the slowest.

On the other side of the equation our large Keola La'i project continues to move along pretty well. We're somewhere between 204 to 207 hard contracts, binding. We have to get to about 290, but we always thought that once we went through the presale phase that we would continue to have trickle-in numbers for the period of time that's a little less than two years to completion of construction, so we're doing pretty well there. To put the fact pattern into place, there are 352 units, 62 are gap housing, which leaves you 290 units that are in effect exposed to market conditions, and we've got somewhere between 204 to 207 of these under binding contracts, which means we have somewhere less than 80, or around 80 sales for a period of about a year-and-a-half until the project is complete.

Alex Barron - *JMP Securities - Analyst*

Okay. Great. I will get back in the queue.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Thank you.

Alex Barron - *JMP Securities - Analyst*

Thanks.

Operator

Our next question comes from the line of Christopher Haley of Wachovia. Please proceed.

Christopher Haley - *Wachovia - Analyst*

Good morning, everybody.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Hi, Chris.

Christopher Haley - *Wachovia - Analyst*

Congratulations on a nice quarter.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Thank you.

Christopher Haley - *Wachovia - Analyst*

A couple questions first on the China service. Did you note or offer opinion on the terms of the duration of some of those contracts, Allen?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

I did note them, but they're -- in general terms they're usually annual contracts, and the nature of the contract is that prices are normally established, but the volume expectations are kept at sort of a minimum level, not necessarily an expected level.

Christopher Haley - *Wachovia - Analyst*

Okay. And these contracts, you mentioned in the third quartile or second quartile depending on which way you look at it, 50 to 75% full. Are you referring to the return line or the Hawaii to Guam, Guam to China?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

That's a good question. Thank you for that. No. What I was referring to was, is that we're pretty much full going to Hawaii.

Christopher Haley - *Wachovia - Analyst*

Okay.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

We're economically full. Practically full. What I was referring to was the leg between China to Long Beach where we started our first voyage having essentially almost no volume. We're in the less than 75 but about greater than 50% utilization range in the first full quarter of operations.

Christopher Haley - *Wachovia - Analyst*

Okay. And so the confidence in the second half is a sense that you can get up to an economic or a full economic utilization sometime later this year or early next year?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes -- I don't know that I would go that far. What I think, though, is that based on seasonality that we will have several months where we, if not get to full utilization at least get to a high level of utilization, and then during the off season which are the winter months there, the utilization will, as it is with other carriers, be lower.

Christopher Haley - *Wachovia - Analyst*

From an accounting perspective the GAAP financials for the shipping business, that seasonality will put you both in the third and the fourth, though, correct?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes. This is our first go-around on this. It is really a phenomenon that goes from August through October, so you might see a little of it in either quarter.

Christopher Haley - *Wachovia - Analyst*

Right. Okay. Additionally the new Guam or the expanded Guam Micronesia service. First, does that supplement your confidence in the transport business for the rest of the year, and could you give us a little bit more detail regarding -- if you want to give the return expectations? What you're exactly doing there?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

What we really have is a more efficient means of carriage and a better delivery schedule for Micronesia, so I think that over a period of a couple years it is going to add to the profitability of that Western Pacific China service that we have. It is not -- in terms of the overall business, it is not a huge addition, but it is a nice small one. The best news is it creates a much better service -- there were some fairly small markets who were not being served very well previously. It will bolster our business over time and is additive from day one.

Christopher Haley - *Wachovia - Analyst*

So when I look at your margins that were recorded in the quarter, and your commentary, how much of the -- if you had to look at margin potential, the biggest driver of your margin -- what margin potential is the return China to L.A. or probably this marginal expansion that is occurring west of Hawaii?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Chris, did you have something you wanted to say there, because we don't break out the trade lane profitability, but, yes, the biggest uplift we had is the China trade. That's far and away the biggest up lift. We've got a little bit of an up lift from Guam. But relative to China, it is not that substantial.

Christopher Haley - *Wachovia - Analyst*

Where would you -- allow me to continue to prod. Where would you characterize margins on the return business during the second quarter? Were they neutral or negative to the overall?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

We don't break out margins by trade lane. We don't nor does any other carrier to our knowledge in the world do that.

Christopher Haley - *Wachovia - Analyst*

Okay. Just trying to hold you to that third highest standard, Allen.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Well, that's what they like to brag about.

Christopher Haley - *Wachovia - Analyst*

Right.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

At least when people get in on time it is measurable publicly.

Christopher Haley - *Wachovia - Analyst*

Okay. Last question, it's on Kukui'ula. The cash flow that will be -- what -- the cash flow recognition during the fourth quarter will be what based upon a range? Is it the 140 million, Chris?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

Chris, let me clarify.

Christopher Haley - *Wachovia - Analyst*

Is that part of your -- do you have that in your CapEx budget?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

No, I am sorry. I should have been clearer about that. It is not cash flow to A&B. It is cash flow to the joint venture. We will not be receiving distributions from the joint venture. However, flip side of that is it will keep us from having to put our own capital in to fund that construction activity, but it is basically neutral to us, but very positive to the joint venture.

Christopher Haley - *Wachovia - Analyst*

And how -- in your 10-K at the end of the year will we see that in subsidiary or JV balance sheet disclosures?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

What you will see is simply the investment line that we show will be influenced by the net cash that we're putting into Kukui'ula, so it will just be an increase in investments.

Christopher Haley - *Wachovia - Analyst*

Great. Thank you.

Operator

Our next question comes from the line of Jay Habermann of Goldman Sachs. Please proceed.

Jay Habermann - *Goldman Sachs - Analylst*

Hi, good morning and I'm here with Sloan Bowen as well.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Hi, Jay.

Jay Habermann - *Goldman Sachs - Analylst*

Just want to ask a question on the China service. I know it's been a lot of focus there. Sounding like pricing lower than expected, volume higher than expected. Is it possible to quantify the deltas there? I mean is it pricing, I know we have heard rates down 10 and 12% on the international shipping rates. Is that fair?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

In fact, that is almost exactly the variance trade publications suggests, anywhere from 8, 10 to 12% down on a year-over-year basis.

Jay Habermann - *Goldman Sachs - Analylst*

Is that sort of the range versus your guidance or your expectation initially?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

That is fairly close to the range that we had established when we made the investment.

Jay Habermann - *Goldman Sachs - Analylst*

Okay. What is sort of your outlook for the second half of the year as well as if you could venture out into '07?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

I talked about it very carefully earlier. We don't think that, in terms of the general market that there is going to be any material change. If there is that's great. We don't think that the market is going to change. We think that there is a potential for small -- and I think I used the word modest or something like that -- some improvement in our rates based upon the service that we're providing that really probably hasn't been priced all that well yet relative to its value because we're new participants.

Jay Habermann - *Goldman Sachs - Analylst*

Okay.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

I would not consider that to be in ways that you would think -- I would not consider that be to be a material improvement in pricing.

Jay Habermann - *Goldman Sachs - Analylst*

Okay. Then looking at volume, trying to forecast ahead to Q3 and Q4, I know you're just ramping up this business, but I guess the 7,500 containers that you shipped in the second quarter.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Right.

Jay Habermann - *Goldman Sachs - Analylst*

How much of the quarter did that represent? Was that roughly half of the year? I am just trying to--.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

That was the whole quarter. That's 7500. Because we operated for the entire quarter.

Jay Habermann - *Goldman Sachs - Analylst*

Okay. Well, switching gears a moment, in terms of your conversations I guess with the Founders Program on Kukui'ula are you hearing anecdotally any sort of impact from higher interest rates? Obviously mortgage rates are up pretty sharply. Is that going to have any impact, do you think, on demand for those land sales?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

I am not hearing any interest rate jitters, but -- and I can't be specific about the Founders because I just can't give you enough data points -- but I think that they will be more focused on broader economic conditions and rates of return on their equity portfolios than they will be driven by a marginal increase of 50 basis points on interest.

Operator

Our next question is from the lane of Jason Kremer of Caris & Company. Please proceed.

Jason Kremer - *Caris & Company - Analyst*

Good morning.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Good morning.

Jason Kremer - *Caris & Company - Analyst*

I just had a couple of quick questions. On the Kukui'ula project, I have been hearing from brokers that there has been 50% cancelation. Can you speak to that?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes. What we know is we have -- so far we've got 42 cancellations, and we have approximately 100 Founders who are looking for an '07 rather than -- or deferring themselves into '07.

Jason Kremer - *Caris & Company - Analyst*

You have 100 that are deferring into '07.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes.

Jason Kremer - *Caris & Company - Analyst*

And so to become binding, how long do they have? I guess they can defer into '07 and until when?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Yes, they can, it is all nonbinding right now.

Jason Kremer - *Caris & Company - Analyst*

They have until when to put up the extra 50,000 to become binding?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Well, the people that are in the queue right now, the objective is to have them get to a binding $100,000 commitment by the end of the third quarter.

Jason Kremer - *Caris & Company - Analyst*

Okay. And also on the fuel surcharge for Matson, have you guys thought about switching that back to an as-needed basis? Are you still on the quarterly?

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Actually we're not. What we did do is that several months ago, because the prices became so volatile, it was necessary to go from a quarterly approach that we used for, I don't know, for six or nine months, to an as-needed approach. Right now when there is a need, the rate will be adjusted.

Jason Kremer - *Caris & Company - Analyst*

All right. Thanks a lot. That's all I had.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Okay. I think we have time for maybe one more question. Then we'll conclude.

Operator

Our final question comes from the line of Jay Habermann of Goldman Sachs. Please proceed.

Sloan Bowen - *Goldman Sachs - Analyst*

Hi, guys, it is actually Sloan. Just with regard to Pasha, I know it is hard to quantify, but can you guys comment maybe on the effect on either pricing or what you've seen in volumes? Obviously they're down for autos, but if you can give a comment about outlook for that going forward.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Well, they have one vessel in service. They have made some inroads, but the inroads as we've said previously have been muted in autos by us taking out of in effect our -- removing the highest cost means of shipping autos from sort of the offset to not having autos. They were in operation. This is the first time that we're having a year-over-year period where they've been in operation since they started in effect in the second quarter of 2005.

The primary cause from what we've been able to analyze for the year-over-year reduction in the quarter's volume has been fewer auto shipments for the reasons that were enumerated previously, that the rental car/manufacturers are extending their fleet lives and therefore few of them are coming over and since they all go back to the mainland, a few of them are going back. That was probably the biggest cause. The secondary cause was somewhat less auto sales in the quarter for new vehicles to the local market, and then an additional cause was some -- on a year-over-year basis some increase in the competitor's autos, but there has not to my knowledge, and I will make sure that I am correct about this, and will correct myself later on if I am wrong, but to my knowledge there has not been any real change in the competitive dynamic or in effect share of the auto business from the first to the second quarter.

Sloan Bowen - *Goldman Sachs - Analyst*

Great. Thank you.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Thank you. Well, thanks, everybody. It is just an hour. Are you still there, Chris?

Chris Benjamin - *Alexander & Baldwin - CFO, SVP, Treasurer*

I am here.

Allen Doane - *Alexander & Baldwin - Chairman, President, CEO*

Honolulu, you get a lot more of the day than I had, and we'll probably both have more than some of the people on the line. Thank you very much, everyone.

Operator

Thanks for your participation, ladies and gentlemen. Have a great day.
