

Schacht & McElroy

Robert M. Schacht
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Attorneys at Law

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Members of Rhode Island
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21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com
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August 29, 2006

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Fast Ferry Rate Filing for Interstate Navigation Company

Dear Luly:

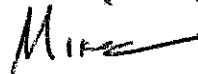
Enclosed are an original and nine (9) copies of the following:

1. Testimony of Walter E. Edge, Jr. in support of Interstate Navigation Company's fast ferry rate request, extending existing rates.
2. Notice of Filing for your review and approval
3. Rate Application
4. Motion seeking certain relief

Once you have approved the notice, I will have it published in the Block Island Times and the Providence Journal. I will also have it posted at the ferry terminals on Block Island and in Point Judith.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg

IN26:IHS-Massaro23

cc: Susan E. Linda
Walter E. Edge, Jr., CPA
Thomas Ahern
Paul Roberti, Esq.
Merlyn O'Keefe, Esq.
Mark McSally, Esq.
Mark Hagopian, Esq.
Block Island Town Clerk (CMRRR)

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: INTERSTATE NAVIGATION COMPANY : DOCKET No.: _____

RATE CHANGE APPLICATION

Pursuant to R.I.G.L. § 39-1-1 et seq., Interstate Navigation Company hereby applies for authorization and permission to increase its rates as shown on the proposed tariffs attached to the testimony of Walter E. Edge, Jr.


The following is provided pursuant to Rule 1.9 of the Rules of Practice and Procedure ("Rules"):

1. **NAME OF APPLICANT:** The Interstate Navigation Company, a Connecticut Corporation licensed to do business in Rhode Island.
2. **PLACE OF BUSINESS:** The Company's principal Rhode Island operations are in Point Judith and Block Island. However, the Company's Administrative Offices are at 12 Eugene O'Neil Drive, New London, Connecticut 06320.
3. **NOTICES:** Correspondence or communications in regard to this Application should be addressed to:

Michael R. McElroy, Esq.
Schacht & McElroy
P.O. Box 6721
Providence, RI 02940-6721
Tel: (401) 351-4100
Fax: (401) 421-5696
Email: McElroyMik@aol.com

Respectfully submitted,
Interstate Navigation Company
By its attorney

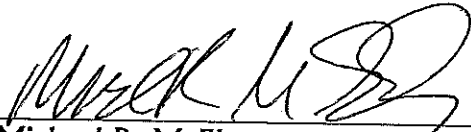
Date: 8/30/06



Michael R. McElroy #2627
Schacht & McElroy
21 Dryden Lane
P.O. Box 6721
Providence, RI 02940-6721
Tel: (401) 351-4100
Fax: (401) 421-5696
E-mail: McElroyMik@aol.com

VERIFICATION

Michael R. McElroy, being first duly sworn deposes and says that the information presented in this Application is true to the best of his knowledge, information, and belief.



Michael R. McElroy

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

Sworn to and subscribed before me this 30th day of August, 2006.



Notary Public (Seal)
My Commission Expires: 01-06-10

In24/06-Rate Change Application

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: INTERSTATE NAVIGATION COMPANY : DOCKET No. _____

MOTION OF INTERSTATE NAVIGATION COMPANY
d/b/a THE BLOCK ISLAND FERRY SEEKING EXPEDITED
APPROVAL OF FAST FERRY RATES AND CERTAIN OTHER RELIEF

In Docket D-05-06, the DPUC granted Interstate Navigation Company (Interstate) authority to operate a seasonal fast ferry between Point Judith and Old Harbor, Block Island. Island Hi-Speed Ferry (IHSF) stopped running its fast ferry the M/V Athena from Point Judith to Block Island in 2006, and leased it to Interstate for the summer of 2006.

In Docket 3742, in Order No. 18603 dated May 11, 2006, this Commission gave Interstate approval to implement for one season (commencing May 24, 2006 and ending October 9, 2006) the same fast ferry rates previously approved by this Commission for IHSF (with the exception of the season's pass, which was approved for IHSF but was later withdrawn).

Interstate intends to purchase all the Rhode Island assets of IHSF, including the M/V Athena, on November 1, 2006. Interstate will be running the Athena from Point Judith to Block Island in 2007 and beyond. Therefore, Interstate now asks this Commission to remove the October 9, 2006, expiration date for the fast ferry rates and to continue those same rates in effect until further order of the Commission.

Because there will be no high speed ferry service to Block Island in 2007 unless Interstate can obtain the necessary DPUC and Commission approvals in time for the

November 1, 2006, closing ("time is of the essence" per contract), Interstate respectfully requests expedited approval of this rate filing.

Interstate is asking, pursuant to R.I.G.L. § 39-3-12, that the Commission extended approve the filed fast ferry rates and:

"allow changes within less time than required by the notice specified in § 39-3-11, and without holding the hearing and investigation therein provided for, or modify the requirements of § 39-3-11 with respect to filing and publishing tariffs either in the particular instance or by general order applicable to special or particular circumstances or conditions, or ... enter an interim order prescribing a temporary schedule of rates, tolls, and charges pending the completion of its investigation."

Pursuant to this statutory authority, Interstate seeks a waiver of the hearing and investigation requirements of R.I.G.L. § 39-3-11 relative to the rates, tolls, and charges for its fast ferry service.

These are the same rates which were in effect in 2005 (IHSF) and 2006 (Interstate) and they will apply only to Interstate's new fast ferry service (which is a purely discretionary service). They will not apply to Interstate's conventional life line service. Interstate has also committed that any profits generated from its fast ferry service will be utilized to either fund the purchase of another fast ferry vessel, to subsidize its life line conventional rates, or to otherwise enhance service to its customers. The Commission will determine the ultimate disposition of net profits from the fast ferry operation.

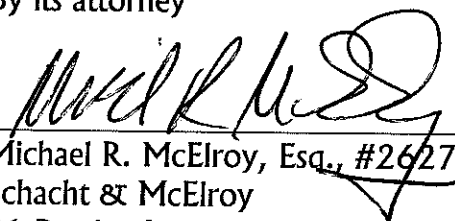
Therefore, since there is no change in rates, and the only change is that the October 9, 2006 expiration date will be eliminated, Interstate further requests that it be allowed an exemption from the rate filing requirements of Part Two of the Commission's Rules of Practice and Procedure.

Interstate is requesting a waiver of Part Two of the Commission's Rules because (1) Part Two is "applicable only to proceedings involving the investigation of changes in rates constituting a general rate increase in which the respondent utility's overall revenue requirements are at issue" and this is not such a change in rates, and (2) because Rule 2.3(b) allows a utility to file for an exemption from the Part Two requirements. Interstate is not, however, requesting a waiver of notice of this filing (in a form to be approved by the Commission) to be published in its service territory within 10 days after the rate filing. A proposed notice has been sent for review and approval to the Commission Clerk and upon approval, the notice will be published in the Block Island Times and the Providence Journal and posted at Interstate's ticket booths in both Point Judith and Block Island.

Accordingly, Interstate respectfully requests that the fast ferry rates and tariffs as set forth in the testimony of Walter E. Edge be approved by the Commission as filed, to become effective October 10, 2006, without suspension.

Respectfully submitted,
Interstate Navigation Company
By its attorney

Dated: 8/29/06


Michael R. McElroy, Esq., #2627
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Fax: (401) 421-5696
E-mail: McElroyMik@aol.com

CERTIFICATE OF SERVICE

I hereby certify that on the ____ day of August 2006, I mailed a true copy of the foregoing by first class mail to the following:

Paul J. Roberti, Esq.
Attorney General's Office
150 South Main Street
Providence, RI 02903

Block Island Town Clerk (CMRRR)
P.O. Drawer 220
Block Island, RI 02807

Hagopian & Hagopian
60 South County Commons Way
Suite G5
South Kingstown, RI 02879

Thomas Ahern, Administrator
Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02888

Merlyn O'Keefe, Esq.
Packer & O'Keefe
1220 Kingstown Road
Peace Dale, RI 02883

Mark McSally, Esq.
Kelly, Kelleher, Reilly & Simpson
28 Caswell Street
Narragansett, RI 02882



Kimberly A. McNulty

**TESTIMONY
of
WALTER E. EDGE JR. MBA CPA
IN SUPPORT OF**

**INTERSTATE NAVIGATION COMPANY'S
FAST FERRY RATE REQUEST**

**Before
RHODE ISLAND PUBLIC UTILITIES COMMISSION
Docket No. ____**

August 2006

1 **Q. Will you please provide your full name and your employer for the record?**

2 A. Yes, my name is Walter Edward Edge Jr., MBA CPA. I am the president of B&E
3 Consulting LLC.

4
5 **Q. Are you the same Walter E. Edge Jr. who has previously filed expert accounting and
6 rate testimony for Interstate Navigation Company (Interstate) in previous DPUC and PUC
7 dockets?**

8 A. Yes, I am.

9
10 **Q. Mr. Edge, have you testified as an expert accounting and rate witness prior to this
11 docket for other utilities?**

12 A. Yes. I have testified before the PUC as an expert rate witness for Narragansett Bay
13 Commission, Block Island Power Company, Providence Water Supply Board, Pawtucket Water
14 Supply Board, Newport Water Department, Stone Bridge Fire District, and Prudence Ferry Inc.
15 Further, I have been qualified as an expert witness on many occasions for transportation, water,
16 sewer, electric, gas, and telephone utilities. I have testified as an expert witness on hundreds of
17 occasions in Rhode Island and less frequently in Washington D. C. and the State of New York.
18 I was formerly employed for five years as the Chief Accountant and Rate Analyst for the Rhode
19 Island Division of Public Utilities and Carriers.

20
21 **Q. What is your educational background?**

22 A. I received my Bachelors Degree in Business Administration (BSBA) from Bryant College
23 and a Masters Degree in Business Administration (MBA) from the University of Rhode Island.
24 I received my certificate to practice as a Certified Public Accountant (CPA) in 1974.

25
26 **Q. Mr. Edge, what is the purpose of your testimony in this docket?**

27 A. As the Commission is aware, Interstate was granted a Certificate of Public Convenience and
28 Necessity (CPCN) to operate a fast ferry from Point Judith to Block Island to Newport and return
29 by the R. I. Division of Public Utilities and Carriers (DPUC). The Commission is also aware
30 that Interstate identified an outstanding one-season vessel leasing opportunity of the fast ferry
31 *M/V Athena* for the summer of 2006.

1 In Docket # 3742, the Commission approved rates for Interstate's fast ferry operation that expire
2 October 9, 2006. At that same time Interstate also obtained certain modifications to its fast ferry
3 CPCN from the DPUC. In those March filings, Interstate noted that it would be filing with the
4 Commission for appropriate rates when Interstate purchased a fast ferry vessel and it is expected
5 to go into service.

6
7 **Q. What then is the subject of this filing?**

8 A. This testimony will explain the current status of Interstate's fast ferry operations and the
9 rationale for the extension of the existing fast ferry rates requested by Interstate in this filing. I
10 will provide the financial data to show that the service should be profitable and as such should
11 positively impact Interstate's "life line" customers and its traditional service. Interstate
12 continues its commitment to use all profits from its fast ferry division to either help fund the
13 construction of a new fast ferry vessel, to subsidize its lifeline traditional rates, or to otherwise
14 enhance its services to customers and this Commission will determine the ultimate disposition of
15 any net profits.

16
17 **Q. What has changed since Interstate filed for one season fast ferry rates for the summer
18 of 2006?**

19 A. Interstate has contracted with IHSF to purchase its fast ferry operations in R. I., which
20 include IHSF's CPCN, the vessel *MV Athena*, IHSF's customer list, and a "non-compete"
21 agreement. The closing is subject to Commission and Division approval and is scheduled for
22 November 1st 2006, with time of the essence. See Attachment A to this testimony which is a
23 copy of the Asset Purchase Agreement.

24
25 **Q. Does this purchase change Interstate's plans to eventually build a fast ferry?**

26 A. No. This purchase of IHSF's R. I. assets is expected to be Interstate's first step in the fast
27 ferry business. It should not change Interstate's ability or desire to eventually proceed with its
28 plans to build its own passenger, freight and car carrying fast ferry vessel as described in the
29 Division's fast ferry CPCN Order # 18506 in Docket D-05-06.

1 It will however allow Interstate the time necessary to proceed cautiously to build its fast ferry,
2 allow Interstate to provide fast ferry service to its customers in the interim, and also provide a
3 continuance of fast ferry service from Point Judith to Block Island now that IHSF has left the RI
4 fast ferry market. Interstate believes that its one season leasing opportunity, followed by this
5 purchase, will aid Interstate by providing knowledge and operational experience which can be
6 used by Interstate for future decision making as it relates to its hopefully broader fast ferry
7 operations.

8

9 **Q. Will IHSF run a Rhode Island fast ferry operation?**

10 A. No. If Interstate's requests are approved by the Division and this Commission, IHSF will
11 no longer have a Rhode Island fast ferry operation. It is my understanding that IHSF will
12 continue its Puerto Rico fast ferry operation. In fact, this coming winter of 2006-2007, IHSF
13 will lease the *M/V Athena* from Interstate for its winter service in Puerto Rico. The lease will
14 run from November 2006 to May 2007, at which time Interstate will reinstate its summer fast
15 ferry service. In this way, Interstate will, as it has this summer, fill the void left by IHSF
16 discontinuing its fast ferry service to Block Island.

17

18 **Q. What modification(s) has Interstate requested to its CPCN from the Division as a**
19 **result of this purchase?**

20 A. Interstate requested the extension of three modifications, all of which were previously
21 approved by the Division for one season. First, since IHSF will no longer be running a fast ferry
22 service from Point Judith to Block Island, Interstate has requested that it be allowed to run up to
23 six trips a day (as Interstate did this summer) from Point Judith to Block Island instead of the
24 three trips per day from Point Judith set forth in the original order approving Interstate's fast
25 ferry CPCN.

26

27 Second, Interstate has also requested a modification of its CPCN (for the interim period from
28 now until Interstate builds its new car/freight/passenger fast ferry and places it in service) to put
29 on hold the more time consuming fast ferry trips to and from Newport which are set forth in
30 Interstate's fast ferry CPCN. Until the new vessel is built, Interstate will continue its usual
31 summer only conventional ferry service from Newport to Block Island.

1 The third modification requested reflects the fact that IHSF will not be running a fast ferry
2 service, which eliminates any need to protect IHSF and makes such protections as the Division's
3 restrictions on Interstate's fast ferry departure times and advertising restrictions meaningless.
4 Therefore, Interstate has requested that the Division remove all restrictions on Interstate's fast
5 ferry CPCN that were designed to protect IHSF.

6
7 **Q. What fast ferry rates and tariffs is Interstate requesting be approved?**

8 A. Interstate is requesting that the Commission approve and extend the exact same fast ferry
9 rates and tariffs already approved by the Commission for Interstate for the summer of 2006,
10 which expire October 9, 2006. These rates and tariffs are attached hereto as WEE-2. Interstate
11 is hopeful that the Commission will approve this reasonable request and will waive the usual rate
12 filing requirements, because this is a discretionary service and nothing is being changed except
13 for the extension past October 9, 2006.

14
15 **Q. What is the basis of this request?**

16 A. As stated in my March 2006 rate request testimony, I reviewed the Commission's order in
17 Docket # 3599, and the IHSF Tariff Filing, and found that the circumstances noted by the
18 Commission in that docket for approving the IHSF fast ferry rates and tariffs remained the same
19 for Interstate's fast ferry rates and tariffs request. Namely, "customers have the discretion to
20 choose the service", the fast ferry service "does not provide lifeline service" and the service is
21 "purely discretionary" (page 3). The Commission further addressed the Town's concerns by
22 noting that, "The service is strictly discretionary and the Town's residents can choose the less
23 expensive lifeline service provided by Interstate Navigation." (See page 5).

24
25 **Q. If the same IHSF fast ferry rates and tariffs are approved for Interstate, will Interstate
26 operate the fast ferry operation at a profit?**

27 A. Yes, I believe it will. Per my calculations, Interstate should generate a fairly substantial
28 profit in the first year of fast ferry operations. See Schedule WEE-1 attached to this testimony.

1 **Q. Is there any urgency to this request?**

2 A. Yes, very much so. We once again apologize, but due to the time it took to negotiate this
3 transaction and complete the steps necessary for the closing, Interstate is requesting a very fast
4 turn around time from this Commission (and the Division). Interstate needs approval of the
5 extension of its proposed fast ferry rates and tariffs from this Commission so that Interstate can
6 close on the purchase on November 1st 2006. Commission approval is required for the closing.

7
8 Interstate is hopeful that this will be an uncontested rate request and that the Commission can
9 approve this request without hearings or suspension and simply allow the rates to go into effect
10 in 30 days. Clearly it is in the best interest of the public and the ratepayers to have this service
11 available and specifically provided by Interstate because Interstate has agreed that all fast ferry
12 profits will go directly to the benefit of the ratepayers and not the owners.

13

14 **Q. Does that conclude your testimony?**

15 A. Yes.

Projection of Revenues and Expenditures (purchase of IHSF)
 First Full Year of Operations
 Interstate Fast Ferry

Schedule WEE-1

		<u>Proforma 1st year</u>
Revenues:		
Calculated Round Trip Ridership (May - July 2006) *	19,388 times \$29.00	\$ 562,252
Projected Round Trip Ridership (August - October 2006)	21,500 times \$29.00	<u>623,500</u>
	Total Projected Passenger Revenue	1,185,752
Other Revenues (Bar, bike, etc)		75,000
Fuel Surcharge Revenue		195,000
Charter Revenue		<u>212,025</u>
	Total Revenue	1,667,777
Expenses:		
Salaries and wages (\$6,000 per week X 21 weeks)		126,000
Payroll taxes (10% of S&W)		12,600
Fuel (195,000 gallons * 2.20/gallon)		429,000
Maintenance:		
Annual engine top end and overhauls	Two year average	138,000
Dry Docking	Estimate	10,000
General Maintenance	Estimate	25,000
Insurance	Estimate	30,000
Advertising	Estimate	15,000
Berthing Point Judith		4,000
Bar expense		33,000
General and Administrative Expense		
Legal and accounting		
General office supplies		
Gross Receipts Taxes		
Fees (coast guard, banking, etc)		
	Total G&A Expense Estimate	100,000
<u>Debt service on \$5,600,000:</u>		
Principal	(\$5,600,000/25)	81,420
Interest	(\$5,600,000*.075)	409,003
	Total Expense	<u>1,413,023</u>
Estimated net profit		<u>\$ 254,754</u>

* See testimony page 10, lines 10-15.

STATE OF RHODE ISLAND

PUBLIC UTILITIES COMMISSION

Docket No. _____

INTERSTATE NAVIGATION COMPANY

LOCAL FAST FERRY TARIFFS

Naming

PASSENGER RATES
APPLYING BETWEEN
POINTS AND PLACES IN THE STATE OF
RHODE ISLAND

(As indicated herein)

EFFECTIVE: October 10, 2006

ISSUED BY:

Interstate Navigation Company
Susan Linda, President
Post Office Box 482
New London, Connecticut 06320

RULE No. 5 PETS OR ANIMALS ACCOMPANYING PASSENGERS:

Animals or pets will not be allowed to accompany passengers aboard ships unless such animals are securely under leash.

RULE NO. 10 BAGGAGE DEFINED:

1. Baggage may be either personal or sales sample cases defined as follows: Personal luggage or baggage consisting of wearing apparel, toilet articles or similar effects in actual use, necessary and appropriate for the wear, use, comfort or convenience of the passenger for the purpose of the trip and not intended for other persons or for sale. Sample cases are those to be used by the salesman containing samples or articles or merchandise for sale and for future transportation and not articles for immediate sale forthwith.
2. Money, jewelry, negotiable papers or like valuables should not be enclosed in baggage to be checked. This carrier will not be responsible for such articles in baggage.
3. All baggage must be enclosed in receptacles such as trunks, valises, suit cases, leather hat boxes or satchels provided with handles, securely locked or otherwise fastened and made of material of sufficient strength and durability and quality to withstand the rapid handling and piling incidental to its transportation.

RULE NO. 15 BAGGAGE ACCOMPANING PASSENGER:

Each passenger purchasing an adult or child one way ticket will be allowed to transport without charge fifty (50) pounds of luggage or baggage, which must be carried on and off the ship by the passenger at points of embarkation and debarkation.

RULE NO. 20 ARTICLES IN AUTOMOBILES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 25 DAMAGE TO AUTOMOBILES IN TRANSIT:

This rule is not applicable for the fast ferry at this time.

RULE NO. 30 ROUND TRIP TICKET:

The carrier will not be responsible to persons holding round trip tickets for failure to provide return carriage due to weather or mechanical failure; the carrier will honor the return ticket by providing carriage as soon as the weather and the sea are fit for navigation and the equipment is fit to operate.

RULE NO. 35 OVERSIZED VEHICLES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 40 TIME LIMIT ON SUITS:

Suits to recover on any claim for loss of life or bodily injury must be instituted within one (1) year from the day when the death or injury occurred. Suits to recover on any claim other than loss of life or bodily injury, including breach of contract, must be instituted within (6) months of the scheduled arrival of the passenger or property at destination.

RULE NO. 45 SCREENING AND INSPECTION:

Pursuant to Homeland Security Coast Guard Regulations, entering the ferry facility is deemed valid consent to screening or inspection; and failure to consent or submit to screening or inspection will result in denial or revocation of authorization to enter.

RULE NO. 50 ARTICLES LEFT ABOARD VESSEL:

Carrier will not be responsible for articles left aboard the vessel. Such shipments shall be charged for at a minimum rates provided in the Company's tariffs.

RULE NO. 55 DAMAGE TO AUTOMOBILES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 60 CAR RESERVATION CANCELLATIONS:

This rule is not applicable for the fast ferry at this time.

RULE NO. 60 VEHICLE OVERHANG CHARGE

This rule is not applicable for the fast ferry at this time.

RULE NO. 70 NON-STANDARD VEHICLE CHARGES:

This rule is not applicable for the fast ferry at this time.

RULE NO. 75 BLOCK TICKET SALES CHARGES:

There is a \$15.00 block ticket sales service charge for all block sales of 25 or more tickets (e.g., weddings, corporate outings and other such events).

RULE NO. 80 ONLINE SALES CHARGE:

For all on-line internet ticket sales, there is a \$2.00 service fee charge to cover postage and handling.

RULE NO. 85 LOST TICKET CHARGE:

There is a \$10.00 charge for all lost tickets which are replaced (each way).

RULE NO. 90 GROUP DISCOUNTS:

Not required at this time because of previously approved IHSF Volume Discount rate requested elsewhere in this tariff.

RULE NO. 95 ADVANCED TICKET DISCOUNT:

Carrier may sell advanced tickets on a pay for 9 tickets in advance, get 10 tickets basis.

PASSENGER RATES

1. ROUTE:

Between Galilee and Block Island
Between Block Island and Galilee

2. FARES:

a. Individual Tickets

Adult one-way	\$15.50
Adult round trip	\$29.00
Child one-way	\$ 8.75
Child round trip	\$13.50

b. Frequent User Cards

Adult	10 round trips (or 20 one-way)	\$260.00
Child	10 round trips (or 20 one-way)	\$120.00

c. Season's Pass

Not requested

d. Volume Discount

May, June, September and October	Adult	\$20.30
July and August	Adult	\$23.20

NOTE a. The passenger rates for children will apply to children four (4) years of age up to and including children (12) years of age when accompanied by an adult. For children thirteen years of age and older, the adult passenger fares published apply. Children under three (3) years of age when accompanied by an adult will be transported free of charge.

NOTE b. Applicable municipal landing fees will be added.

NOTE c. All Tickets are open ended. However, passengers will be asked for a return date and time, which will be printed on the boarding pass (for seating purposes). If the passenger's travel plans change, they must redeem the issued boarding pass at an Interstate ticket office for a new one, subject to seating availability on a particular departure. This means that passengers who change travel plans on busy weekends, for example, travel on a standby, first come first serve basis.

Because Frequent User Card holders will be allowed to proceed directly to the gate for boarding, it is recommended that at times of heavy traffic volume they check in at the ticket office before boarding, or call in advance to reserve a seat. All tickets, including Frequent User Cards, must be used during the season they are issued.

NOTE d. The season's Passes note is not needed at this time.

NOTE e. Volume Discounts are available only to passengers traveling in groups of 25 or more persons.

BICYCLE RATES

One-way	\$3.00
Round Trip	\$6.00

Attachment AASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT dated as of the 5th day of April, 2006, (the "Agreement"), is entered into by and between Interstate Navigation Company, d/b/a The Block Island Ferry, having a mailing address of Post Office Box 482, New London, CT 06320 (the "Buyer"), and Island Hi-Speed Ferry, LLC, having an address at Post Office Box 5447, Wakefield, RI 02880 (the "Seller").

WITNESSETH:

WHEREAS, Seller is desirous of selling all the assets of Island Hi-Speed Ferry, LLC (IHSF) related to its Rhode Island Point Judith to Block Island ferry operation, which consist primarily of the M/V Athena and IHSF's Certificate of Public Convenience and Necessity (CPCN) issued by the RI Division of Public Utilities and Carriers (DPUC) for IHSF's Point Judith to Block Island run (but not including any assets related to IHSF's Puerto Rico operation) and including but not limited to IHSF's RI customer list, its liquor license, food service license, good will, berthing permit in Point Judith, etc. (the "Assets", "Acquired Assets," or the "Purchased Assets");

WHEREAS, Buyer is desirous of purchasing the same on the terms and subject to the conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the premises and of the representations and warranties, covenants and agreements hereinafter made, the parties hereto do hereby agree as hereinafter set forth:

1. AGREEMENT TO BUY AND SELL ASSETS

Buyer agrees to buy from Seller (without assuming any outstanding liabilities) and Seller agrees to sell (without transferring any outstanding liabilities) to Buyer the Acquired Assets.

2. NO ASSUMPTION OF LIABILITIES

Buyer is not assuming any liabilities of Seller. The Buyer is not assuming or agreeing to perform any of Seller's liabilities, duties, undertakings and obligations, commercial or otherwise, known or unknown, fixed or contingent, choate or inchoate, liquidated or unliquidated, secured, unsecured or otherwise.

3. PURCHASE PRICE AND DEPOSIT

In consideration for the Acquired Assets, Buyer will pay to the Seller a purchase price of \$5,612,500 (the "Purchase Price"). Upon the signing of this agreement, an earnest money deposit of \$250,000 will be paid by Buyer and held in escrow in an interest bearing account, with interest accruing to Buyer, at the Washington Trust Company jointly by Attorneys Michael McElroy, Paul Baccari and Mark Hagopian, attorneys for the Buyer and Seller respectively. Said deposit will be refunded to Buyer if any of the conditions of this purchase are not met.

4. CLOSING AND PAYMENT OF THE PURCHASE PRICE

(a) Subject to the satisfaction or waiver of all of the conditions precedent set forth herein, the closing of the transaction contemplated hereby (the "Closing") shall be held at the offices of Schacht & McElroy, 21 Dryden Lane, Providence, RI 02904 at 10:00 a.m. on November 1, 2006, or such other time, date or place as Seller and Buyer shall mutually agree (the "Closing Date"). TIME IS OF THE ESSENCE FOR THIS CLOSING DATE.

(b) At the Closing, Seller shall transfer to Buyer all right, title and interest in and to all of the Acquired Assets, free and clear of all claims, liens, pledges, encumbrances, mortgages, charges, security interests, options, rights or restrictions. At the closing, the Seller, at its expense, shall deliver to the Buyer a bill of sale (with covenants of warranty as to title and as to the absence of security interests, liens, charges, encumbrances, and equities of others) and such other documents in form reasonably acceptable to counsel for the Buyer and sufficient to vest in the Buyer good and marketable title to, and all right, title and interest of the Seller in, the Acquired Assets including but not limited to Coast Guard documentation.

5. REPRESENTATIONS AND WARRANTIES OF SELLER

The Seller represents, warrants and agrees as of the date hereof as follows:

5.1 No Conflict of Seller. This Agreement and each of the agreements and other documents and instruments delivered or to be delivered to Buyer pursuant to or in contemplation of this Agreement will constitute, when so delivered, the valid and binding obligations of Seller and shall be enforceable in accordance with their respective terms. The execution, delivery and performance of this Agreement or any other agreement, document or instrument by Seller hereunder does not and will not with the passage of time or the giving of notice or both:

(i) result in a breach of or constitute a default under any indenture or loan or credit agreement of Seller, or any other material agreement, lease or instrument to which Seller is a party or by which the property of Seller is bound or affected;

(ii) result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance or claim on the Acquired Assets which may adversely affect the use of any of the Acquired Assets;

(iii) result in a violation of or default under any law, rule, or regulation, or any order, writ, judgment, injunction, decree, determination, or award;

(iv) except as otherwise set forth herein, require any approval, consent or waiver of, or filing with any entity, private or governmental, except the Washington Trust Company, the DPUC, the RI Public Utilities Commission (PUC), the RI Department of Environmental Management (DEM), the Rhode Island Coastal Resources Management Council (CRMC), and the U.S. Coast Guard.

5.2 Litigation. There is no action, suit or proceeding pending or threatened against Seller relating to the Seller's Rhode Island business or the Acquired Assets. No order, writ, injunction or decree has been issued by any court or governmental agency which might result in a

material adverse change in the Seller's business, or the Acquired Assets, or which might materially adversely affect the transactions contemplated by this Agreement.

5.3 Brokerage. Seller has not dealt with any broker or finder in connection with the transactions contemplated herein, and agrees to indemnify and hold Buyer harmless in connection with any claims for commissions or other compensation made by any broker or finder claiming to have been employed by or on behalf of Seller in connection with the transactions contemplated herein.

5.4 Vendors and Customers. Attached hereto as Exhibit 1 is a compilation of all vendors and customers with which the Seller had transactions totally more than \$1000. The Seller does not know of any event, happening or fact which would lead it to believe that any of such vendors or customers will terminate its business relationship with the Seller or, subsequent to the closing, with the Buyer.

5.5 Arm's Length Transactions. All transactions by the Seller with all parties are and have been conducted on an arm's length basis.

5.6 Tax Returns. Seller has timely filed with the appropriate governmental authorities, all tax and other returns (or requests for extensions) required to be filed by it relating to the business or assets of the Seller and such returns are true and complete and all taxes shown thereon to be due have been paid.

5.7 Accuracy of Books and Records. The books and records of the seller in all material respects are accurate and complete and there are no material matters for which proper entry has not been made in such books and records.

5.8 Employee Claims. No officer or employee of the Seller has any claim or claims against the Seller, and the Seller is not obligated or liable to any of such persons in any way or for any amounts, except current salaries or wages to employees, and reimbursable business expenses incurred in the ordinary course of business. The Seller has not received notice of any claim by any employee or former employee including but not limited to any claim alleging employment discrimination of any kind (including but not limited to age, sex, handicap, sexual orientation, ancestry, ethnic characteristics, etc.) or sexual harassment, or any claim of invasion of privacy, wrongful termination, defamation, or infliction of emotional distress.

5.9 Labor and Employment Agreements. The Seller is not a party to (i) any union collective bargaining or similar agreement, (ii) any employee benefit plan, deferred compensation plan, bonus, stock option, stock purchase, retainer, or consulting agreement, whether or not legally binding, (iii) any plan providing for "fringe benefits" to its employees, including, but not limited to, vacation, sick leave, medical, hospitalization, life insurance and other insurance plans, or related benefits, or (iv) any employment or other service agreement.

5.10 Environmental Compliance. The Seller is in material compliance with all applicable laws and regulations pertaining to environmental requirements, including, without limitation, laws and regulations concerning odors, noise, air emissions, discharge of water or pollution, and alteration of or encroachment upon any fresh water or salt water wetland, flood plain or coastal area. The Seller has not used, stored, transferred, discharged, transported or

disposed of dangerous, toxic or hazardous materials, chemicals, wastes or similar substances into the environment other than in compliance with applicable environmental law.

5.11 Necessary Property. All tangible property and all intangible property including, without limitation, all licenses, agreements, and proprietary technical information, necessary for the conduct of the Rhode Island business of the Seller, in the manner and to the extent presently conducted by the Seller, is included in the purchase and sale contemplated hereunder.

5.12 Product and Field Warranties. Seller shall assign to Buyer, to the extent assignable, any warranties given by third parties to Seller which may remain in effect.

5.13 Access Pending Closing. From and after the date of execution hereof to and including the Closing Date, the Seller agrees that (i) it will afford to the officers, employees and other authorized representatives of the Buyer free and full access to the premises, properties, books and records of the Seller, in order that the Buyer may make or cause to be made such investigations as it may deem appropriate in respect of the Acquired Assets. Notwithstanding the foregoing, Buyer shall not make copies of such books and records or remove such books and records from the Seller's offices, and Buyer shall at all times remain subject to the confidentiality agreement set forth in the November 16, 2005 Letter of Intent, which is attached hereto as Schedule 5.13 and incorporated herein, with regard to Seller's financial information. Provided, further, that Buyer shall not disclose the terms of this agreement to any non-essential, non-management level Interstate personnel, who are not directly involved in or responsible for the performance of Buyer's obligations under this agreement. Until the Closing, the existence and the terms of this agreement shall not be publicly disclosed by Buyer, except as set forth in the Letter of Intent, and as is necessary for Buyer to obtain the financing, regulatory and other approvals, permits, licenses, etc. contemplated by this agreement. Any violation of the provisions of this paragraph 5.13 by Buyer shall entitle Seller to pursue all remedies at law and in equity.

5.14 Other.

- (i) The Seller is the owner and shall as of the Closing Date have good and marketable title to the Acquired Assets free of all debts, liens mortgages, security interests and encumbrances.
- (ii) The Seller has entered into no contract relating to the Acquired Assets that will survive the closing.
- (iii) There are no judgments, liens, actions or proceedings against the Seller which may affect Seller's ability to perform this transaction.
- (iv) There are no violations of any kind, pending or to Seller's knowledge threatened, against the Acquired Assets and to the best of the Seller's knowledge, all laws, rules and regulations relating to the Acquired Assets have been complied with in all material respects.
- (v) The Seller has paid in full, or will arrange for the payment in full, of all withholding, social security, unemployment insurance, sales and other taxes and fees. The Seller shall be responsible for and agrees to pay all overtime, accrued vacation time, sick leave and any other benefits due the Seller's employees as of the date of closing.
- (vi) The property to be transferred will be delivered to Buyer in Rhode Island.

- (vii) There are no written or oral agreements of employment with an employee or group of employees or their representatives.
- (viii) Seller is duly organized and validly existing and in good standing under the laws of the State of Rhode Island.
- (ix) Seller has full power and authority to carry on its business as it is now being conducted and to own or hold under lease the properties and assets it now owns or holds under lease.
- (x) Seller has full power and as of the Closing shall have authority to sell, convey, assign, transfer and deliver the Acquired Assets to the Buyer as provided in this Agreement and to carry out any other transactions and agreements contemplated hereby.
- (xi) All proceedings required to be taken by or on the part of the Seller to authorize the Seller to enter into and carry out this Agreement, and for the Seller to sell, convey, assign, transfer and deliver the Acquired Assets, have been duly and properly taken;
- (xii) This Agreement has been duly executed and delivered by the Seller and constitutes the valid and binding obligation of the Seller enforceable in accordance with its terms.
- (xiii) To the best of Seller's knowledge, no inquiry having been made, the execution, delivery and performance of this Agreement will not violate any provision of law, any order of any court or other agency of government, the charter or by-laws or operating agreement of the Seller, or any indenture, agreement or other instrument to which the Seller is a party or by which it is bound.

6. REPRESENTATIONS AND WARRANTIES BY BUYER

As of the date hereof, Buyer represents and warrants as follows:

6.1 Authority of Buyer. This Agreement and each of the agreements and other documents and instruments delivered or to be delivered by Buyer pursuant to or in contemplation of this Agreement will constitute, when so delivered, the valid and binding obligations of Buyer and shall be enforceable in accordance with their respective terms. The execution, delivery and performance of this Agreement and any such agreement, document or instrument by Buyer and the execution, delivery and performance of this Agreement or any other agreement, document or instrument by the Buyer does not and will not with the passage of time or the giving of notice or both:

- (i) result in a breach of or constitute a default under any indenture or loan or credit agreement or under any other material agreement, lease or instrument to which Buyer is a party or by which the property of Buyer is bound or affected;
- (ii) result in a violation of or default under any law, rule, or regulation, or any order, writ, judgment, injunction, decree determination, award, indenture, material agreement, lease or instrument now in effect having applicability to Buyer;
- (iii) except as otherwise set forth herein, require any approval, consent or waiver of, or filing with any entity, private or governmental, except the Washington Trust Company, the DPUC, the PUC, the DEM, the CRMC, and the U.S. Coast Guard.

6.2 Brokerage. Buyer has not dealt with any broker or finder in connection with the transaction contemplated herein and agrees to indemnify and hold Seller harmless in connection with any claims or commissions or other compensation made by any broker or finder claiming to have been employed by or on behalf of Buyer in connection with the transactions contemplated herein.

6.3 Other

- (i) There are no judgments, liens, actions or proceedings against the Buyer which may affect Buyer's ability to perform this transaction.
- (ii) Buyer is duly organized and validly existing and in good standing under the laws of the Connecticut.
- (iii) Buyer has full power and authority to carry on its business as it is now being conducted and to own or hold under lease the properties and assets it now owns or holds under lease.
- (iv) Buyer has full power and authority to purchase and acquire the Acquired Assets to the Buyer as provided in this Agreement and to carry out any other transactions and agreements contemplated hereby.
- (v) All corporate proceedings required to be taken by or on the part of the Buyer to authorize the Buyer to enter into and carry out this Agreement, and for the Buyer to purchase and acquire the Acquired Assets, have been duly and properly taken;
- (vi) This Agreement has been duly executed and delivered by the Buyer and constitutes the valid and binding obligation of the Buyer enforceable in accordance with its terms.
- (vii) To the best of Buyer's knowledge, no inquiry having been made, the execution, delivery and performance of this Agreement will not violate any provision of law, any order of any court or other agency or any indenture, agreement or other instrument to which the Buyer is a party or by which it is bound.

7. INDEMNIFICATION

7.1 Indemnification by the Seller. The Seller hereby agrees to defend, indemnify and hold Buyer harmless from and against, any damages, liabilities, losses and expenses (including, without limitation, reasonable attorney's fees) of any kind or nature whatsoever which may be sustained or suffered by Buyer arising out of, based upon, or by reason of (i) any incident which relates to the assets to be acquired hereunder or the operation of Seller's business and which occurs prior to the Closing Date and (ii) a breach of any representation or warranty, or a failure to perform any agreement or covenant, made by Seller in this Agreement or by reason of any claim, action or proceeding asserted or instituted growing out of any matter or thing covered by such breached representations, warranties or covenants or by any liabilities of Seller of which Buyer is not aware as of the Closing Date.

7.2 Indemnification by the Buyer. The Buyer hereby agrees to defend, indemnify and hold Seller harmless from and against any damages, liabilities, losses and expenses (including, without limitation, reasonable attorneys' fees) of any kind or nature whatsoever which may be sustained or suffered by Seller arising out of, based upon, or by reason of (i) any incident

which occurs after the Closing Date and which relates to the assets to be acquired hereunder or the operation of the business and which occurs after the Closing Date, and (ii) a breach of any representation or warranty, or a failure to perform any covenant, made by the Buyer in this Agreement or by reason of any claim, action or proceeding asserted or instituted growing out of any matter or thing covered by such breached representations, warranties or covenants.

7.3 Limitations of Indemnification.

The amount which the indemnifying party is required to pay to, for, or on behalf of the indemnified party pursuant to this Article 7 shall be reduced by any insurance proceeds actually received by or on behalf of the indemnified party in connection with the indemnifiable loss (the "Indemnifiable Loss"). Any such amount required to be paid, as so reduced, is an "Indemnity Payment." If the indemnified party shall have received, or if the indemnifying party shall have paid on its behalf, an Indemnity Payment in respect of an Indemnifiable Loss and shall subsequently receive, directly or indirectly, insurance proceeds in respect of such Indemnifiable Loss, then the indemnified party shall pay to the indemnifying party the amount of such insurance proceeds or, if less, the amount of the Indemnity Payment.

7.4 Notice, Defense of Claims. Each party to this Agreement shall give prompt written notice to the other party to this Agreement of each claim for indemnification hereunder specifying the amount and nature of the claim, and of any matter which is likely to give rise to an indemnification claim. Each party to this Agreement has the right to participate at its own expense in the defense of any such matter or its settlement, but the indemnifying party shall have the right to control the defense of settlement of such matter. Failure to give timely notice of a matter which may give rise to an indemnification claim shall not affect the rights of the indemnified party to collect such claims from the indemnifying party so long as such failure to so notify does not materially adversely affect the indemnifying party's ability to defend such claim against a third party. No indemnifying party, in the defense of any claim or litigation, shall, except with the consent of an indemnified party, which consent shall not be unreasonably withheld or delayed, consent to entry of any judgment or enter into any settlement by which such indemnified party is to be bound and which judgment or settlement does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

8. MISCELLANEOUS COVENANTS AND AGREEMENT OF SELLER AND OF BUYER

8.1 Survival of Representations, Warranties, Agreement, Covenants and Obligations. Except as regards payment of taxes, which representations shall survive until the expiration of any applicable statute of limitations, all representations, warranties, agreements, covenants and obligations herein or in any exhibit, schedule, or financial statement disclosed by either party to the other party incident to the transactions contemplated hereby shall be deemed to have been relied upon by the other party, shall survive the execution and delivery of this Agreement, any investigation at any time made by any party hereto, and the sale and purchase of the Acquired Assets for a period of one year from the Closing Date.

8.2 Further Assurances. From time to time after the Closing and without further consideration, the parties will execute and deliver, or arrange for the execution and delivery of such other instruments of conveyance and transfer and take such other action or arrange for

such other actions as may reasonably be requested to more effectively complete any of the transactions provided for in this Agreement or any documentation annexed hereto.

8.3 Use of Name. After the Closing, Seller shall not use the name "Island Hi-Speed Ferry" (or any similar name) within the State of Rhode Island or within 25 miles of the Rhode Island border alone or in any combination as part of any trade or business name, for the purpose of transporting passengers or freight to Block Island and Seller hereby consents to Buyer using the name "Block Island High Speed Ferry" or any similar name from and after the Closing Date. However, Seller may use the name "Island Hi-Speed Ferry" for a Greenport, NY to New Harbor ferry run.

8.4 Documents. Seller shall deliver all original records and documents of the Company that relate to the Acquired Assets, except employee records and attorney work product.

8.5 Contracts, Licenses and Permits. Seller agrees to cooperate with Buyer's efforts to secure the transfer to Buyer or the reissuance or issuance in the name of Buyer of all contracts, consents, leases, licenses and permits required under applicable law or regulation, federal, state and local or necessary to the ownership and location of the Acquired Assets and/or the operation of the business, except for any agreement Seller may have to use Payne's Dock to conduct its existing or future Block Island business.

8.6 Taxes, Assessments, and Charges. In no event will Buyer be liable for any taxes, assessments, or charges which may be imposed upon the Acquired Assets prior to the Closing Date.

8.7 Non-Competition. Seller and all owners of Seller agree and covenant that they and any related or affiliated entity or persons shall not, directly or indirectly, anywhere within Rhode Island or within 25 miles of the Rhode Island border, in perpetuity, from the Closing Date, form, acquire or become associated in any capacity or to any extent, directly or indirectly, with an enterprise similar to or competitive with the Rhode Island ferry business of Island Hi-Speed Ferry, LLC. In the event of a breach or a threatened breach by Seller of this Paragraph 8.7, Buyer shall be entitled to an injunction restraining such breach, but nothing herein shall be construed as prohibiting Buyer from pursuing any remedy available to Buyer for such breach or such threatened breach. This non-compete shall not apply to a ferry from Greenport, or anywhere within fifteen (15) miles of Greenport, Long Island, New York to New Harbor, or Old Harbor, Block Island. This provision shall survive the closing. Nothing herein shall be construed as a waiver of Buyer's rights to appeal the award of an Assent by the CRMC to Ballard's for the construction of a marina in Old Harbor, Block Island and all such rights are reserved.

Buyer and all owners of ten (10)% percent or more of the voting stock of Buyer, and Joshua Linda, agree and covenant that they and any affiliated entity in which they own 10% percent or more of the voting stock shall not, directly or indirectly, anywhere within Puerto Rico or within 25 miles of the Puerto Rico border, or anywhere within fifteen (15) miles of Greenport, Long Island, New York, in perpetuity, from the Closing Date, form, acquire or become associated in any capacity or to any extent, directly or indirectly, with an enterprise similar to or competitive with the ferry business of Island Hi-Speed Ferry, LLC. In the event of a breach or a threatened breach by Buyer of this Paragraph 8.7, Seller shall be entitled to an injunction restraining such breach, but nothing herein shall be construed as prohibiting Seller from pursuing any remedy available to Seller for such breach or such threatened breach. This provision shall survive the

closing. Nothing herein shall be construed to prevent Buyer, or any owner of 10% percent or more of the voting stock of Buyer, or Joshua Linda, from entering into a charter of the Motor Vessel Athena, or any other ferry vessel, to any entity or person, including but not limited to any entity or person doing business within 25 miles of the Puerto Rico border. Provided, however, that if Buyer wishes to charter the Motor Vessel Athena to any person or entity doing business within 25 miles of the Puerto Rico border, then in that event, Buyer must first offer the Athena for charter to Seller on commercially reasonable terms and Seller must reject the offer in writing, or Seller must fail to respond to the offer within 10 business days of the mailing of the written offer from Buyer.

9. CONDITIONS PRECEDENT TO THE OBLIGATION OF BUYER TO CLOSE

The obligation of Buyer to acquire the Acquired Assets as contemplated hereby, and to perform its other obligations hereunder to be performed on or after the Closing date, shall be subject to the fulfillment, on or prior to the Closing Date, unless otherwise waived in writing by Buyer, of the following conditions:

9.1 Representations and Warranties. The representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects on the Closing Date as if made on and as of such date.

9.2 Threatened or Pending Proceedings. No proceedings shall have been initiated or threatened by any governmental department, commission, bureau, board, division, agency or instrumentality or any other bona fide third party seeking to enjoin or otherwise restrain or to obtain an award for damages in connection with the consummation of the transactions contemplated hereby.

9.3 Authorization. All action necessary to authorize (i) the execution, delivery and performance by Seller of this Agreement and (ii) the consummation of the transactions contemplated hereby and thereby shall have been duly and validly taken by Seller, and Buyer shall have been furnished with copies of all applicable votes/resolutions certified by the appropriate officer.

9.4 Secretary of State. The Seller shall have delivered to the Buyer a certificate of good standing with respect to the Seller, in customary form, dated not earlier than ten (10) days prior to the Closing Date, issued by the Secretary of State of Rhode Island.

9.5 Division of Taxation. The Seller shall have delivered to the Buyer (i) a certificate of good standing with respect to the Seller, in customary form, date not earlier than ten (10) days prior to the closing date, issued by the Division of Taxation of the State of Rhode Island, and (ii) a waiver of the lien of the Tax Administrator of the State of Rhode Island pursuant to R.I.G.L. § 44-11-29 with respect to the sale of the Acquired Assets to the Buyer.

9.6 Seller Approval. All members of the Seller shall have approved the transfer and delivery of the Acquired Assets, and shall have authorized the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby, and the Seller shall have executed and delivered to the Buyer a certificate attesting to such approval and authorization.

9.7 Intentionally Omitted.

9.8 No breach of representations. There shall not have been any breach of the representations and warranties of the Seller contained in this Agreement, and such representations and warranties shall be true and correct in all material respects on and as of the closing date.

9.9 Compliance with covenants. The Seller shall have performed and complied with all material covenants and conditions required by this Agreement to be performed or complied with by it on or as of the closing date.

9.10 Opinion of counsel. Intentionally Omitted.

9.11 Additional Closing Documents. In addition to the other documents, instruments and certificates to be provided by the Buyer and the Seller at the Closing, the Buyer and the Seller shall at or after the Closing execute and deliver to the other such further instruments evidencing conveyance and assumption as the other shall reasonably require.

9.12 Other Conditions. The purchase will also be subject to and contingent upon the following additional conditions:

1. Financing for the \$5,612,500 purchase price must be approved by a written loan commitment issued no later than 60 days from the signing of this Agreement by the Washington Trust Company, and the DPUC and the PUC must approve the financing in due course. In the event the financing commitment is withdrawn through no fault of Buyer, (i.e., bank failure, act of God or other catastrophe affecting Buyer's existing fleet), Buyer shall not be obligated to close the transaction and shall be entitled to return of its deposit. In such event Buyer shall remain bound to all of the terms, covenants and conditions of the confidentiality agreement between the parties.
2. All approvals for the transfer of the assets, including the vessel and the CPCN, must be received from all appropriate entities, including, but not limited to, the DPUC and the PUC. The DPUC approval must include an amendment to the CPCN to allow landing in Old Harbor and must allow all changes sought by Interstate in the operating schedule.
3. All necessary approvals must be received from the PUC to allow Interstate to operate at no less than the rates IHSF currently has in effect, plus applicable statutory fuel surcharges, and a form of regulation reasonably satisfactory to Interstate must be approved by the PUC.
4. Intentionally omitted
5. A non-compete agreement protecting Buyer as described in Paragraph 8.7 must be signed.
6. A non-compete agreement protecting Seller as described in Paragraph 8.7 must be signed.
7. There must be no restrictions on Interstate's ability to contract with Gladding-Hearn or any other boat builder to build a high speed ferry.
8. Interstate must obtain the right to land the M/V Athena at the Interstate Nav. docking facilities in Old Harbor.
9. At Interstate's option, IHSF will assign its right to land at Payne's Dock in New Harbor to Interstate if: 1) the DPUC requires Interstate to land there or Interstate is unable to secure the right to land the Athena at the Interstate Nav. docking facilities in Old Harbor and 2) IHSF has not reached an agreement with Payne's to dock a fast ferry at its New Harbor dock for IHSF's Greenport Service. Interstate shall provide IHSF with documentary proof, satisfactory to IHSF, of the occurrence of the facts and circumstances referred to in subparagraph 1) of this paragraph.

10. IHSF and its members must be in a position to transfer good, clear and marketable title to the M/V Athena, the CPCN, and all other assets related to the Block Island operation to Interstate free and clear of any and all liens, encumbrances, security interests, charges, pledges, and equities of others. Its agreed that this is an asset purchase, not a purchase of IHSF.
11. The allocation of the purchase price shall be as follows:

a. M/V Athena	\$4,200,000
b. Customer List	12,500
c. Covenant not to compete	500,000
d. Goodwill	200,000
e. CPCN	500,000
f. Berthing Permit	200,000

Or, in such other manner as is IHSF and Interstate shall agree.

12. The closing will be on November 1, 2006, unless otherwise agreed. Time is of the essence.
13. Any and all necessary Coast Guard approvals must be obtained, including, but not limited to, approvals of IHSF's vessel and facility security plans, which will be assigned to Interstate.
14. The M/V Athena must be delivered to Interstate ready for service, in the same or better overall condition as it was found by Marine Safety Consultants, Inc. in its appraisal survey dated November 3, 2005, with the exception that all engines will have been completely overhauled (top and bottom), and new seals will have been installed on all water jets, at IHSF's sole cost. Interstate acknowledges that IHSF will operate the M/V Athena on a run in Puerto Rico in the winter of 2005-2006 and that there will be approximately 1,400 to 1,500 hours put on the overhauled engines when the boat is delivered to Interstate, but the vessel, including all equipment and its engines and water jets, must be delivered in overall very good to excellent condition, as it was found on November 3, 2005, by the vessel appraiser, reasonable wear and tear excepted. Interstate and an appraiser will be entitled to inspection of the vessel prior to the closing to assure compliance with this paragraph. The November 3, 2005 appraisal will be redirected to Interstate and/or the Washington Trust Company in accordance with the November 16, 2005, letter agreement so that Interstate can begin to pursue financing. Notwithstanding anything to the contrary contained herein, in the event Interstate agrees to charter the M/V Athena from Seller prior to the Closing, Seller's obligation under this paragraph shall be measured as of the date of the charter, and Seller shall have no further obligation as to the condition of the vessel after delivery to Interstate in connection with such charter.
15. At the closing, IHSF will deliver to Interstate the vessel, the CPCN, all vessel documentation, including warranties, operating manuals, etc., vessel transfer documentation, all customer lists, including tour groups, all maintenance records, all books and records, (except for employment records), the berthing permit, the liquor and food service licenses, and all other documents related to the Block Island operation, except for attorney work product, all of which will be transferred and assigned to Interstate. Financial statements and tax returns will be made available for Interstate to review, but copies will not be made available.
16. Any permission needed from the Coastal Resources Management Council (CRMC) under R.I.G.L. § 46-23-6 must be obtained.

17. IHSF will cooperate and assist on a timely basis in the process of meeting the above conditions, including the processing of all applications and requests which are needed to meet all of the conditions set forth in this agreement.
18. Upon execution of the November 16, 2005, letter agreement, Interstate was conditionally released from its confidentiality agreement to the extent reasonably necessary to begin the process of obtaining all necessary approvals. The confidentiality agreement shall survive the closing of the transaction contemplated hereby as it relates to any financial information, records etc. of Seller reviewed by or turned over to Buyer and in that event it shall have prospective effect, as if it had not been conditionally released. At closing IHSF shall deliver to Interstate a complete release of the confidentiality agreement.
19. IHSF's docking rights (berthing permit that follows the vessel) in Galilee must be transferred to Interstate. This transfer must be consented to in writing by DEM.
20. At the closing, Interstate and IHSF will execute and deliver to each other a complete mutual general release of all claims against each other, including, but not limited to, dismissal of all suits, dockets, or other proceedings.
21. Prior to commencement of operation, Interstate will remove and/or cover all identifying logos and marks from the Athena.
22. Seller:
 - (1) Will comply with any applicable Bulk Sales Act requirements.
 - (2) Will make arrangements so that calls to its toll free number(s) for its RI business will be forwarded to Buyer, and so that emails or other ticket or sales contacts are forwarded to Buyer, at Seller's expense, through November 1, 2006.

10. CONDITIONS PRECEDENT TO OBLIGATION OF SELLER TO CLOSE

The obligation of Seller to sell the Acquired Assets as contemplated hereby, and to perform its other obligations hereunder to be performed on or after the Closing, shall be subject to the fulfillment, on or prior to the Closing Date, unless otherwise waived in writing by Seller, of the following conditions:

10.1 Representations and Warranties. The representations and warranties of Buyer set forth in Article 6 hereof shall be true and correct in all material respects on the Closing Date as if made on and as of such date.

10.2 Threatened or Pending Proceedings. No proceedings shall have been initiated or threatened by any governmental department, commission, board, bureau, agency or instrumentality or any other bona fide third party seeking to enjoin or otherwise restrain or to obtain an award for damages in connection with the consummation of the transactions contemplated hereby.

11. TERMINATION OF AGREEMENT.

11.1 Termination for Cause. In addition to the rights of the Seller and the Buyer to terminate this Agreement for failure of satisfaction of applicable conditions, this Agreement and the transactions contemplated hereby, except for the provisions in Article 7, 8.1, 8.7, and 9.12(5) which shall survive, this agreement may be terminated and the Buyer's deposit returned to Buyer at any time prior to the Closing Date:

- (a) By mutual written consent of the Seller and the Buyer;
- (b) By the either party if there has been a material misrepresentation or breach of warranty in the representations and warranties of the other.

11.2 Default. If Buyer defaults without cause, Seller may retain the \$250,000 deposit as its sole and exclusive remedy at law and in equity. If Seller defaults without cause, Buyer shall have the deposit returned, with accrued interest, and shall also have the right to pursue any and all legal and equitable remedies, including specific performance, and if Buyer prevails, shall be entitled to an award of reasonable attorney's fees and costs.

12. MISCELLANEOUS

12.1 Bulk Sales Laws. Seller must comply with any applicable bulk sales laws. Seller hereby agrees to indemnify and save harmless Buyer in respect of all loss, damage, cost, liability and expense, including reasonable attorneys' fees and costs of investigation relating to any cause of action or other claim for relief arising out of or based upon the laws of any jurisdiction relating to sales of property in bulk, whether asserted prior to or subsequent to the Closing Date.

12.2 Expenses. Except as otherwise provided herein, the Buyer and the Seller shall pay the fees and expense of their respective accountants and legal counsel incurred in connection with the transactions contemplated by this Agreement.

12.3 Notices. Any demand, notice or other communication required or permitted under or in connection with the transactions contemplated by this Agreement shall be in writing and shall be deemed to be effective when delivered in person or deposited in the United States mail and sent by certified or registered mail, return receipt requested, postage prepaid, addressed as follows (or to such other addresses as may be provided by the party to be notified on ten days prior written notice to the other parties hereto):

To Seller: Island Hi-Speed Ferry, LLC
 P.O. Box 5447
 Wakefield, RI 02880

With a copy to: Mark Hagopian, Esq.
 60 South County Commons Way
 Suite G5
 South Kingstown, RI 02879

And

Rick Nolan
Boston Harbor Cruises
1 Long Wharf
Boston, MA 02110

To Buyer: Interstate Navigation Company
 P.O. Box 482
 New London, CT 06320

With a copy to: Michael R. McElroy, Esq.
Schacht & McElroy
P.O. Box 6721
Providence, RI 02940-6721

12.4 Waiver. The failure of any party hereto at any time or times hereafter to exercise any right, power, privilege or remedy hereunder or to require strict performance by the other or another party of any of the provisions, terms or conditions contained in this Agreement or in any other document, instrument or agreement contemplated hereby or delivered in connection herewith shall not waive, affect, or diminish any right, power, privilege or remedy of such party at any time or times thereafter to demand strict performance thereof; and, no rights of any party hereto shall be deemed to have been waived by any act or knowledge of such party, or any of its agents, officers or employees, unless such waiver is contained in an instrument in writing, signed by such party. No waiver by any party hereto of any of its rights on any one occasion shall operate as a waiver of any other of its rights or any of its rights on a future occasion.

12.5 Section Headings. The section headings in this Agreement are for convenience of reference only and shall not be deemed to be a part of this Agreement or to alter or affect any provisions, terms or conditions contained herein.

12.6 Severability. Whether possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason in any jurisdiction, such declaration shall have no effect upon the remaining portions of this Agreement which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted. Furthermore, the entirety of this Agreement shall continue in full force and effect in all other jurisdictions.

12.7 Entire Understanding. This Agreement contains the entire understanding between the parties hereto with respect to the transactions contemplated hereby and such understanding shall not be modified except in a writing signed by or on behalf of the parties hereto.

12.8 Binding Effect. This Agreement shall be binding upon and shall insure to the exclusive benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and assigns. This Agreement is not intended to, nor shall it, create any rights in any other party.

12.9 Governing Law. This Agreement is and shall be deemed to be a contract entered into and made pursuant to the laws of the State of Rhode Island and shall in all respects be governed, construed, applied and enforced in accordance with the laws of said state, without reference to conflict of laws principles.

12.10 References. Each reference herein to a party hereto shall be deemed to include such party's legal representatives, successors and assigns, all of whom shall be bound by the provisions hereof. Each reference to a party hereto and any pronouns referring thereto as used herein shall be construed in the masculine, feminine, neuter, singular or plural, as the context may require.

12.11 No Assignment. No party hereto shall sell, pledge, assign or otherwise transfer its rights under this Agreement without the prior written consent of the other party hereto.

12.12 Counterparts. This Agreement may be signed in any number of counterparts each of which shall be deemed to be an original and all of which together shall constitute but one and the same instrument.

12.13 Conduct of Business. The Seller will conduct business up to the date of the closing in the normal and regular manner and will not enter into any contract except as may be required in the regular course of business.


12.14 Contracts. The Buyer assumes no responsibility for any business contract made by the Seller not disclosed herein in Exhibit 3. As to those contracts disclosed, the Buyer may, at its option, assume such responsibility from and after the closing, provided that the Seller is not in default or arrears under any such contracts as of the closing. The Seller agrees to indemnify and hold harmless the Buyer, against all claims, cost and expense arising from the conduct of the business prior to the date of closing.


12.15 Risk of Loss. The Seller assumes all risk of loss due to fire or other casualty up to the time of closing. In the event any such loss occurs prior to the date of closing, or in the event the business is closed or interrupted by reason of any event not in the ordinary course of business, the Buyer shall have the right to terminate this agreement, on written notice to the Seller and upon such termination there shall be no further liability on the part of any party hereto, and Buyer shall be entitled to an immediate refund of its deposit, plus accrued interest.

WITNESS:

SELLER:


Island Hi-Speed Ferry, LLC
By: Harbor Cruises, LLC, d/b/a
Boston Harbor Cruises, Member



By: 
Its: Manager, duly authorized

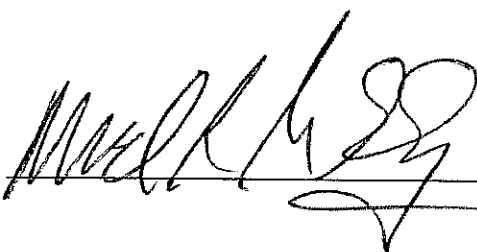
By: Galilee Group, Inc. Member




By: 
Its: President, duly authorized

BUYER:

Interstate Navigation Company

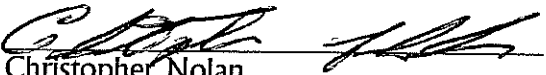


By: 
Its: President, duly authorized

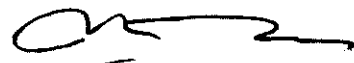
As to Section 8.7:



Frederick L. Nolan III



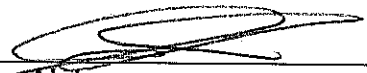
Christopher Nolan



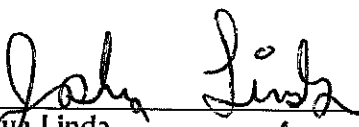
Mark J. Hagopian




Jon G. Hagopian



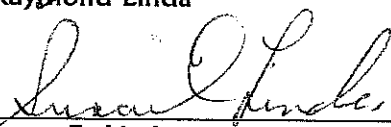
Alison Nolan



Joshua Linda

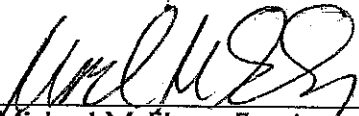


Raymond Linda

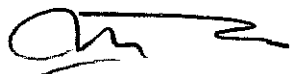


Susan E. Linda

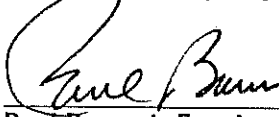
Escrow Agents:



Michael McElroy, Esquire



Mark Hagopian, Esquire



Paul Baccari, Esquire

EXHIBIT 1
LIST OF VENDORS AND CUSTOMERS

EXHIBIT 2
WARRANTIES

None

**EXHIBIT 3
CONTRACTS**

Schedule 5.13

Schacht & McElroy

*Robert M. Schacht
Michael R. McElroy*

Attorneys at Law

*(401) 351-4100
fax (401) 421-5696*

*Members of Rhode Island
and Massachusetts Bars*

*21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721*

*email: RMSchacht@aol.com
McElroyMik@aol.com*

November 16, 2005

Mark Hagopian, Esq.
Hagopian & Hagopian
60 South County Commons Way
Suite G5
South Kingstown, RI 02879

Dear Mark:

This is to follow up on your e-mail of November 16, 2005.

Interstate Navigation Company (Interstate) will purchase all the assets of Island Hi-Speed Ferry, LLC (IHSF), which consist primarily of the M/V *Athena* and IHSF's Certificate of Public Convenience and Necessity (CPCN) issued by the RI DPUC for the Point Judith to Block Island run (but not including any assets related solely to its Puerto Rico operation) for the sum of \$5,612,500, cash.

The parties will execute a purchase and sale agreement reasonably and in good faith satisfactory to Interstate and its counsel and to IHSF and its counsel by December 8, 2005, unless the parties mutually agree to extend this date. Upon the signing of the agreement, an earnest money deposit of \$250,000 will be paid by Interstate and held in escrow in an interest bearing client account jointly by Michael McElroy and Mark Hagopian. Said deposit will be refunded to Interstate if any of the conditions of this purchase are not met.

The purchase will be subject to and contingent upon the following conditions, as well as such other conditions as the parties may mutually agree to:

1. Financing for the \$5,612,500 purchase price must be approved by a commitment issued no later than 60 days from the signing of the P & S (and subsequently closed) by the Washington Trust Company, and the DPUC and the PUC must approve the financing in due course.

Mark Hagopian, Esq.
November 16, 2005
Page 2

2. All approvals for the transfer of the assets, including the vessel and the CPCN, must be received from all appropriate entities, including, but not limited to, the DPUC and the PUC. The DPUC approval must include an amendment to the CPCN to allow landing in Old Harbor and must allow changes in the operating schedule.
3. All necessary approvals must be received from the PUC to allow Interstate to operate at no less than the rates IHSF currently has in effect, plus applicable statutory fuel surcharges, and a form of regulation reasonably satisfactory to Interstate must be approved by the PUC.
4. IHSF shall, upon execution of the Purchase and Sale agreement and payment of the earnest money deposit by Interstate, immediately notify the DPUC that it is withdrawing its opposition to Interstate's requested CPCN for its proposed Point Judith to Block Island to Newport high speed ferry run, without prejudice, and if requested by Interstate will file testimony or take whatever other action is deemed reasonably necessary to support the granting of the CPCN, without conditions. Initially, upon the execution of this letter agreement, a joint telephone call will be made to the hearing officer to inform him of IHSF's conditional withdrawal of its opposition. The DPUC must subsequently approve the CPCN, without conditions, except that the DPUC may require that the transaction between IHSF and Interstate close on all terms set forth in the P&S and on such other terms and conditions satisfactory to Interstate and IHSF as the DPUC and PUC require. At closing IHSF shall deliver to Interstate and file with the DPUC formal notice to the DPUC that its opposition to Interstate's CPCN is withdrawn, with prejudice.
5. A non-compete agreement must be signed by IHSF and every member of IHSF must agree in perpetuity not to compete with a ferry operation of any kind from any location in Rhode Island, or within 25 miles of the Rhode Island border, to Block Island. It is understood that the non-compete will not apply to IHSF operating a ferry from Greenport, N.Y. to Block Island.
6. There must be no restrictions on Interstate's ability to contract with Gladding-Hearn or any other boat builder to build a high speed ferry.
7. Interstate must obtain the right to land the M/V *Athena* at the Interstate Nav. docking facilities in Old Harbor.
8. At Interstate's option, IHSF will assign its right to land at Payne's Dock in New Harbor to Interstate if: 1) the DPUC requires Interstate to land there or Interstate is unable to secure the right to land the *Athena* at the Interstate Nav. docking

Schacht & McElroy

Mark Hagopian, Esq.
November 16, 2005
Page 3

facilities in Old Harbor and 2) IHSF has not reached an agreement with Payne's to dock a fast ferry at its New Harbor dock for IHSF's Greenport Service.

9. IHSF and its members must be in a position to transfer good, clear and marketable title to the M/V *Athena*, the CPCN, and all other assets related to the Block Island operation to Interstate free and clear of any and all liens, encumbrances, security interests, charges, pledges, and equities of others. We agree that this is an asset purchase, not a purchase of IHSF.
10. The parties will work together with the advice of tax and regulatory advisers on the allocation of the purchase price to the vessel, the CPCN, goodwill, customer base, covenant not to compete, etc.
11. The closing will be on May 1, 2006, unless otherwise agreed. Time is of the essence.
12. Any and all necessary Coast Guard approvals must be obtained, including, but not limited to, approvals of IHSF's vessel and facility security plans, which will be assigned to Interstate.
13. The M/V *Athena* must be delivered to Interstate ready for service, in the same or better overall condition as it was found by Marine Safety Consultants, Inc. in its appraisal survey dated November 3, 2005, with the exception that all engines will have been completely overhauled (top and bottom), and new seals will have been installed on all water jets, at IHSF's sole cost. Interstate acknowledges that IHSF will operate the M/V *Athena* on a run in Puerto Rico in the winter of 2005-2006 and that there will be approximately 1,400 to 1,500 hours put on the overhauled engines when the boat is delivered to Interstate, but the vessel, including all equipment and its engines and water jets, must be delivered in overall very good to excellent condition, as it was found on November 3, 2005, by the vessel appraiser, reasonable wear and tear excepted. Interstate and an appraiser will be entitled to inspection of the vessel prior to the closing to assure compliance with this paragraph. The November 3, 2005 appraisal will be redirected to Interstate upon execution of this letter so that Interstate can begin to pursue financing.
14. At the closing, IHSF will deliver to Interstate the vessel, the CPCN, all vessel documentation, including warranties, operating manuals, etc., vessel transfer documentation, all customer lists, including tour groups, all maintenance records, all books and records, (except for employment records), and all other documents related to the Block Island operation, except for attorney work product, all of which will be transferred and assigned to Interstate. Financial statements and tax returns

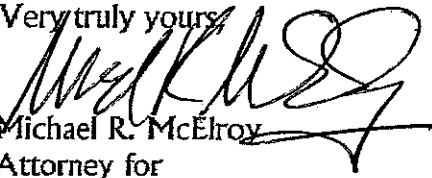
Mark Hagopian, Esq.
November 16, 2005
Page 4

will be made available for Interstate to review, but copies will not be made available.

15. Any permission needed from the Coastal Resources Management Council (CRMC) under R.I.G.L. § 46-23-6 must be obtained.
16. IHSF will cooperate and assist on a timely basis in the process of meeting the above conditions, including the processing of all applications and requests which are needed to meet all of the conditions set forth in this letter agreement.
17. Upon execution of this letter agreement, Interstate will be conditionally released from its confidentiality agreement to the extent reasonably necessary to begin the process of obtaining all necessary approvals. The confidentiality agreement shall survive the failure of Interstate to obtain all necessary approvals and in that event it shall have prospective effect, as if it had not been conditionally released. At closing IHSF shall deliver to Interstate a complete release of the confidentiality agreement.
18. IHSF's docking rights (berthing permit that follows the vessel) in Galilee must be transferred to Interstate.
19. At the closing, Interstate and IHSF will execute and deliver to each other a complete mutual general release of all claims against each other, including, but not limited to, dismissal of all suits or other proceedings.
20. Prior to commencement of operation, Interstate will remove all identifying logos and marks from the *Athena*, including the bi-colored wave insignia on the port and starboard hulls.

If this is acceptable, please sign where indicated below.

Very truly yours,


Michael R. McElroy

11/16/05

Attorney for
Interstate Navigation Company
duly authorized

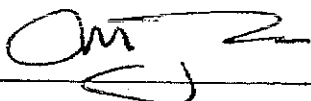
MRMc:trng
ln23:IHSF-Hagopian9
cc: Susan E. Linda
Frederick Nolan

Schacht & McElroy

Mark Hagopian, Esq.
November 16, 2005
Page 5

AGREED AND APPROVED:

ISLAND HI-SPEED FERRY, LLC.

By:  _____

Its: PRINCIPAL AND GENERAL COUNSEL

Dated: NOVEMBER 16, 2005

NOTICE OF FILING

The Interstate Navigation Company d/b/a The Block Island Ferry ("Interstate") hereby gives notice that on August 29, 2006, Interstate filed with the Rhode Island Public Utilities Commission (the "Commission") rates, tariffs, and schedules for its high-speed ferry service between Point Judith and Old Harbor, Block Island (Docket No. 3742). These rates will apply only to Interstate's high-speed ferry service and will not apply to its conventional ferry service. The high-speed ferry rates being proposed by Interstate are the same rates as the high-speed ferry rates currently in effect, and if approved, would simply remove the October 9, 2006, expiration date of the current rates.

The Commission can suspend the proposed rates if it chooses to do so. However, Interstate is asking that these new rates be allowed to go into effect on October 10, 2006, without suspension.

A copy of the filing is available at the offices of Interstate's attorney, Michael R. McElroy, 21 Dryden Lane, P.O. Box 6721, Providence, RI 02940-6721, and at the Public Utilities Commission, 89 Jefferson Boulevard, Warwick, RI 02888, and may be examined by the public during business hours. This notice is given pursuant to the Commission's Rules of Practice and Procedure.

Interstate Navigation Company