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September 21, 2006

Luly Massaro, Clerk
Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02888

Re: Interstate Navigation Company
Docket Nos. D-06-51 and D-06-53

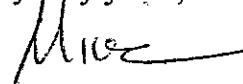
Dear Luly:

As you know, this office represents Interstate Navigation Company.

Enclosed for filing in this matter are an original and three copies of Interstate's responses to the 1st set of data requests of the Advocacy Section.

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

Very truly yours,



Michael R. McElroy

MRMc:tmg

In26:IHSF Loan Approval-Massaroz

cc: Susan E. Linda
Joshua Linda
Walter E. Edge, Jr.
Service List

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

DATA REQUESTS (FIRST SET)

AS 1-1. The Asset Purchase Agreement (“APA”) dated April 5, 2006 notes that the purchase price of the assets that Interstate is acquiring from IHSF is \$5,612,500. In the allocation of the purchase price, the value of the Athena is noted as \$4.2 million. Other elements of the purchase, including a non-compete covenant (\$500,000), the IHSF CPCN (\$500,000), and Goodwill (\$200,000) are being financed through the loan with Washington Trust for which Interstate seeks Division approval.

The debt service on the loan in the first year is estimated to be \$490,000 (WEE-1, Financing filing). These costs are part of the estimated first year direct expenses of high-speed service of \$1.4 million.

The Advocacy Section of the Division has a concern about the potential effects of this debt obligation on the traditional ferry operation provided by the other boats of Interstate, including year round passenger, freight, and vehicle transportation at the present level of service. If Interstate cannot profitably operate the high-speed service, and can not cover its incremental costs of providing the service, including the associated debt service, how would the traditional service, and the underlying rates for that service, be protected from covering losses from the provision of high-speed service?

Please include in your response a scenario in which the Athena is sold for an amount less than the amount of the loan. How does Interstate propose to cover the debt incurred as a result of the instant Division proceeding, including any resulting impact on the traditional service and rates?

Response: Interstate addressed this question in part in its own CPCN filing in Docket D-05-06. In that docket I testified as follows:

“Q. What if Interstate losses money on the Fast Ferry operation, how would that impact the current customer base?”

A. It would have no impact. Interstate would simply not file for a rate increase relating to the loss from the Fast Ferry operation and therefore the loss would not be passed on to the ratepayers. In other words Interstate is willing to take the business risk of the Fast Ferry not being profitable.

Q. Mr. Edge, isn't it possible that a large loss from the Fast Ferry operation could result in a financial hardship for Interstate which in turn could adversely impact on Interstate's current ratepayers even if there is no increase in current rates?

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

A. Based upon my analysis, I do not expect a large loss from the Fast Ferry operations.

Q. Nevertheless, what if there is a large loss from the Fast Ferry operations, what will Interstate do?

A. Interstate will determine why there was a loss. If it is decided that the Fast Ferry operation can not be profitable, then Interstate Navigation's management intends to sell or charter the new Fast Ferry. Our research has shown that the resale value of these fast ferry boats, due to the high demand for this quickly growing mode of transportation, is often greater than the original cost for a period of time. Therefore, Interstate is confident that even the worst case loss scenario will not adversely impact the current ratepayers.

Q. Is Interstate prepared to take any other steps to protect the current rate payers?

A. Yes. *****.

Also, although Interstate prefers to use the new Fast Ferry exclusively for its own operations, it is possible that the new Fast Ferry could be leased to other operators. Interstate has determined that these leases can be very profitable. The Commission's review of Hi-Speed's winter leases should support this claim."

In this docket, Interstate is confident that it can continue to make profits (as it has in the poor weather summer of 2006) in its fast ferry operations after the purchase of the IHSF assets in RI. Further, Interstate is prepared, if necessary, to make appropriate changes to the fast ferry operation in the areas of scheduling and staffing to eliminate any losses that may result. It must be remembered that Interstate has been running ferries back and forth from Block Island for well over fifty years and I believe that they have the knowledge and experience to make this fast ferry operation profitable.

If, after Interstate has exhausted all of the fast ferry cost cutting options, Interstate still has a loss, Interstate would then need to evaluate the fast ferry rates. For example, would it be better to increase rates and in turn increase revenue to restore profit or would it be better to decrease rates, which may increase ridership, and in turn increase revenue and profit? Interstate would evaluate these options and the option of leasing the *MV Athena* fully before Interstate would consider selling the *MV Athena*.

The only risk that is different in the sale of the *MV Athena* compared to Interstate's selling its own vessel built for its CPCN is the fact that the *MV Athena* is not worth the full amount of the borrowing needed to buy all the RI assets of IHSF. Therefore, if the fast ferry operation was not profitable, even after Interstate made all of the appropriate changes (including adjusting rates), then Interstate would have to either lease the vessel year round to cover the debt service, sell the *MV Athena* and reduce debt service payments or sell the entire fast ferry business for \$5.6 million dollars or more.

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

However, in a worse case scenario suggested by the data request, Interstate would have to sell the *MV Athena*. The proceeds from that sale would go to reduce the debt from \$5,600,000 to \$1,400,000 (\$5.6-\$4.2 million). Interstate would then negotiate a refinancing of the remaining balance of the debt and reduce the debt service payments from \$490,000 to about \$123,000. Interstate could then pay the reduced debt service amount by using its authorized return on rate base (nearly \$500,000) from its traditional service. The authorized return on rate base is the property of the owners, not the ratepayers, and the use of these funds would not adversely impact the traditional service.

One additional option would be for Interstate to return the *M/V Manitou* to the Newport to Block Island run and sell the *M/V Nelseco* (appraised value \$2.3 million). The proceeds from the sale of both the *M/V Athena* and the *M/V Nelseco* would be \$6.5 million (\$2.3 + \$4.2) which is greater than the total debt of this deal \$5.6 million.

It should be noted however that the risk of failure for the proposed fast ferry operation using the *MV Athena* is far less than the risk that Interstate would have faced with its own CPCN. With the purchase of the *MV Athena* and the other RI assets of the IHSF, Interstate eliminated significant competition and purchased an established fast ferry service with an established customer base. Also, Interstate's traditional service would have faced far more risk of increased traditional rates if Interstate continued to lose customers to IHSF.

Interstate expects that as its customers become familiar with the Interstate fast ferry operations to Old Harbor, and Interstate has the opportunity to refine its schedule to meet its customers' needs, as well as refine and expand its fast ferry marketing, ridership on the fast ferry will increase and the fast ferry service will be more profitable and will provide an increased subsidy for the traditional service. It should be noted that Interstate's marketing of its fast ferry in 2006 was limited by virtue of the fact that approval was not received until just before the season began.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-2. In Mr. Edge's testimony in D-06-51, page 6, he states that the owners of Interstate have agreed to absorb any loss from fast ferry operations in the first year. If not already answered in your response to question 1, please explain the proposed treatment of fast ferry losses after the first year.

Response: If Interstate decides to operate the fast ferry after a first year loss then Interstate has made a business decision that it expects to make a profit in future years from the fast ferry operation. Should Interstate subsequently have a loss from fast ferry operations in any one year, Interstate expects to offset that loss against fast ferry profits from another year. It is only fair that fast ferry losses be offset by fast ferry profits and that net profits from fast ferry be credited to the traditional service.

This can be done by establishing a restricted allowance account for all fast ferry operation gains and losses. The account could be started by depositing the net profit from the fast ferry from the summer of 2006 into a restricted account. Then as Interstate has profits in excess of the revenue allowance credited to the traditional service (in the traditional rate filing) those excess profits could be deposited into the restricted account. For example, if Interstate is required to reduce its revenue requirement in the traditional docket for a revenue allowance from fast ferry of \$150,000 and then Interstate actually makes \$200,000 in the fast ferry operations in the succeeding year, Interstate would deposit \$50,000 (\$200,000 -150,000) into the restricted account.

If Interstate suffers a fast ferry loss (other than in the first year which Interstate has agreed to absorb) , or earns less than the revenue allowance credited to the traditional service, then Interstate could withdraw from the restricted account (after Division review). For example, if interstate made only \$100,000 from the fast ferry operations and the allowance was \$150,000, Interstate could withdraw \$50,000 (\$150,000-\$100,000) from the restricted account.

If the restricted account became either excessive (greater than \$500,000) or the balance drops down to an unsafe level (\$100,000) the revenue allowance credited to the traditional service could be adjusted either up or down to assure the continuation of the restricted account at a reasonable level.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-3. Please provide a copy of the business valuation appraisal of IHSF referred to in the April 7, 2006 Loan Commitment letter from Washington Trust Company.

Response: See attached.

Prepared by WEE

BUSINESS APPRAISAL REPORT

**THE FAIR MARKET VALUE OF
CERTAIN ASSETS OF ISLAND HI-SPEED FERRY**

January 31, 2006

**BUSINESS APPRAISAL REPORT OF
CERTAIN ASSETS OF ISLAND HI-SPEED FERRY**

**PREPARED FOR:
MS. BETHANY A. SCHNEIDER
THE WASHINGTON TRUST COMPANY**

**PREPARED BY:
LEO J. DELISI, JR., ASA, MCBA, FACFE
DELISI & GHEE, INC.**

**RHODE ISLAND
FLORIDA**

**EFFECTIVE DATE OF APPRAISAL
JANUARY 31, 2006**



BUSINESS VALUATION CONSULTANTS

February 28, 2006

Ms. Bethany A. Schneider
Portfolio Manager, Commercial Real Estate
The Washington Trust Company
23 Broad Street
Westerly, RI 02891

Dear Ms. Schneider:

DESCRIPTION OF THE ASSIGNMENT

DeLisi & Ghee, Inc. has been retained by The Washington Trust Company on behalf of its banking client, Interstate Navigation Company, to estimate the "Fair Market Value" of certain assets of the business known as Island Hi-Speed Ferry as of January 31, 2006. We will be specifically valuing the fair market value of certain assets of Island Hi-Speed Ferry as proposed for acquisition by Interstate Navigation Company. Our report will be utilized by the client for the purpose of establishing the fair market value of those certain assets being acquired by Interstate Navigation Company for the purpose of determining the viability of a bank loan in support of the transaction.

Fair Market Value is defined per Revenue Ruling 59-60 as "...the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."

SUMMARY DESCRIPTION OF THE COMPANY

Island Hi-Speed Ferry, in its present operational state, operates the M/V Athena, a 250-passenger high-speed catamaran, which is berthed in Point Judith, Rhode Island and sails to New Harbor, Block Island throughout the summer and fall months. Interstate Navigation Company operates several ferry boats (slow ferries) from Point Judith to Block Island, and Block Island to Newport. As part of this valuation process, Interstate Navigation Company has made an offer to purchase certain assets of Island Hi-Speed Ferry with a total deal cost of \$5,612,500.

Therefore, we are valuing certain assets of Island Hi-Speed Ferry as identified by Interstate Navigation Company, which would include certain tangible and intangible assets of the present Hi-Speed Ferry operation. We are not valuing the corporate entity that holds the assets.

VALUATION METHODS AND CONCLUSION

Our valuation protocol involved the examination of three approaches to value: the market approach, cost approach and income approach. Various methods were considered within each approach. We placed our emphasis on the income approach, as well as the asset approach utilizing both the net asset value method (to determine tangible asset value), as well as the excess earnings method to determine the fair market value of intangible assets. Other methods were examined but not given primary consideration as of the valuation date.

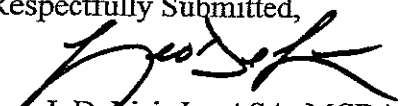
Based on our analysis of the information and data reviewed and collected, we conclude that the Fair Market Value of certain assets of Island Hi-Speed Ferry as of January 31, 2006 was:

\$5,900,000

FIVE MILLION NINE HUNDRED THOUSAND DOLLARS

Our attached report of findings is an integral part of our conclusion and is subject to the Assumptions and Limiting Conditions contained in Appendix A.

Respectfully Submitted,


Leo J. DeLisi, Jr., ASA, MCBA, FACFE
ACCREDITED SENIOR APPRAISER
MASTER CERTIFIED BUSINESS APPRAISER
PRESIDENT

LJD/jet

**APPRAISAL REPORT OF
CERTAIN ASSETS OF ISLAND HI-SPEED FERRY**

**DIRECTORY OF
SECTIONS**

INTRODUCTION	I
COMPANY OPERATIONS	II
ECONOMIC AND INDUSTRY DATA	III
FINANCIAL INFORMATION	IV
THE APPRAISAL PROCESS	V
APPRAISAL CALCULATION	VI
APPENDIX	VII
EXHIBITS	VIII

**APPRAISAL REPORT OF
*Certain Assets of Island Hi-Speed Ferry***

**SECTION
CONTENTS**

I. INTRODUCTION	Page
Assets and Liabilities to be Included in the Appraisal	2
Contingent & Limiting Conditions	2
Highest and Best Use	3
Standard of Value	4
Effective Date of the Appraisal	4
Sources of Information	4
Scope of the Appraisal	5

I INTRODUCTION

DeLisi & Ghee, Inc. has been retained by Ms. Bethany A. Schneider of The Washington Trust Company, to determine the Fair Market Value of certain assets of Island Hi-Speed Ferry (hereafter referred to as "IHSF"), as of January 31, 2006. This report will have as its purpose the development and presentation of the appraiser's opinion of such value. Further, the conclusions derived herein will be utilized by The Washington Trust Company for the purpose of establishing fair market value of those certain assets of Island Hi-Speed Ferry being acquired by Interstate Navigation Company for bank lending purposes. Other uses or applications are prohibited without specific approval of all concerned parties.

ASSETS AND LIABILITIES TO BE INCLUDED IN THE APPRAISAL

Based upon information furnished by the client, as well as the borrower, Interstate Navigation Company is proposing to acquire those certain assets from IHSF including the M/V Athena, a 250-passenger high-speed catamaran, the Galilee Berthing Permit, the Certificate of Public Convenience and Necessity (CPCN), goodwill, covenant not to compete, and customer list of IHSF.

According to information furnished, there are no liabilities being assumed from the present IHSF operation. INTERSTATE is not acquiring the corporate entity. Debt service used in the forecast is specifically in support of the loan being sought by the borrower to complete this transaction.

With respect to the most significant tangible asset, we have been furnished with a Marine Survey and appraisal of the M/V Athena, which will be discussed later in this report and included as an exhibit.

CONTINGENT & LIMITING CONDITIONS

We assume certain assets of Island Hi-Speed Ferry to be part of a going concern that will continue to operate as such into the foreseeable future. By going concern we mean value as an operating business enterprise.¹ A significant component in this valuation includes a financial projection prepared by Interstate Navigation Company with respect to anticipated operating results from the acquisition of certain assets of Island Hi-Speed Ferry. We have relied upon this forecast as being accurate. We have met with

¹ International Glossary of Business Valuation Terms

representatives of Interstate Navigation Company and have gone through a line-by-line review of each of the revenue and expense items for reasonableness. We have made several changes to Interstate Navigation Company's projection, and these changes and the overall projection will be discussed at length in this report. This report is heavily dependent upon that furnished projection and we make no guarantee as to the newly acquired entity's ability to generate the anticipated revenues and profits.

Appendix "A" contains the Contingent and Limiting Conditions associated with the valuation of IHSF. This appraisal is specifically subject to these conditions.

HIGHEST AND BEST USE

The Level of Value Appraised:

Valuation theory suggests that there are three "levels" of value applicable to a business or business ownership interest:²

- **Controlling Interest Basis** – refers to the value of the enterprise as a whole;
- **Marketable Minority Interest Basis** – refers to the value of a minority interest, lacking control, but enjoying the benefit of liquidity as if it were freely tradable in an active market; and
- **Nonmarketable Minority Interest Basis** – refers to the value of a minority interest, lacking both control and market liquidity.

In this engagement, we are valuing those certain assets of Island Hi-Speed Ferry on a controlling interest basis.

There are two fundamental bases on which a company may be valued:

1. As a going concern, and
2. As if in liquidation.

The value of a company is deemed to be the higher of the two values determined under a going concern or a liquidation valuation. This approach is consistent with the appraisal concept of highest and best use, which requires an appraiser to consider the optimal use of the assets being appraised under current market conditions. If a business will command a higher price as a going concern then it should be valued as such. Conversely, if a business will command a higher price if it is liquidated, then it should be valued as if

² Z. Christopher Mercer, Quantifying Marketability Discounts, Peabody Publishing, LP, 1997

in orderly liquidation. In this engagement, liquidation of the company would not appear to be a viable alternative as the enterprise has more value as a going concern.

STANDARD OF VALUE

Fair Market Value is defined per Revenue Ruling 59-60³ as “...*the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.*”

EFFECTIVE DATE OF THE APPRAISAL

This report contains our opinion of value as of January 31, 2006. We were provided a projection pertaining to revenues and expenses of the proposed acquired IHSF assets and have utilized an effective date of January 31, 2006 as our valuation date. We **were not** furnished with financial data from IHSF’s existing operations and therefore, have relied upon the borrower’s projections, and assumptions (which have been reviewed and documented where possible). Per instructions from our client, we have utilized January 31, 2006 as our effective date of appraisal.

SOURCES OF INFORMATION

Internal Sources:

An in-depth interview was conducted on February 2, 2006. We met with Walter Edge, CPA and Michael McElroy, Esq. at their offices located at 21 Dryden Lane in Providence, Rhode Island. Mr. Edge and attorney McElroy have long represented Interstate Navigation Company with respect to legal and accounting issues for the Company. Subsequent meetings, emails and telephone conversations took place at various times throughout the valuation process. Management and financial information was provided by:

Please Turn Page

³ Revenue Ruling 59-60 (1959-1C.B. 237), IRC SEC. 2031, SEC 2.02

TABLE I-1

INTERNAL SOURCES
<p>Attorney: Michael McElroy, Esq. C.P.A.: Walter Edge, CPA Washington Trust Lending Officer: Bethany A. Schneider</p>

External Sources:

We conducted research of industry data, private transaction data and publicly traded company data for the ferryboat industry. This research was completed utilizing sources including the "Done Deals," "Pratt's Stats," "Institute of Business Appraisers," and "BizComps" databases, "The Wall Street Journal," "Mergerstat Review," the Internet and other research sources as referenced and footnoted in our report.

SCOPE OF THE APPRAISAL

Any business valuation requires some element of judgment in the valuation process. This is further emphasized in Revenue Ruling 59-60 under Section 3.01, which states, "*sound valuation will be based upon all the relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts in determining their aggregate significance.*" We have relied upon informed judgment where required and documented our information where possible.

In order to determine the proper valuation for those certain assets of Island Hi-Speed Ferry being acquired by Interstate Navigation Company we have relied upon a projection of revenues, expenses and profitability based on various assumptions and synergies that have been reviewed in detail with the borrower. We were furnished with the original projection, which was ultimately updated by the borrower's representatives. Revisions were made by DeLisi & Ghee, Inc with respect to the final projection utilized in valuing those certain assets of Island Hi-Speed Ferry. With respect to asset values, we were furnished with a Marine Survey and Appraisal of the M/V Athena, the primary asset in the acquisition. With respect to the intangible value of those assets being acquired, we have utilized an income approach to determine the overall value of tangible and intangible assets, and have applied an excess earnings method to determine the fair market value of the intangible assets included in the acquisition. The net asset value method was utilized to calculate the tangible asset value of the proposed acquisition.

We implemented the appropriate valuation methods to develop an estimate of value for IHSF. A variety of business valuation methods were examined. We place primary emphasis on the income approach, which was closely supported by the asset approach utilizing the net asset value method as well as the excess earnings method.

APPRAISAL REPORT OF
Certain Assets of Island Hi-Speed Ferry

**SECTION
CONTENTS**

II. COMPANY OPERATIONS	Page
Proposed Transaction	2
Island Hi-Speed Ferry	2
Interstate Navigation Company	5
Recent Hearings for INTERSTATE to Operate Hi-Speed Service	5

II COMPANY OPERATIONS

PROPOSED TRANSACTION

Interstate Navigation Company (INTERSTATE), the operator of the Block Island Ferry (and other vessels) is currently planning to acquire certain assets of Island Hi-Speed Ferry (IHSF), the major competitor to INTERSTATE's Point Judith to Block Island ferry operations.

According to documentation furnished to DeLisi & Ghee, Inc., the purchase price of the proposed acquisition is \$5,612,500, and includes the hi-speed ferry vessel, M/V Athena; as well as IHSF's Certificate of Public Convenience and Necessity, Rhode Island customer lists, goodwill, covenant not to compete and the Point Judith berthing permit.

The acquisition will allow INTERSTATE to eliminate a strong competitor, provide high-speed ferry service to its customers, and be a profitable venture.

ISLAND HI-SPEED FERRY

We have reviewed the website maintained by IHSF at www.islandhispeedferry.com, which identifies the Company as "the first and fastest high-speed catamaran service to Block Island.

IHSF makes the trip from its berth in Point Judith, Rhode Island to New Harbor, Block Island in 30 minutes. This compares favorably to INTERSTATE's slow ferry, which requires approximately 60 minutes to make the trip.

IHSF operates the M/V Athena, a 250-passenger hi-speed catamaran constructed of all welded aluminum. The Athena contains active ride control, allowing a very smooth ride at speeds up to 40 miles per hour. The Athena is fully climate controlled, with comfortable cushioned airline style seating, full galley, and audiovisual systems.

Photographs of the M/V Athena and the Block Island are as follows:

Please Turn Page

TABLE II-1

ATHENA - ISLAND HI-SPEED FERRY



TABLE II-2

 **Black Island Ferry**

Open for Car Reservations
[click here for office hours.](#)



The Athena is powered by four diesel engines producing 4400 hp, which drive water jets. The ship displaces 80,000 gallons per minute at full speed.

According to IHSF's website the ferry runs three round-trips weekdays, with a fourth run on Fridays, five runs on Saturdays and Sundays (September through October). During the peak summer months IHSF runs six round trips daily. Rates are as follows:

RATES	DEPARTING GALEHEAD			DEPARTING BLOCK ISLAND		
	Adults*	Children**	Bike	Adults*	Children**	Bike
One Way	\$16.00	\$8.75	\$3.00	\$15.85	\$8.75	\$3.00
Round Trip	\$29.85	\$13.50	--	\$29.35	\$13.50	--

* Plus port fees not exceeding \$85
 ** Applies for Children ages 4 - 12 years old

Although no financial data has been provided by IHSF, INTERSTATE has estimated approximately 40,000 passengers took the Island Hi-Speed Ferry in 2005.

INTERSTATE NAVIGATION COMPANY

Although we are not valuing INTERSTATE, it is important to understand its operations as part of this proposed transaction.

INTERSTATE operates several ferry boats supporting runs from Point Judith to Block Island, and Block Island to Newport (round trips).

Utilizing slow ferry boats, the Point Judith to Block Island run takes 55 minutes, nearly double the Hi-Speed Ferry, and the Newport to Block Island run takes approximately two hours.

Rates vary, but a round trip; same day adult fare (Point Judith – Block Island) is \$18.95, compared to IHSF's rate of \$29.85, including port fees.

RECENT HEARINGS FOR INTERSTATE TO OPERATE HI-SPEED SERVICE

According to *The Block Island Times*,¹ INTERSTATE planned to purchase a high-speed ferry for approximately \$6 million dollars, and operate between Block Island, Newport and Point Judith. The article pointed out:

¹ The Block Island Times, May 2, 2005
 Internet @http://www.blockislandtimes.com/news/2005/0502/front_page/001.html

- A round-trip passenger ticket would cost \$30—a dollar more than what Island Hi-Speed, the company that operates the summer Hi-Speed Ferry out of New Harbor to Point Judith—charges;
- Susan Linda, INTERSTATE's president, secretary and treasurer, said in her testimony that when INTERSTATE tried to prevent Island Hi-Speed Ferry from starting a fast boat, "I did not realize how important speed has become for ferry customers, and how much they are willing to pay for it." She later said, "Clearly I was mistaken when I testified in IHSF's docket that there was no need or demand for a fast ferry service to Block Island."
- INTERSTATE says it knew for sure that fast ferries had become popular when it handed out a survey to its customers last summer. The results, Linda testified, were that 35 percent of respondents traveling from Point Judith to Block Island were interested, and 73 percent of respondents from Newport to Block Island were interested—even if rates were to double.
- Sue Linda's reasons for a fast ferry include: "a smoother and quieter ride"; "significantly less motion sickness for our customers"; and the growing need to give elderly customers the choice between a fast or slow boat. And importantly, having a small car deck on a high-speed boat would help the island with its medical emergencies, important deliveries and "homeland security activities."
- Frankly, INTERSTATE says, it could use the cash. Its revenue has dropped since 2001 when Island Hi-Speed started, and it took an even harder hit last summer when the Block Island Express started its service from New London.
- Sue Linda said that Walter Edge believes a fast ferry "would be immediately financially successful." In fact, not operating at a profit would be "an extremely unlikely event," she said. Edge estimates INTERSTATE would experience a profit of \$497,781 in 2006.
- The town has decided not to take a formal position on INTERSTATE's wish for a fast boat.

However, First Warden Jack Savoie did send a two-page letter to the Division of Public Utilities and Carriers on April 7.

"We would like to preserve passenger choice and options for ferry service to Block Island," he wrote. "Second, we are vitally interested in the viability of winter service and the ability to generate sufficient revenues in the summer to help support that winter service."

Any boon to INTERSTATE during the summer months “has to be supported as it can only strengthen the year-round service,” he wrote.

But, he adds, a fast ferry would help because “The difference in time between conventional and fast ferry transport could be critical in those situations where our Life Star helicopter transport is grounded because of weather.”

The Rhode Island Division of Public Utilities, and Carriers Approved INTERSTATE’s application to operate a “fast ferry” between Point Judith and Old Harbor, Block Island, and Newport and Old Harbor, Block Island. The application was initially filed December 6, 2004.

In reviewing the decision ([www.ripuc.org/eventsactions/docket/D-05-06-Interstate-ord18506\(1-23-06\).pdf](http://www.ripuc.org/eventsactions/docket/D-05-06-Interstate-ord18506(1-23-06).pdf)), IHSF’s own expert indicated that survey results indicated that 57% of IHSF’s passengers “would essentially cross the dock and use INTERSTATE’s fast ferry instead of IHSF’s service because arriving and departing from Old Harbor (rather than New Harbor) would be more convenient.”

The Division further indicated that, “Mr. Edge and Dr. Stutz both persuasively concluded that INTERSTATE is not only capable of providing the high-speed services, but that the proposed fast ferry would be immediately profitable, a conclusion that IHSF does not dispute.”

In conclusion, the Division stated, “INTERSTATE has adequately demonstrated that it is fit, willing and able to provide high-speed ferry services between Point Judith, Block Island and Newport.”

The Division did limit the trips to three per day, and modified times to protect IHSF.

The proposed transaction would clearly be beneficial to INTERSTATE, effectively eliminating its main competitor (IHSF), and allowing the Company to operate IHSF on a synergistic basis. In Section IV, we will discuss projections of the proposed venture.

APPRAISAL REPORT OF
Certain Assets of Island Hi-Speed Ferry

**SECTION
CONTENTS**

III. ECONOMIC & INDUSTRY DATA	Page
National Economic Outlook	2
Local Economic Outlook	18
Industry Outlook	22

III ECONOMIC AND INDUSTRY DATA

NATIONAL ECONOMIC OUTLOOK – FOURTH QUARTER, 2005

An extremely important section of a well-prepared business valuation is a thorough and relevant economic section. First, Revenue Ruling 59-60 requires consideration of "the economic outlook in general and the condition and outlook of the specific industry in particular." Secondly, an understanding of the economic outlook is fundamental to developing reasonable expectations about the subject company's future prospects.

In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

In this analysis, we have examined the general economic climate that existed at the end of December 2005. This summary provides an overview of some selected economic factors that prevailed in the fourth quarter of 2005, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include general economic conditions, consumer prices and inflation rates, energy prices, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, and the future economic outlook.

GENERAL ECONOMIC CONDITIONS

The U.S. economy, hampered by rising interest rates and surging energy prices, grew at its slowest pace in three years during the fourth quarter of 2005. Although the fourth-quarter figure was much lower than expected, the gross domestic product (GDP), which is the broadest measure of the economy's health, still grew for the 17th consecutive quarter. While the Fed is still expected to increase interest rates at the beginning of 2006, inflationary pressures in the fourth quarter of 2005 remained moderate.

GROSS DOMESTIC PRODUCT

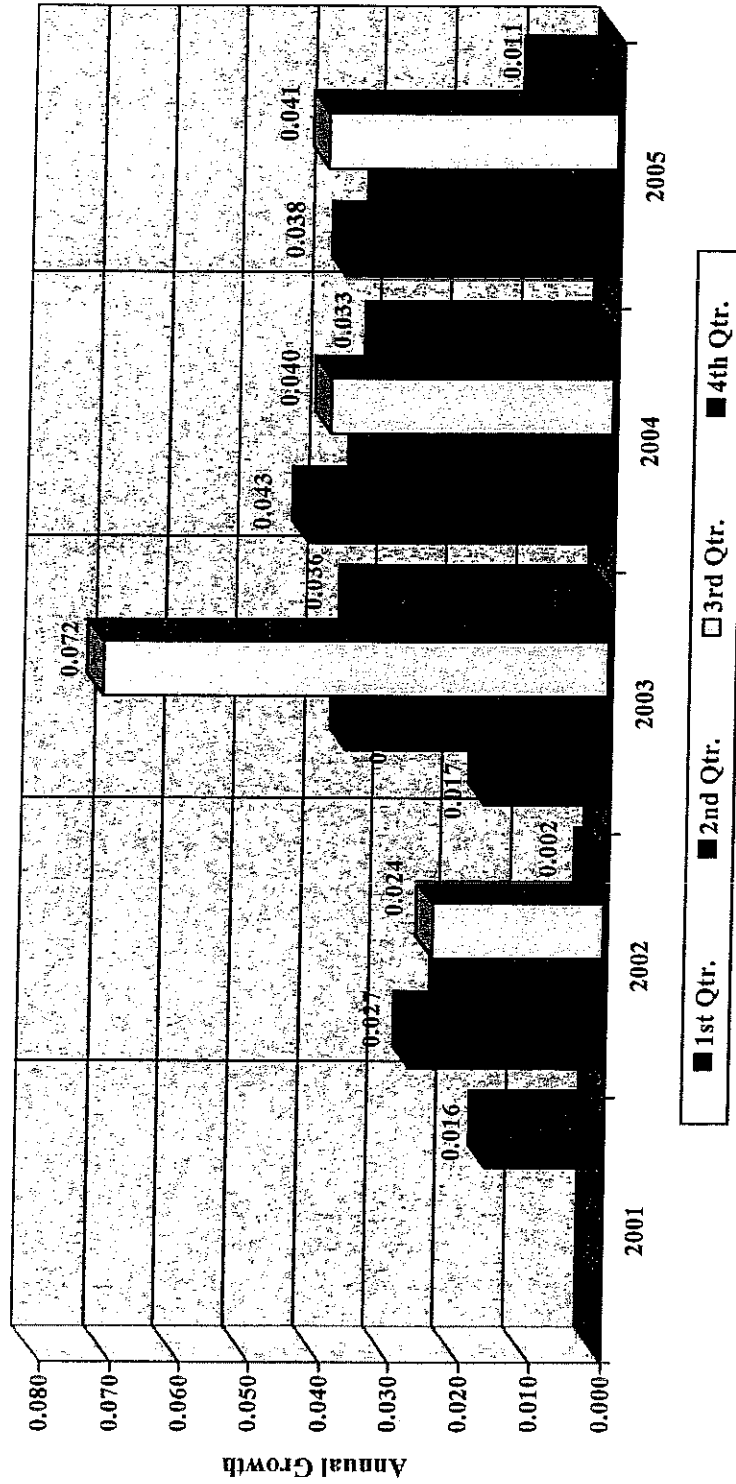
The U.S. Department of Commerce reported that the nation's economy increased at an annual rate of 1.1 percent in the fourth quarter of 2005, as indicated by the GDP, and marked the slowest pace since the last quarter in 2002. This is down from the 4.1 percent rate that was posted in the third quarter of this year, as can be seen in Table III-1. The fourth-quarter GDP marked the end of the streak of eight straight quarters of GDP growth between 3 and 4.5 percent, which was the longest streak of such consistent growth since World War II. In 2005, the economy grew by 3.5 percent, compared to an increase of 4.2

percent in 2004 and 2.7 percent in 2003. The deceleration in fourth-quarter GDP growth was largely contributed to the slowdown in consumer and defense spending, business investment, housing construction, and the widening trade deficit.

Please Turn Page

TABLE III-1

REAL GROSS DOMESTIC PRODUCT 4TH QTR. 2001 - 4TH QTR. 2005



* Source of data: U.S. Department of Commerce

CONSUMER SPENDING

Consumer spending, which accounts for two-thirds of all economic activity in the United States, increased by 1.1 percent during the fourth quarter of 2005. This compares with a 4.1 percent increase in the previous quarter and a 3.4 percent gain in the second quarter of this year. The fourth quarter figure was the lowest growth rate since a 0.5 percent increase in the first quarter of 2001. In 2005, consumer spending rose by 3.6 percent, compared with a 3.9 percent increase in 2004 and a 2.9 percent increase in 2003. Consumer expenditures only increased the fourth-quarter GDP by 0.79 percentage points. This compares with a GDP increase of 2.85 percentage points in the previous quarter and a 2.35 percentage point increase in the second quarter of 2005.

GOVERNMENT SPENDING

During the fourth quarter of 2005, government spending decreased at a rate of 2.4 percent, compared with an increase of 2.9 percent during the previous quarter and a 2.5 percent increase in the second quarter of this year. The fourth quarter figure was the first decrease in government spending since a 0.3 percent decline in the first quarter of 2003. In 2005, government spending increased by 1.7 percent, which is down from a 2.2 percent increase in 2004 and a 2.8 percent increase in 2003. During the fourth quarter, federal government spending decreased by 7.0 percent, compared with a 7.4 percent increase in the previous quarter. National defense spending declined by 13.1 percent during the fourth quarter, following a large increase of 10.0 percent in the previous quarter and a 3.7 percent gain in the second quarter of this year. In 2005, national defense spending rose by 2.3 percent, which is down from a 7.0 percent increase in 2004 and an 8.8 percent increase in 2003. State and local government spending increased by 0.4 percent in the fourth quarter of 2005, which was up slightly from the 0.2 percent increase in the previous quarter.

BUSINESS INVESTMENTS

Business investments continued to grow during the fourth quarter of 2005, but at its slowest pace since the first quarter of 2003. Business spending, or nonresidential fixed investment, increased at a rate of 2.8 percent during the fourth quarter after rising by 8.5 percent in the previous quarter and by 8.8 percent in the second quarter of this year. In 2005, business spending rose by 8.5 percent, compared to an increase of 9.4 percent in 2004 and a 1.3 percent increase in 2003. Business expenditures on equipment and software increased by 3.5 percent during the fourth quarter, which follows a 10.6 percent rise in the previous quarter and a 10.9 percent increase in the second quarter of 2005. Business spending on structures increased slightly by 0.7 percent in the fourth quarter, compared to a 2.2 percent increase in the third quarter and a 2.7 percent rise in the second quarter of this year.

BUSINESS INVENTORIES

During the fourth quarter of 2005, companies increased inventories after two straight quarters of decreases. The rise in private business inventories increased the fourth-quarter GDP by 1.45 percentage points after decreasing the previous quarter's GDP by 0.43 percentage points. Businesses increased their inventories of unsold goods at a rate of \$25.7 billion in the fourth quarter, following decreases of \$13.3 billion in the previous quarter and \$1.7 billion in the second quarter of this year. The third quarter inventory drop was the largest since the fourth quarter of 2001 when they fell at an \$86.7 billion rate.

TRADE DEFICIT

For the ninth time in the last 10 quarters, the trade deficit provided a negative contribution to the GDP. Exports, which grew for the tenth straight quarter, rose by 2.4 percent in the fourth quarter, following an increase of 2.5 percent in the previous quarter and a 10.7 percent increase in the second quarter of 2005. The fourth quarter increase in exports is the slowest since a 2.1 percent decline in the second quarter of 2003. In 2005, exports rose by 6.7 percent, compared with an 8.4 percent increase in 2004 and a 1.8 percent increase in 2003. The U.S. dollar's weakness in recent years has helped boost exports, making U.S. goods cheaper overseas. Foreign imports jumped by 9.1 percent during the fourth quarter of 2005 after an increase of 2.4 percent in the previous quarter. In 2005, imports increased by 6.2 percent, compared with a 10.7 percent rise in 2004 and a 4.6 percent increase in 2003.

During the fourth quarter of 2005, the trade deficit increased from last quarter's annualized rate of \$730.4 billion in real terms to \$784.1 billion. The trade deficit decreased the fourth-quarter GDP by 1.18 percentage points after only decreasing the previous quarter's GDP by 0.12 percentage points.

CONSUMER PRICES AND INFLATION RATES

Despite rising gasoline prices, inflationary pressures remained in check during the fourth quarter of 2005. According to the U.S. Department of Commerce, the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by 3.3 percent in the fourth quarter. This compares with an increase of 4.2 percent in the previous quarter. Excluding food and energy prices, the price index for gross domestic purchases increased by 2.9 percent in the fourth quarter, compared with a 2.5 percent increase in the previous quarter.

The U.S. Department of Labor reported that the Producer Price Index for Finished Goods, which measures inflationary pressures before they reach consumers, increased by 0.9

percent in December 2005, following a 0.7 percent decline in November and a 0.7 percent rise in October. In 2005, the price for finished goods rose by 5.4 percent, compared with a 4.2 percent increase in 2004 and a 4.0 percent increase in 2003. The costs of intermediate goods rose slightly in December by 0.2 percent, compared to a decrease of 1.2 percent in November and an increase of 3.0 percent in October. The cost for intermediate goods rose by 8.4 percent in 2005, following a 9.2 percent increase in 2004 and a 3.9 percent increase in 2003. Finished goods prices other than food and energy rose by 0.1 percent in December, after increasing by 0.1 percent in November and decreasing by 0.3 percent in October. Finished consumer food prices increased by 0.9 percent in December, compared with an increase of 0.5 percent in November and a slight decrease of 0.1 percent in October.

The Department of Labor reported that the Consumer Price Index for All Urban Consumers (CPI-U) decreased by 0.4 percent in December 2005, but is 3.4 percent higher than its level one year earlier. While the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is 3.5 percent higher than one year ago, the index decreased by 0.5 percent in December.

ENERGY PRICES

At the end of the fourth quarter of 2005, a barrel of light crude oil sold at \$61.04 per barrel, while heating oil and unleaded gasoline closed at about \$1.73 and \$1.71 per gallon, respectively. At the end of the third quarter, a barrel of light crude oil traded at \$66.24, while heating oil and unleaded gasoline traded at \$2.07 and \$2.14, respectively. A year ago, the prices were \$43.45 for light crude oil, \$1.23 for heating oil, and \$1.09 for unleaded gasoline. Energy goods prices grew by 3.1 percent in December, following a 4.0 percent decrease in the previous month. Prices for crude oil dropped in December by 2.3 percent, following a decrease of 1.2 percent in November and an increase of 6.7 percent in October. Crude materials for further processing rose by 22.1 percent in 2005, compared to a 17.4 percent increase in 2004 and a 19.5 percent increase in 2003.

INTEREST RATES

As feared by the markets and economists, the Federal Reserve Board (FRB) continued to raise its target for the federal funds rate by a quarter of a percent at each of its two meetings in the fourth quarter of 2005. The FRB started to raise the federal funds rate in June 2004, after it had been stable at 1.0 percent for a year before that. Since June 2004, the FRB raised its target short-term rate thirteen times—each time by a quarter of a percent—up to 4.25 percent at the end of the fourth quarter of 2005. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank.

The Federal Open Market Committee (FOMC) met twice during the fourth quarter — November 1 and December 13—and at both meetings decided to raise the federal funds rate by a quarter percent to 4.0 percent and 4.25 percent, respectively. At both meetings, the FOMC noted that, although the core inflation has stayed relatively low in recent months and the long-term inflation expectations remain contained, the collective rise in energy – among other costs - has the potential to add to inflation pressures. The FOMC press release, dated November 1, stated, “The cumulative rise in energy and other costs has the potential to add to inflation pressures; however, core inflation has been relatively low in recent months and longer-term inflation expectations remain contained.”

The increases in the federal funds rate are expected to have an impact on other interest rates such as credit card rates, adjustable-rate mortgage rates and home equity lines of credit, as well as money-market account and certificate of deposit rates.

Also during the fourth quarter, the Board of Governors of the Federal Reserve System (FRB) voted twice to raise the discount rate by a quarter percent to 5.0 percent and then to 5.25 percent. The FRB started to raise the federal funds rate in June 2004, after it had been stable at 2.0 percent for a year before that. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

UNEMPLOYMENT

During the fourth quarter of 2005, the unemployment rate remained steady. The unemployment rate was at 5.0 percent in the fourth quarter, remaining unchanged from the rate posted in the previous quarter. The number of unemployed persons was 7.455 million in the fourth quarter, compared with 7.503 million in the third quarter of 2005. During the fourth quarter, the construction, manufacturing, education and health services, and professional and business services sectors continued to add jobs, while retail trade employment was down slightly from the previous quarter.

During the fourth quarter of 2005, manufacturing employment increased by 10,000 jobs, with the majority of the job gains occurring in the component industries, including wood products and computer and electronic products. The construction industry continued to trend upward, adding 62,000 jobs over the quarter and 246,000 jobs in 2005. Employment in professional and business services continued to increase, adding 118,000 jobs during the fourth quarter. The government added 30,000 jobs in the fourth quarter, while the leisure and hospitality industry remained unchanged over the same time period. The education and health services sector added 59,000 jobs in the fourth quarter and expanded by 271,000 jobs in 2005. The retail trade industry, which was hampered by less-than-usual seasonal hiring by general merchandise stores, lost 40,000 jobs over the fourth quarter.

Average hourly earnings increased to \$16.30 in the fourth quarter of 2005 from \$16.17 in the previous quarter. Average weekly earnings also increased to \$550.51 in the fourth quarter from \$545.36 in the third quarter.

CONSUMER SPENDING AND CONFIDENCE

Consumer spending, which accounts for two-thirds of overall economic growth, increased at a rate of 1.1 percent during the fourth quarter of 2005, down from a 4.1 percent increase in the previous quarter and a 3.4 percent gain in the second quarter of this year. The fourth quarter consumer-spending rate is the slowest growth rate since a 0.5 percent increase in the first quarter of 2001.

Consumer spending on durable goods— items meant to last three or more years—dropped by 17.5 percent in the fourth quarter of 2005, mostly due to plunging automobile sales. This compares with a 9.3 percent increase in the previous quarter and a 7.9 percent rise in the second quarter. In 2005, consumer spending on durable goods rose by 4.4 percent, compared with a 6.0 percent increase in 2004 and a 6.6 percent increase in 2003. Spending on nondurable goods, such as clothing and food, increased by 5.1 percent in the fourth quarter of 2005. This compares to a 3.5 percent jump in the previous quarter and a 3.6 percent increase in the second quarter of this year. In 2005, consumer spending on nondurable goods jumped by 4.4 percent, compared with a 4.7 percent increase in 2004 and a 3.2 percent increase in 2003. Service expenditures increased by 3.2 percent in the fourth quarter, compared to a 3.3 percent increase in the previous quarter.

According to the U.S. Department of Commerce, retail and food service sales rose 0.6 percent in the fourth quarter of 2005, compared to a 1.6 percent increase in the previous quarter. During the fourth quarter, automobile sales decreased by 3.8 percent, after decreasing by 0.5 percent in the third quarter.

Consumer confidence, a barometer of consumer spending, surged to its highest levels since Hurricane Katrina decreased Americans' expectations of the economy. The Conference Board, which surveys 5,000 households, reported that its Index of Consumer Confidence rose to 103.6 in December. This is up from a 98.3 reading in November and an 86.6 reading at the end of the third quarter of 2005. Conference Board numbers above 100.0 mean a growing economy. A figure between 80.0 and 100.0 suggests slow growth, whereas a reading below 80.0 indicates a recession.

The University of Michigan's Index of Consumer Sentiment reported a reading of 91.5 in December 2005, which is a large increase from the 81.6 in November and 76.9 at the end of the third quarter of this year. The Michigan sentiment survey is based on telephone interviews with roughly 500 Americans across the country on personal finances, business conditions, and buying conditions.

STOCK MARKETS

After a first quarter that finished with small and moderate losses across major indexes, a second quarter that finished with small gains, and a third quarter that marked a slight rebound of the markets, the fourth quarter of 2005 ended as a slight improvement, with most indexes posting modest gains for the quarter. 2005 was the third year that brought gains, although modest, following three previous years of down markets. 2005 saw gains for the S&P 500, Wilshire 5000, and Russell 2000, and Nasdaq Composite, but saw a slight loss of 0.61 percent for the Dow Jones Industrial Average (DJIA). The fourth quarter of 2005 brought single-digit gains for all indices when compared to the third quarter. The best performing Dow Jones Industry Groups in 2005 were Oil & Gas, with a growth of 32.41 percent and Exploration & Production with a growth of 64.22 percent. The worst performing Industry Group in 2005 was Automobiles, seeing a loss of 38.97 percent.

Performance was similar across the market, with most major indexes posting slight losses in October followed by small gains November. December saw a mix of modest gains and small losses compared to November. Because of the losses in the first quarter—which for some of the indexes were the worst in the last couple of years—the small gains of the second, third, and fourth quarters were enough for some indexes to show slight gains for the year, such as the S&P 500, which was up 4.68 percent for the year and the Wilshire 5000, which was up 6.19 percent for the year. The AMEX Composite showed impressive results for the year of 2005 with a gain of 22.6 percent, while only gaining 1.4 percent from the third quarter. For other indexes – like the DJIA- the gains of the third and fourth quarter were not enough to result in a year-to-date gain. For the year of 2005, the DJIA was down 0.61 percent, while the Nasdaq was up a modest 1.37 percent. This alleviates the questions regarding whether 2005 will be the third up year or will finish with a loss for stock market investors.

In the first quarter, the factors negatively affecting the stock market were climbing interest rates and higher inflation, whereas the culprits in the second quarter of 2005 were again, increasing interest rates, worries about economic growth, and rising energy prices. In the third quarter, the headwinds facing the stock market were the high oil prices, the twin hurricanes, and the Federal Reserve's determination to continue to raise interest rates. Investors and analysts alike regarded 2005 as a below-average year for equities, with many expecting below-average returns for 2006. According to *The Wall Street Journal*, "The mediocre returns on stocks have come as a surprise to investors. After all, the economy is booming, with economic growth and corporate-profit growth outpacing forecasts." Analysts view the Federal Reserve as a wildcard that that could impact the future performance of the market. If the Fed would call a halt, or at least a pause, in its rate-increase campaign, analysts predict stocks would be positively impacted. What the Fed decides to do will be heavily dependant on inflation numbers. Some analysts predict inflation to increase, causing more Fed rate increases, which could lead to bad news for stocks.

The DJIA, an index of 30 “blue-chip” U.S. stocks, started the fourth quarter at 10,568.70 and finished it at 10,717.50, for a gain of 1.41 percent for the quarter. Despite the gain, the DJIA’s performance in the fourth quarter was less than its third quarter performance when it gained 2.86 percent. A year ago, the DJIA posted a 6.97 percent gain for the fourth quarter of 2004. As of December 31, 2005, the DJIA has lost 0.61 percent for the year compared with a gain of 3.15 percent for the year of 2004. As of the end of the fourth quarter, the DJIA has jumped 47.09 percent since its five-year low of 7,286.27 on October 9, 2002, but still is 8.58 percent off its five-year high of 11,723 on January 14, 2000.

The Nasdaq Composite Index, consisting mainly of high-tech stocks, started the fourth quarter at 2,141.07 and finished at 2,205.32, reflecting a gain of 3 percent for the quarter and a gain of 1.37 percent for the year to date. This was deterioration from the third quarter when the index gained 4.09 percent. A year ago, the index was up 14.69 percent for the fourth quarter and up 8.59 percent for the year. The Nasdaq’s performance for the last twelve months—a gain of 1.37 percent—was inferior when compared to the twelve months prior when the index increased by 8.59 percent. As of the end of the fourth quarter, the Nasdaq has jumped 97.94 percent since its low of 1,114.11 on October 9, 2002, but is still 56.32 percent off its five-year high of 5,048.62 on March 10, 2000.

The S&P 500, consisting of a representative sample of 500 leading companies of the U.S. economy, and commonly viewed as a proxy for the market, started the fourth quarter at 1,218.02 and finished it at 1,268.66, for a gain of 4.16 percent for the quarter and a gain of 4.68 percent for the year. A year ago, the index was up 8.73 percent for the fourth quarter and up 8.99 percent for the year. The index performed better than the third quarter when it gained 2.24 percent and much better than the index’s second quarter performance when the index gained 0.91 percent. For the last twelve months ended December 2005, the S&P gained 4.68 percent. As of the end of the fourth quarter, the S&P 500 has gained 63.33 percent since its low of 776.8 on October 9, 2002, but is still 16.94 percent off its five-year high of 1,527.4 on March 23, 2000.

The Dow Jones Wilshire 5000 Index (previously known as Wilshire 5000), which consists of almost all publicly traded companies based in the United States, started the fourth quarter at 12,189.60 and closed it at 12,711.70—posting a 4.28 percent gain for the quarter and a 6.19 percent gain for the year. The index performed better than in the third quarter when it saw gains of 2.63 percent. For the last twelve months ended December 2005, the index gained 6.19 percent, while for the twelve months ended December 2004 it gained 10.85 percent. A year ago – as of the end of December 2004 – the index posted gains of 9.87 percent for the fourth quarter.

The Russell 2000 Index, which consists of small stock issues, started the fourth quarter at 663.33 and closed it at 686.44, reflecting a quarterly gain of 3.48 percent and a gain of 5.35 percent for the year. This compares similarly to a gain of 3.7 percent for the third quarter of 2005. A year ago – as of the end of December 2004 – the index posted gains

of 13.72 percent for the quarter and 17 percent for the year. For the last twelve months, the index is up 5.35 percent after a much more sizeable gain of 17 percent for the twelve months ended December 2004. On October 9, 2005, Russell 2000 marked its historic high of 690.57. Since then, the index lost 0.6 percent, but it is still 109.89 percent higher than its low of 327.04 on October 9, 2002.

The Wall Street Journal stated that, "Though U.S. corporate profits surged in 2005, share prices didn't keep pace. In an attempt to correct that, companies have been giving more cash back to shareholders in the form of bigger dividends and stock buybacks. According to Standard and Poor's, the companies that comprise the S&P 500-stock index spent more than \$500 billion on share buybacks and dividends in 2005, an increase of more than 35% from 2004, which had been a record year."

BOND MARKETS

After a third quarter during which both long-term and short-term yields increased, the fourth quarter brought slightly higher yields. *The Wall Street Journal* reported that, "In 2005, bonds all but defied gravity. Though the Federal Reserve raised its short-term interest-rate target by two percentage points, 4.25% from 2.25%, and two of the world's largest issuers of corporate debt, General Motors Corp. and Ford Motor co., had their credit ratings downgraded to 'junk' from investment grade, bond prices stayed high and yields low." In 2005, the bond prices rose modestly across the maturity spectrum. An increase in yields signifies a decrease in the price of the bonds, which in turn may be explained by increased selling and supply. A decrease in yields signifies an increase in the price of the bonds.

The 10-year Treasury bond finished the fourth quarter with a yield of 4.39 percent, slightly up from a yield of 4.34 percent at the end of the third quarter. The 10-year bond yield was 4.24 percent at the end of 2004 and 4.0 percent at the end of 2003. At the end of the fourth quarter of 2005, the 20-year bond was at 4.61 percent, compared with 4.62 percent at the end of the third quarter. The 20-year bond yield was 4.85 percent at the end of 2004. 2004 was the first year since 2000 that the yield on the 10-year Treasury increased for the year; it had previously declined from 6.0 percent at the end of 2000 to 4.0 percent at the end of 2003.

The five-year Treasury finished the fourth quarter at a yield of 4.35 percent, up from 4.18 percent at the end of the third quarter. The yield on the five-year note was 3.6 percent at the end of 2004 and 3.3 percent at the end of 2003. The 30-day T-bill was at 4.01 percent at the end of the fourth quarter, up from 3.15 percent at the end of the third quarter. The 30-day bill was at 1.89 percent at the end of 2004 and 0.9 percent at the end of 2003.

A calm market and largely stable prices meant skimpy returns for most bonds in 2005. Emerging markets was an exception to this, seeing returns of 12%. This is due to

improving finances and ratings upgrades attracted big investment flows, which boosted returns.

CONSTRUCTION

According to the U.S. Department of Commerce, housing starts decreased 8.9 percent to 1.933 million units in December 2005, down from 2.121 million units in November. An estimated 2.064 million units were started in 2005, which is 5.6 percent above the 2004 figure of 1.956 million units. Construction of single-family homes decreased to an annual rate of 1.577 million units in December 2005, down 12.3 percent from a rate of 1.798 million units in the previous month.

Building permits, a better leading indicator of demand for new homes, decreased by 4.4 percent in December 2005 to an annual rate of 2.068 million units, down from 2.163 million units in the previous month. In 2005, an estimated 2.141 million housing units were authorized by building permits, which is 3.4 percent above the 2004 figure of 2.071 million.

During December 2005, overall spending on private construction increased by 1.1 percent to an annual rate of \$904.3 billion. Spending on new construction increased 1.0 percent in the month of December to an annual rate of \$1,160.6 billion, up from \$1,149.3 billion in November. The value of construction spending in 2005 was \$1,119.7 billion, which is 8.9 percent above the \$1,027.7 billion spent in 2004. Spending on residential construction increased by 1.0 percent in December to an annual rate of \$648.9 billion, while spending on nonresidential construction increased by 1.3 percent to an annual rate of \$255.4 billion over the same month.

MANUFACTURING

According to the Federal Reserve, industrial production, which is the total output of factories and mines in the United States, increased by 0.6 percent in December 2005 after a 0.8 percent gain in November. During the fourth quarter of 2005, total industrial production increased at an annual rate of 3.8 percent, compared with an increase of 1.4 percent during the previous quarter. Manufacturing increased by 0.2 percent in December, but rose at an annual rate of 7.9 percent over the fourth quarter, compared with an increase of 2.0 percent in the third quarter of 2005. Capacity utilization, the percentage of production capacity manufacturers actually use, increased to 79.6 percent during the fourth quarter of 2005, up from a 78.5 percent rate during the third quarter. The current capacity utilization rate of 79.6 percent is 1.4 percentage points below its 1972-2004 average rate of 81.0 percent. In 2005, capacity utilization was at 78.8 percent compared to 77.1 percent in 2004.

New orders for goods made in U.S. factories increased in December 2005 by 1.1 percent to \$415.1 billion, which follows a 3.3 percent increase in November. Up three consecutive months, new orders for durable goods—items intended to last for three years or more — increased 1.8 percent to \$229.1 billion in December. New orders for nondurable goods, such as food and clothing, increased 0.3 percent to \$186.0 billion in December.

The Institute for Supply Management reported that its monthly Manufacturing Index slumped to 54.2 in December, following a 56.6 reading in November 2005. Any reading above 50.0 suggests growth, whereas one below 50.0 shows contraction.

ECONOMIC OUTLOOK¹

Hampered by rising interest rates and surging energy prices, the economy recorded its slowest growth in three years during the fourth quarter of 2005. Although the economy grew at a slower-than-predicted rate during the final quarter of 2005, economists in the financial press feel strong spending by businesses should bolster the nation's economy in 2006, but a softening housing market is likely to slow the overall pace of growth in the coming year.

According to Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, the real GDP (Table III-2) is expected to grow by 3.6 percent in the first quarter of 2006 and by 3.3 percent in the second quarter (percentage change from previous quarter, seasonally adjusted annual rates). For 2006 and 2007, the real GDP growth rate is expected to be 3.4 percent and 3.1 percent respectively (average percentage change on previous calendar year). In the long term, the real GDP is expected to grow by 3.2 percent for 2007-2015 (average percentage change over previous year).

¹ "Part of the contents of the economic outlook section of this valuation report are quoted from the Economic Outlook Update™ 4Q 2005 published by Business Valuation Resources, LLC, © 2006, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report."

TABLE III-2
HISTORICAL ECONOMIC DATA AND FORECASTS 2001-2015

	HISTORICAL DATA					CONSENSUS FORECASTS**				
	2001	2002	2003	2004	2005	2006	2007	2007-2010	2011-2015	
Real GDP*	0.80	1.60	2.70	4.20	3.50	3.40	3.10	3.18	3.10	
Industrial Production*	-3.60	-0.30	0.00	4.10	3.10	3.40	3.60	3.45	3.40	
Personal Consumption*	2.50	2.70	2.90	3.90	3.60	2.80	3.00	2.95	2.80	
Nonresidential Investment*	-4.20	-9.20	1.30	9.40	8.50	8.30	6.40	5.53	5.30	
Government Spending*	3.40	4.40	2.80	2.20	1.70	2.50	1.70	NA	NA	
CPI*	2.80	1.60	2.30	2.70	3.30	2.80	2.30	2.40	2.40	
Unemployment Rate*	4.70	5.80	6.00	5.50	5.10	4.90	4.90	NA	NA	
Housing Starts (millions)	1.60	1.71	1.85	1.95	2.06	1.89	1.80	NA	NA	

Source of historical data: www.bea.gov, www.bls.gov, www.census.gov, www.federalreserve.com
 Source of consensus forecasts: Consensus Forecasts - USA, January 9, 2006, www.consensus-economics.com

Notes:

- * Numbers are based on percent change from preceding period, seasonally adjusted rates.
- ** Forecast numbers are based on average percent change on previous calendar year.
- *** Long term forecasts last updated in Consensus Forecasts - USA, October 10, 2005.
 Personal Consumption includes spending on services, durable, and nondurable goods.
 Government Spending includes federal, state, and local government spending.

According to the survey, consumer prices will increase 2.8 percent in 2006 and 2.3 percent in 2007. In the long term, *Consensus Forecasts - USA* also predicts consumer prices will grow by 2.4 percent for 2007-2015 (average percentage change over previous year). Producer prices are expected to increase 3.3 percent in 2006 and 1.5 percent in 2007.

Interest rates on three-month Treasury bills and 10-year Treasury bonds will rise over the next year, according to the forecasters of *Consensus Forecasts - USA*. According to the survey, three-month Treasury bills will rise from 4.5 percent at the end of April 2006 to 4.7 percent by the end of January 2007. The yield on 10-year Treasury notes is expected to climb to 4.9 percent by the end of April 2006 and to continue to increase to 5.1 percent by the end of January 2007. Both the three-month and the 10-year Treasury rates are expected to experience an upward trend over the next 10 years. According to the survey, the three-month Treasury rate will average 4.5 percent over 2007-2015. The 10-year Treasury bond yield is expected to average 5.4 percent for 2007-2010 and 5.5 percent for 2011-2015.

The forecasters polled by *The Livingston Survey* in December 2005 posted slightly more optimistic expectations about the level of the S&P 500 index in 2006 and 2007 than they did in June 2005 survey. *The Livingston Survey*, which reports the median value across the 42 forecasters on the survey's panel, predicts that the S&P 500 index will rise steadily during the next two years. The December 8, 2005 survey estimates that the index will reach 1300.0 by June 30, 2006. The June 2005 survey estimated the index would only reach 1294.9 by June 30, 2006. The index is projected to rise to 1343.4 by December 29, 2006 and 1419.9 by the end of 2007. The growth rate in after-tax corporate profits is expected to be 5.2 percent in 2006 followed by 2.7 percent in 2007.

The semiannual White House economic forecast (December 1, 2005) predicted strong economic growth, healthy job creation, and contained inflation. The administration's new forecast calls for the economy to grow 3.4 percent in 2006, down from 3.5 percent in 2005 and consistent with the forecast issued in June 2005. The forecast, which predicted moderate inflation for the next six years, called for CPI inflation to remain at 2.4 percent during 2006 and beyond. The White House also predicted that the nation would add about 176,000 jobs a month in 2006 and that the unemployment rate would approximate 5.0 percent. The same source forecasts that the Federal Reserve will raise interest rates in 2006, but they will remain fairly steady during the next five years. Specifically, it forecasts that rates on three-month Treasury bills will jump from 3.2 percent in 2005 to 4.2 percent in 2006 and 2007, but will then remain at 4.3 percent from 2008 through 2011.

In the fourth quarter, the FOMC raised the federal funds rate from 3.75 to 4.0 percent in November and to 4.25 percent in December. The Committee noted, "Elevated energy prices and hurricane-related disruptions in economic activity have temporarily depressed output and employment. However, monetary policy accommodation, coupled with

robust underlying growth in productivity, is providing ongoing support to economic activity that will likely be augmented by planned rebuilding in the hurricane-affected areas.”

Respecting plans for future interest rate actions, the policymakers estimated that further policy structuring is probably going to be needed to keep sustainable growth and price stability in balance. The Committee’s official comment was, “The Committee judges that some further measured policy firming is likely to be needed to keep the risks to the attainment of both sustainable economic growth and price stability roughly in balance. In any event, the Committee will respond to changes in economic prospects as needed to foster these objectives.”

The next meetings of the FOMC are scheduled for January 31, 2006 and March 28, 2006.

Please Turn Page

LOCAL ECONOMIC OUTLOOK

Rhode Island is a state with a concentrated population of approximately one million people and income per square mile more than any other New England State. The state is comprised of Bristol, Kent, Newport, Providence, and Washington counties. The Providence metropolitan statistical area (MSA) also includes Bristol County, Massachusetts. The following chart summarizes the demographic information relevant to the area.

Please Turn Page

TABLE III-3

AREA	POPULATION				Per Capita Income		Unadjusted Unemployment Rate	
	Census 1990	Census 2000	1999-2000 Chg.	Estimate 2003	2000	2003	Aug-'04	Aug-'05
Rhode Island	1,003,464	1,048,319	4.5%	1,076,084	\$29,214	\$32,038	4.9%	5.1%
Bristol County	48,859	50,648	3.7%	52,110	\$36,289	\$38,771	4.2%	4.4%
Kent County	161,135	167,090	3.7%	171,542	\$30,826	\$33,908	4.8%	5.0%
Newport County	87,194	85,433	-2.0%	85,829	\$35,159	\$37,851	4.1%	4.2%
Providence County	596,270	621,602	4.2%	639,169	\$26,670	\$29,505	5.4%	5.6%
Providence	160,281	173,618	8.3%	176,969	N/a	N/A	6.4%	6.9%
Washington County	110,006	123,546	12.3%	127,734	\$32,767	\$35,564	3.8%	3.9%
Providence MSA	916,270	962,886	5.1%	990,555	\$28,973	\$31,743	5.1%	5.1%
US	248,790,925	281,421,906	13.1%	290,788,976	\$29,845	\$31,472	5.4%	4.9%

Sources: Population-Bureau of the Census (1990, 2000 - Census, 2002 - estimate)
 Per Capita Income - Local Area Personal Income, <http://www.bea.doc.gov/bea/regional/reis/>
 Unemployment Rates - Bureau of Labor Statistics

Rhode Island's total employment averaged 476,357 in 2004, an increase of 3,799 over the previous year. Private sector employment (412,209 jobs) accounted for all the job growth, by adding 4,466 jobs while government employment declined by 667 jobs. This marks the first annual period in which government jobs declined since 1998.²

During the year, employment declines were evident in seven sectors. Manufacturing was down 2.7% over 2003 levels. More than half of manufacturing sub sectors reported job losses, with the largest occurring in miscellaneous manufacturing (-470 jobs), textile mills (-332 jobs), and textile product mills (-322 jobs). Other segments and the number of jobs lost in 2004 include transportation and warehousing (161), information (147), wholesale trade (142), retail trade (104) and utilities (76).³

According to the most current information available, Rhode Island's seasonally adjusted unemployment rate for August was 5.2%, showing little change from July and August of last year. The number of unemployed residents grew by 300 over the month to 29,500 in August. Compared to a year ago, the jobless level is up 900. The over-the-month increase in the number of unemployed, along with a rise in the number of employed residents (2,500), accounted for a gain of 2,900 in the labor force. The State's unemployment rate for August remained above the national average for the second straight month.⁴

The Rhode Island seasonally adjusted job count decreased in August, following ten successive months of increased employment. Businesses in the state reported a decline of 600 jobs, bringing the August job county to a seasonally adjusted 495,800. Over-the-month employment losses were experienced in manufacturing (-300 jobs), government (-300 jobs), leisure & hospitality (-200 jobs), and trade, transportation and utilities (-100 jobs). Employment segments gaining jobs were in construction (300 jobs), professional & business services (300 jobs), and education & health services (200 jobs). Financial activities remained unchanged during the month.⁵

Although employment suffered a slight decline in August, non-farm employment in the state is up 4,700 or 1% since January 2005. During the eight-month period, all employment segments gained jobs with the exception of manufacturing, which lost 1,500. The largest gainers were leisure & hospitality (1,600) and education & health services (1,600).⁶

2 "Quarterly Census of RI Employment and Wages," Online, Available <http://www.dlt.ri.gov>, Accessed August 3, 2005.

3 Ibid.

4 "Employment Bulletin- September 2005," Online, Available <http://www.dlt.ri.gov>, Accessed October 14, 2005.

5 Ibid.

6 Ibid.

According to the Rhode Island Department of Labor and Training, the state's employment is expected to increase by over 58,000 jobs during the 2002 to 2012 period. While job gains are expected in nearly all major industrial sectors of the economy, the individual industries will grow and decline at different rates. Despite overall job losses in the manufacturing sector, significant job growth is expected in the state's chemical manufacturing industry.⁷

During the past five years, housing prices have risen 93% and tied with California for the highest increase in the nation. While the increase is impressive, it is important to note that the housing market is cyclical and the recent robust rate of price appreciation may be challenged by rising interest rates in the future.⁸ During 2004, 2,493 new privately owned housing permits were issued in Rhode Island with a construction value of \$362.5 million. Compared to the previous year, the number of permits and the value increased 6.1% and 6.7%, respectively. Through the first eight months of 2005, the pace of new single-family residential construction slowed. The number of issued permits fell 11.6% to 1,460 and the value dropped 3.3% to \$232.8 million compared to the same period in 2004.⁹

TABLE III-4

Rhode Island Economic Indicators¹⁰				
Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004
Total Nonfarm	1.1%	1.4%	0.9%	0.9%
Manufacturing	-3.2%	-1.2%	-3.2%	-3.0%
Other (nonmanuf.) Goods Producing	2.4%	1.4%	1.0%	0.1%
Private Service Producing	1.9%	2.1%	2.0%	1.8%
Government	0.0%	0.2%	-1.1%	-0.6%
Unemployment Rate (% of labor force)	4.7%	4.4%	5.3%	5.1%
Single Family Home Permits	-2.7%	-19.7%	5.7%	-2.6%
Multi-family building Permits	-45.9%	127.1%	120.0%	10.8%
Existing Home Sales	1.5%	6.0%	6.6%	13.6%
Home Price Index	16.7%	17.6%	18.7%	18.7%

Source: Federal Deposit Insurance Corporation

7 "Expanding and Declining Industries," Online, Available <http://www.dlt.ri.gov>, Accessed August 4, 2005.

8 "Rhode Island State Profile," Online, Available <http://www.fdic.gov>, Accessed August 4, 2005.

9 "New Privately Owned Housing Permits," Online, Available <http://www.census.gov>, Accessed October 14, 2005.

10 Change from a year ago unless otherwise indicated.

INDUSTRY OUTLOOK

The primary operations of INTERSTATE and IHSF are in the tourism industry in Rhode Island. Tourism is the second largest and the fastest growing industry in the state. In 2004, the travel and tourism industry in the state set another record as visitor tourism commodity expenditures increased 3.2% to \$2.78 billion. Rhode Island households are estimated to have spent \$1.56 billion on travel and tourism commodities within the state while Rhode Island businesses and governments are estimated to have spent \$347 million on travel commodities for employee travel.¹¹

Total 2004 expenditures on travel and tourism commodities in Rhode Island reached \$4.69 billion, generated 57,837 jobs, which is 9.6% of the state total, and generated \$1.08 billion in wages and benefits, which is 4.7% of the state total. In terms of gross state product (GSP), travel and tourism commodity expenditures accounted for 5% of the economy of Rhode Island in 2004.¹²

An estimated 16 million travelers, which is an increase of 1%, visited Rhode Island for business, conventions, or leisure in 2004. Of these visitors, 10.9 million spent the day in the state and 5.1 million stayed overnight. An additional 23.7 million travelers "passed through" the state en route to other destinations. About 32% of visitor expenditures are made by over-night leisure visitors, 20% by business travelers, and 18% by day-trip leisure visitors. With the highest per person spending per day, convention visitors spend \$232.75 per day while business overnight visitors spend \$231.11 per day and hotel/motel leisure visitors spend \$157.76 per day. Estimated sales tourism revenue from local, interurban passenger transit was \$138 million, and visitor spending on transportation increased 3.4% in 2004.¹³

BLOCK ISLAND, RHODE ISLAND

Block Island is located in the Atlantic Ocean and is about 12 miles off the coast of Rhode Island. The island is located at the mouth of Long Island Sound, and is about seven miles long and three miles wide. The population includes about 800 year-round residents, and increases to between 10,000 and 15,000 seasonal visitors per day during the tourist season. There are about 17 miles of beaches on the island, which has 365 fresh water ponds and 32 miles of trails.¹⁴

11 "Travel Industry," Online, Available <http://www.visitrhodeisland.com/travelindustry/index.aspx>, Accessed February 6, 2006.

12 *Ibid.*

13 "Rhode Island Tourism and Research Report," Online, Available <http://www.visitrhodeisland.com/pdf/TTRR22.pdf>, Accessed February 6, 2006.

14 "Island Life," Online, Available <http://www.blockislandinfo.com/life.html>, Accessed July 14, 2005.

Block Island is reached primarily by ferry and airplane. Year round ferry service is available from Point Judith, Rhode Island, and seasonal service is available from additional locations in Rhode Island, Connecticut, and New York. The three ferry services each arrive and depart from the island three times to six times daily during the tourist season.¹⁵

Although Block Island had no natural harbor, two harbors were built in the nineteenth century. The Old Harbor was completed in 1876 and the New Harbor was completed in 1896. The New Harbor is on the west side of the island in the Great Salt Pond, and has 3 marinas, 100 town moorings, and anchorage for 1,000 yachts. The Old Harbor is on the east side of the island, is protected by a breakwater, and has limited space for dockage at the town dock.¹⁶

In 2000, New Shoreham, which is the town on Block Island, ranked 39th in population among the 39 cities and towns in the state. The total number of housing units in the town of New Shoreham as of April 1, 2000, was 1,606, which is an increase of 27% from 1,264 housing units in 1990. Of the 1,606 housing units, 1,134 were vacant and 1,109 of the vacant units were for seasonal or recreational use. In 2000, there were 472 households with an average size of 2.13 persons in New Shoreham. Of these households, 250 were family households with an average family size of 2.82 persons.¹⁷

In 2003, the median sale price of a single-family home on Block Island was \$800,000. Up from 13 permits with a construction value of \$5.25 million in 2002, the total value of the 18 building permits issued on the island was \$6.6 million in 2003. Of the 863 jobs on the island, 44.5% are in the accommodation/food sector, 12.7% are in public administration, 10.4% are in retail trade, and 9.3% are in construction. Of the 189 private businesses on the island, 25.9% are in the accommodation/food sector, 22.8% are in retail trade, and 13.2% are in construction. There are three marinas on the island.¹⁸

For over 100 years, Block Island has been a popular summer resort, and tourism and lodging have become the principal economy drivers for the island. There are approximately 70 hotels, inns, bed and breakfast lodgings (B&Bs), studio rentals, and house rentals on the island. The island has also developed a "cottage industry" from weekly rental of an estimated 300 island homes that are rented for approximately 12 weeks each summer. Occupancy rates on the island for the better marketed lodging properties typically range from 90% to 99% during the months of July and August. Approximately 66% of all tourism related expenditures on the island are received in June,

15 "Getting There." Online, Available <http://www.blockislandinfo.com/life.html>, Accessed July 14, 2005.

16 "Block Island's Marine Activities Site," Online <http://www.blockisland.com/marine/>, Accessed July 15, 2005.

17 "Community Profile," Online, Available http://www.riedc.com/riedc/ri_databank/, Accessed July 15, 2005.

18 "New Shoreham," Online, Available http://www.riedc.com/files/1New_Shoreham_-_new_mono.xls, Accessed July 15, 2005.

July, and August, and more than 75% of tourism related expenses are received between June and September.¹⁹

Tourism information that is specific to Block Island is not readily available. In the state in 2003, the 376,500 boating visitors stayed 1.5 days and spent about \$96.58 per day.²⁰ In 2003, the number of boats that were over 12 feet in length and that were registered in Rhode Island increased 1.3% to 43,007.²¹ Of the six new or renovated hotels scheduled to open in Rhode Island in 2006 and 2007, two will open on Block Island in 2006.²²

FERRY SERVICE TO BLOCK ISLAND

Visitors to Block Island, Rhode Island can take a high-speed ferry that provides catamaran service between Galilee, Rhode Island and New Harbor on Block Island. The trip, which is the fastest way to Block Island, takes approximately 30 minutes. The ferry travels at speeds of up to 40 mph, is climate controlled, has airline style seating, and offers a full galley and an audiovisual system.²³ From mid-May to mid-October, the high-speed ferry makes six round trips per day. The round trip cost is about \$29 per adult and about \$13.50 per child (age 4 to 12). There is also a \$3 charge per bike.²⁴ During the season, the high-speed ferry carries about 75,000 passengers (per the article researched) while a slower ferry service carries about 200,000 passengers per year.²⁵

There is also high-speed ferry service to Block Island from New London, Connecticut and from Montauk, New York.²⁶ The New London ferry, which has a capacity of 530,²⁷ carried about 80,000 passengers in 2004, which was its first partial year of service. In July 2004, which was the first month of the operation of the high-speed service from New London, ridership on the other high-speed ferry decreased 19% compared to July 2003 and decreased 26% in August 2004.²⁸

Annual passengers on the slow speed INTERSTATE ferry increased from over 200,000 in 1996 to over 230,000 in 1999. Activity decreased to about 225,000 in 2000 and improved to about 230,000 in 2001. After fast speed ferry service from Point Judith to

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- 19 "New Shoreham 'Block Island'", Online, Available <http://www.andolfoappraisal.com/NewShoreham.html>, Accessed July 21, 2005.
- 20 "Appendix B Visitor Expenditures," *Rhode Island Travel and Tourism Research Report*, April 2005.
- 21 "Boat Registration by State," *Boating Statistics – 2003*, p. 26.
- 22 "Travel Industry," Online, Available <http://www.visitrhodeisland.com/travelindustry/index.aspx>, Accessed February 6, 2006.
- 23 "High-Speed Ferry to Block Island," Online, Available <http://www.islandhighspeedferry.com/>, Accessed July 21, 2005.
- 24 "Rates," Online, Available <http://www.islandhighspeedferry.com/>, Accessed February 6, 2006.
- 25 "New London high-speed ferry to begin service June 25," *The Block Island Times*, June 19, 2004.
- 26 "Getting to Block Island," Online, Available <http://www.blockisland.com/travel/#HiSpeed>, Accessed February 8, 2006.
- 27 "New London high-speed ferry to begin service June 25," *The Block Island Times*, June 19, 2004.
- 28 "Hearings begin on Interstate's request for a high-speed ferry," *The Block Island Times*, June 18, 2005.

Block Island began in 2001, passenger activity on the slow speed ferry decreased and subsequently decreased to fewer than 200,000 in 2004. High-speed ferry service is about 50% faster than slow speed ferry service and costs about twice as much.²⁹ In addition to passengers and bicycles, slow speed ferries can carry passenger cars and motorcycles while the high-speed ferries now in operation carry only passengers and bicycles.³⁰

In December 2004, Interstate Navigation Company (INTERSTATE) requested authority to operate a fast ferry water vessel passenger and freight carrier between Point Judith and Block Island and between Newport and Block Island. The new ferry service would be able to carry about 350 passengers and six vehicles, and would land at the Old Harbor, which is closer to the downtown area. INTERSTATE plans to charge about the same rates for passenger service as is charged by the current company while the round trip charge to ferry a vehicle would be about \$200. If approved by the Rhode Island Public Utilities Commission, which began public hearings on the proposal in June 2005, the new high-speed ferry service would begin operations in the summer of 2006.³¹

A survey of INTERSTATE passengers from Point Judith to Block Island revealed that 35% would have taken a fast ferry if there had been one while 73% of INTERSTATE passengers from Newport to Block Island would have taken the fast ferry. In January 2006, INTERSTATE received approval from the state Division of Public Utilities and Carriers to run a seasonal fast ferry between Point Judith and Old Harbor, and between Newport and Old Harbor. A competitor, Island Hi-Speed Ferry, which has run a fast ferry between New Harbor and Point Judith since 2001, is expected to appeal the decision.³²

29 "Direct Testimony of John Stutz," Online, Available <http://www.ripuc.org/eventsactions/docket/d-05-06page.html>, Accessed February 8, 2006.

30 "Getting to Block Island," Online, Available <http://www.blockisland.com/travel/#HiSpeed>, Accessed February 8, 2006.

31 "Interstate Navigation Company Direct Testimonies and Exhibits," Online, Available <http://www.ripuc.org/eventsactions/docket/d-05-06page.html>, Accessed July 21, 2005.

32 "Interstate gets PUC approval for high-speed ferry into Old Harbor," *The Block Island Times*, January 28, 2006.

**APPRAISAL REPORT OF
*Certain Assets of Island Hi-Speed Ferry***

**SECTION
CONTENTS**

IV. FINANCIAL INFORMATION	Page
Existing Projection	2
Revenues	5
Expenses	5
Debt Service - \$5,612,500	6
Taxes	6
Final Revised Financial Projection	7
Revenues	7
Expenses	7
Debt Service	7

IV FINANCIAL INFORMATION

EXISTING PROJECTION

As the proposed acquisition of certain assets of Island Hi-Speed Ferry reflects a new entity, there is no pertinent available historical financial information. Interstate Navigation Company did however, prepare a financial forecast to be utilized in securing financing for the proposed transaction.

We were furnished with the original forecast prepared by INTERSTATE, which specifically incorporated assumptions for passenger traffic, overhead and synergies as INTERSTATE already operates a large-scale ferry operation.

The original forecast was reviewed and we had a detailed discussion in a meeting with Walter Edge, CPA and Michael McElroy, Esq. on February 2, 2006. This meeting was intended to assist us in understanding the thought process and support behind the projected financials.

One change that was made at our meeting was on the Revenue side. INTERSTATE had forecast 35,500 new high-speed customers at a rate of \$14.50, the increase over INTERSTATE's current slow boat rate. The theory was to account for the increased revenue resulting from a slow boat passenger switching to the Hi-Speed Ferry. As we are valuing the fair market value of the new venture, this assumption was modified to account for the high-speed fare at \$29.00 per passenger. On a free standing basis, this would be correct given our task of valuing the acquired assets on a going concern basis. Adjustments were also made for some expense side items (which are discussed below).

The revised forecast and each component section is as follows:

Please Turn Page

TABLE IV-1

Projection of Revenues and Expenditures (Purchase of HSF) 1/2 of Survey Results		EXHIBIT
First Full Year of Operations - Interstate Fast Ferry		
Revenues:		
Interstate's Current Customers:		
Passenger (Point Judith - Block Island)	\$1,029,500	1/2 of Survey Results (based on 71,000 passengers/year Rate of \$29.00 used, as this is the HSF rate)
Protected HSF Customers:		
Passenger (Point Judith - Block Island)	\$1,073,000	Reflects conservative HSF passenger count (actual estimated @ 40,000)
Total Passenger Revenue	\$2,102,500	
Other Revenues (Bar, bike, etc)	\$150,000	Ancillary Charges beyond Passenger Fare-Est by Interstate
Interstate Charter Revenue	*	Interstate did not project any off-season charters for the HSF (but possible)
Fuel Surcharge Revenue	\$195,000	Law allows \$ for \$ collection of fuel cost over \$1.20/gallon-offsets fuel expense
Total Revenue	\$2,447,500	
Expenses:		
Salaries and wages (\$6,000 per wk X 21 wks)	\$126,000	Calculation based on 13 crew members -per diem/operating 21 weeks @ \$854.67/day
Payroll taxes (10% of S&W)	\$12,600	
Fuel (195,000 gallons * 2.20/gallon)	\$429,000	This cost is directly offset above \$1.20/gallon. This is a statutory pass-through
Maintenance:		
Annual engine top end and overhauls	\$138,000	Based on Interstate experience-engine top-end & overhauls. 2 Yr. Avg. for Interstate
Dry Docking	\$10,000	Estimated by Interstate
General Maintenance	\$25,000	Based on Interstate experience-paint decks, repairs. Interstate has own docks for repairs.
Insurance	\$10,000	Interstate would add Athena to present policy
Advertising	\$15,000	Estimated by Interstate
Berthing Point Judith	\$4,000	Fee for Galilee Berth. Based on \$40/foot * 100 feet (Athena). RIDEM sets rate.
Bar expense	\$66,000	66% of the Bar revenue allocated to cost. \$100,000 * .66
General and Administrative Expense		
Legal and accounting		
General office supplies		
Taxes		
Fees (coast guard, banking, etc)		
Overhead allocation (rent, etc)		
Total G&A Expense	\$100,000	Interstate anticipates that this is a very high estimate given the existing operational structure.
Debt service on \$5,612,500:		
Principal	\$224,000	Est By Interstate
Interest	\$364,813	Est By Interstate
Total Expense	\$1,524,413	
FIT (36%)	\$332,311	Corporate Tax Estimated By Walter Edge, CPA-based on 36% of \$923,087 net
Net profit	\$890,776	

* Assumes no shore revenue although INTERSTATE believes that there may be shore business. See Exhibit 1 for details of the operation.
Note: There is NO dock fee allocated on Block Island (landing) as INC already pays for a dock, and will land the Athena there.

REVENUES

Interstate Navigation Company commissioned a study by URI Tourism Expert, Dr. Timothy Tyrell, which essentially concluded that 35% to 43% of INTERSTATE's current slow boat passengers would select the high-speed option if available. INTERSTATE, taking a conservative approach, utilized 50% of the June through September passenger traffic, which they concluded at approximately 71,000 passengers. INTERSTATE then took 35,500 at the revised \$29 per person Hi-Speed Ferry rate to calculated INTERSTATE's current customer potential revenues of \$1,029,500.

We have reviewed INTERSTATE's passenger count numbers, which indicated an average of 300,000 passengers for the 2004-2005 seasons. Utilizing the slightly lower than mid-point of Dr. Tyrell's 35% to 43% range, potential ridership on the Hi-Speed Ferry would be 111,000 passengers. Additionally, we reviewed the June through September peak summer month traffic, which yielded the following results:

	TOTAL PASSENGERS
June '04 – September '05	227,840
June '03 – September '04	237,198
2 – Season Average	232,519
Times Mid-Point range	x .37
Potential Hi-Speed Ferry Passengers:	86,032
Actual Used in Forecast:	35,500
Percentage of Potential Passengers:	41.3%
Percentage of Total Passengers:	11.9%

It appears that given Dr. Tyrell's expert opinion and range, and the ultimate numbers selected on the projections, that the numbers are essentially extremely conservative as they reflect less than 12% of the total potential ridership for the Hi-Speed Ferry.

The second component of the revenue projection includes existing Island Hi-Speed Ferry passengers. According to Dr. Tyrell, it is estimated that actual passengers riding the Hi-Speed Ferry from Point Judith to Block Island (round-trip) is in the low 40,000 range. Dr. Tyrell indicated that there are three ways to confirm this number, which included actual passenger counts of debarking passengers; an inadvertent filing to the PUC by

Island Hi-Speed, which revealed 37,000 passengers; and Block Island landing fees which are a matter of public record, which show counts close to 40,000. INTERSTATE, in basing its projections on existing customers, utilized the number of 37,000, which appears reasonable given the information furnished by Dr. Tyrell. The rate of \$29.00 is the posted rate for IHSF passengers. Therefore, total passenger revenue on the forecast is \$2,102,500 for the proposed venture.

There are some ancillary revenues, which include bar and bike revenues as well as a fuel surcharge revenues (\$150,000 and \$195,000, respectively). The \$150,000 revenue increase for bar and bike fees was estimated by INTERSTATE. With respect to the fuel surcharge revenue, we have obtained a copy of a Rhode Island Statute (39-12-13 (c)), which indicates the carrier can pass through the surcharge over and above diesel gas cost of \$1.20 per gallon. Please Refer to Exhibit 5 for a copy of the Statute.

Therefore, total revenue per the forecast furnished was \$2,447,500 for the new venture.

EXPENSES

1. **Salaries and wages:** INTERSTATE has calculated salaries and wages at \$6,000 per week for a 21-week season. A separate schedule (Exhibit 6) was furnished, which supports the daily salary and wages expense at \$854.67. Accordingly, the total works out to approximately \$6,000 per week and the 21-week estimate was provided by INTERSTATE.
2. **Payroll Taxes:** Calculated at 10% of salaries and wages.
3. **Fuel Expense:** Fuel expense at \$429,000 is a result of 195,000 gallons of fuel being utilized at \$2.20 per gallon. As indicated, there is a \$195,000 offset in revenues (\$1 per gallon overage), which helps control overhead in the event of fuel spikes that are presently being incurred.
4. **Maintenance:** Maintenance estimates were essentially based on INTERSTATE's experience in operating a large-scale ferry operation. As INTERSTATE has its own docks for repairs, the expenses are controllable in that they do not have to rent additional space.
5. **Berthing Fee-Point Judith:** This expense was not part of the initial projection and it is anticipated that a \$4,000 fee based on \$40/per foot/100 ft. overall length, would be the berthing fee. The Rhode Island Department of Environmental Management sets the rate (Exhibit 7), which is set at \$40 per foot for the season.

6. **Bar Expense:** INTERSTATE has revised the bar expense to 66% of bar revenue, which is estimated at \$100,000. The 66% level is considered to be the expense level for beverages.
7. **General & Administrative Expenses:** INTERSTATE has estimated \$100,000, which would cover legal and accounting, office supplies, taxes, various fees and overhead allocation to the new venture. INTERSTATE does anticipate that this is an extremely high estimate given existing operational structure and the ability to take advantage of business operational synergies.

Total operational expenses per the forecast were \$935,600.

DEBT SERVICE - \$5,612,500

INTERSTATE has determined that the total principal and interest expense on an annual basis would be \$588,813, leaving a pre-tax profit of \$1,524,413.

TAXES

Based on our financial projection meeting, INTERSTATE recalculated the projection allowing for a 36% corporate tax on the \$923,087 pre-tax income. This income tax calculation was made so that we will be able to utilize and after tax number in accordance with our income approach, which utilizes after tax capitalization rates.

The net profit, as per the forecast on an after tax basis was \$590,776 for operation of Island Hi-Speed Ferry as proposed by Interstate Navigation Company.

Please Turn Page

FINAL REVISED FINANCIAL PROJECTION

REVENUES

We previously discussed the 35,500 INTERSTATE passengers that would convert to the new Hi-Speed Ferry at the going rate of \$29. Additionally, the existing Island Hi-Speed Ferry customers, which 37,000 were utilized, were all classified at the adult round-trip rate of \$29. We do not feel that this is an accurate representation given the fact that some percentage of the passengers in the count would be children. We then reviewed INTERSTATE's survey prepared by Dr. Tyrell, which concluded (page 7) that of 1,313 passengers surveyed, 308 of these passengers were children. Further, of the 560 passengers who indicated that they would utilize the Hi-Speed Ferry, 115 of those were children, reflecting just over 20% of the passengers that would travel on the Hi-Speed Ferry. Although we do not have any figures for the Island Hi-Speed Ferry's actual passenger breakdown, we have utilized an 80% adult / 20% child allocation to the existing Island Hi-Speed Ferry customers, which revised the revenue downward to \$1,987,800 from the furnished forecast of \$2,102,500, net of other revenues. We utilized 80% of the 37,000 passengers as an adult allocation, which totaled 29,600 passengers at \$29. The remaining count, 7,400, was classified as children; and we have utilized a \$13.50 round-trip rate. This brought the revenue projection overall downward approximately \$115,000.

We feel that this is a fair representation of the revenues. With respect to INTERSTATE's 35,500 passengers, we feel that they have projected this number on such a conservative basis, that it would be meaningless to reallocate the 35,500 passengers. In reality, more passengers would travel on the Hi-Speed Ferry (according to Dr. Tyrell's assumptions) and therefore, as they are utilizing less than 12% of the potential customers for the Hi-Speed Ferry, we feel that this is a conservative and realistic estimate.

EXPENSES

We made inquiry to management with respect to support of projected expenses. With respect to insurance on the M/V Athena, we were able to obtain the actual insurance quote, which was \$33,000, as opposed to the \$10,000 estimate utilized on the original projection (Please refer to Exhibit 9). No other expense adjustments were made.

DEBT SERVICE

We have made inquiry to Bethany Schneider of the Washington Trust Company with respect to assisting us in calculating the appropriate debt service based on rates in place as of February 8, 2006. Accordingly, it was concluded that the debt service would be \$490,000, which is less than the \$588,000 previously estimated by INTERSTATE. After

adjusting the pre-tax income by 36% for corporate level taxes, the adjusted net profit was calculated at \$565,888, which is approximately \$25,000 less than the projection (as adjusted) furnished by INTERSTATE. We will utilize the \$565,888 in our income approach to value to be discussed in detail in Section VI of this report. The final revised projection is as follows:

Please Turn Page

TABLE IV-2

Revised Projection of Revenue and Expenditures Proposed Island Hi-Speed Ferry Acquisition		
First Full Year of Operations		
Revenues:		
<u>Interstate's Current Customers:</u>		
Passenger (Point Judith - Block Island)	35,500 passengers @ \$29.00	\$1,029,500
<u>Projected IHSF Customers:</u>		
Passenger (Point Judith - Block Island)	29,600 Adult Passengers @ \$29.00	\$858,400
	7,400 Child Passengers @ \$13.50	\$99,900
Total Passenger Revenue		\$1,987,800
Other Revenues (Bar, bike, etc)		\$150,000
Interstate Charter Revenue		*
Fuel Surcharge Revenue		\$195,000
Total Revenue		\$2,332,800
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
<u>Maintenance:</u>		
Annual engine top end and overhauls	Two year average	\$138,000
Dry Docking	Estimate	\$10,000
General Maintenance	Estimate	\$25,000
Insurance	Actual Per Quote	\$33,000
Advertising	Estimate	\$15,000
Berthing Point Judith		\$4,000
Bar expense		\$66,000
<u>General and Administrative Expense</u>		
Legal and accounting		
General office supplies		
Taxes		
Fees (coast guard, banking, etc)		
Overhead allocation (rent, etc)		
Total G&A Expense	Estimate	\$100,000
<u>Debt service on \$5,612,500:</u>		
Total Debt Service (based on rates February 8, 2006)		\$490,000
Total Expense		\$1,448,600
Pre Tax Profit		\$884,200
FIT (36%)		\$318,312
NET PROFIT		\$565,888
Assumes no charter revenue although INTERSTATE believes that there may be opportunities to lease the Fast Ferry in the off season.		

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**APPRAISAL REPORT OF
*Certain Assets of Island Hi-Speed Ferry***

**SECTION
CONTENTS**

V. THE APPRAISAL PROCESS	Page
Definition of Fair Market Value	2
Fair Market Value Versus Price	2
Other Types of Value	2
IRS Guidelines	3
Valuation Premises	4
Goodwill	5
Valuation Methodology	6
Going Concern	6
Market Approach	6
Income Approach	7
Discounted Future Returns Methods	7
Capitalized Returns Method	7
Asset Approach	8
Other Methods	8
Excess Earnings	8
Rules of Thumb	9

V THE APPRAISAL PROCESS

DEFINITION OF FAIR MARKET VALUE

We have previously defined Fair Market Value as: “...the price at which the property would change hands between a willing buyer and a willing seller when the former is not under compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.”¹

Implicit in this definition is the belief that: Buyer and seller are typically motivated; both parties are well informed or well advised, and each acting in what they consider their best interests; a reasonable time is allowed for exposure in the open market; payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

FAIR MARKET VALUE VERSUS PRICE

The “Fair Market Value” of a business may differ from the price actually paid for a business. Price is a negotiated value impacted by internal and external marketing pressures -- which may inflate or deflate the worth of the business to a specific buyer. Fair Market Valuation assumes that a hypothetical buyer is acquiring a business for investment purposes with full knowledge concerning the business and without any coercive pressure. This unique set of conditions is rarely met and makes “Fair Market Value” an important benchmark from which price may be determined.²

OTHER TYPES OF VALUE

Investment Value:

The investment value of a closely held company is the value to a particular buyer as compared with the population of willing buyers. The investor may have specific investment criteria that must be fulfilled in an acquisition. For example, a purchaser may decide that the business must have the ability to pay any indebtedness resulting from the purchase from operating cash flow over a period of no longer than five years. This value

1 IRS Revenue Ruling 59-60.

2 Shannon P. Pratt, “Valuing A Business” Dow-Jones-Irwin, 1987.

is specific to the individual rather than to all prospective purchasers on the open market, whose standard would be fair market value.

Book Value:

Book value does not represent a standard of value. It is an accounting term, not an appraisal term. The term "book value" means the sum of the asset accounts, net of depreciation and amortization, less the liability accounts, as shown on a balance sheet. Assets typically are accounted for at historical cost, less depreciation. Some assets may be completely written off the books. Liabilities are usually shown at face value. The longer an individual asset or liability item remains on the books, the less likely it is that the items' book value will bear an identifiable relationship to any standard of value for it, much less for the entity as a whole.

Intrinsic Value:

Intrinsic value is usually used to value stock by a financial analyst. The intrinsic value of a stock is generally considered to be the value based on all the facts and circumstances of the business or investment. Financial analysts consider asset values, future earnings, dividends and growth rates.

IRS GUIDELINES

The Internal Revenue Service has issued guidelines for developing the Fair Market Value appraisal of closely held business interests. IRS Revenue Ruling 59-60 also states that the following factors be considered where appropriate. We have considered these elements of appraisal protocol in this report. They are:

1. The nature of the business and the history of the enterprise from its inception. (Section II)
2. The economic outlook in general and the condition and outlook of the specific industry in particular. (Section III)
3. The book value of the stock and the financial condition of the business. (Section IV)
4. The earning capacity of the company. (Section IV)
5. The dividend-paying capacity. (Section V)
6. Whether or not the enterprise has goodwill or other intangible value. (Section V)
7. Sales of the stock and the size of the block of stock to be valued. (Section II)

8. The market price of stocks or corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter. (Section VI)

VALUATION PREMISES

The valuation process is based on methodology that is universally accepted by scholars, courts and practitioners. These premises³ form a basis of understanding the overall appraisal process and will guide the user towards this report's conclusion.

The Value of a Business is Equal to the Present Worth of the Future Benefits of Ownership. This statement is a fundamental premise of business valuations. A rational buyer normally will invest in a company only if the present values of the expected benefits of ownership are at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of those expected benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the benefits of ownership.

Value Is Not Always a Single Number. The valuation process is full of judgments and estimates. No one can predict with mathematical certainty the amount of benefits a company's owners will receive. Informed investors may have different opinions about the amount of those benefits. Also, the investors may require different rates of return based on their opinions about the risks of owning that company. A company's value depends on each person's assessment of the benefits and risks relating to a company. Generally, the consultant's task is to determine a most likely conclusion where the buyer and seller will meet.

Value Is Based on a Specific Point in Time--the Valuation Date. An investor's required return and the amount of available benefits usually are estimated at a single point in time. Also, the estimate of value is based solely on the information that is discernible and predictable at the valuation date. This is referred to as the "effective date of appraisal."

The Principle of Substitution. The Principle of Substitution states, "the value of a thing tends to be determined by the cost of acquiring an equally desirable substitute." As with the Principle of Future Benefits, the "buyer" must quantify the "cost" of a specific investment versus an alternative.

³ Guide to Business Valuations, Practitioners Publishing Company, 2002

GOODWILL

Goodwill is a term applied to an intangible asset and may be defined as “those elements of a business that cause customers to return, and that usually enable the business to generate profit in excess of a reasonable return on all other assets of a business.”⁴ It may also include workforce in place value, information base, non-compete agreement, know-how and licenses. Our examination of certain assets of Island Hi-Speed Ferry sought to identify goodwill, as it existed on the valuation date. We considered two types of goodwill:

Personal Goodwill:

This form of goodwill is attached to a person, usually the owner, and is considered non-transferable in a sale or other type of transaction. That is not to say that personal goodwill has no value, but that it is treated on a case-by-case basis in accordance with state laws, customs and in consideration of the purpose and function of the valuation. Examples of personal goodwill would be the special talents of a surgeon, attorney or other professional; business contacts via longevity, professional affiliations, family or political; and education or experience in a particular business area.

Entity Goodwill:

Entity (sometimes referred to as “business” or “enterprise” goodwill) is attached and associated to the business, and therefore it is transferable. Examples of entity goodwill are patents, trademarks, customer lists, referral pools, location and name.

In our valuation of certain assets of Island Hi-Speed Ferry we determined that “goodwill” exists in the form of entity goodwill. This conclusion is solidified in our final valuation estimate, which is in excess of the adjusted book value of IHSF. The goodwill is determined to be of an entity nature in that it would be transferable to a “hypothetical” buyer. We have, therefore, concluded that the business not only has goodwill, but also, goodwill value, which could be transferred to a buyer.

The Excess Earnings method indicates that goodwill exists for IHSF and is measured by a return over and above that required for the tangible assets of the company. Please refer to Section VI for discussion pertaining to Excess Earnings.

⁴ Raymond C. Miles, “Basic Business Appraisal,” John Wiley & Sons, Inc., 1984

VALUATION METHODOLOGY

GOING CONCERN VALUATION

Going concern value assumes that the company will continue in business, and looks to the enterprise's earnings power and cash generation capabilities as indicators of its fair market value. There are many acceptable methods used in business valuation today. The foundation for business valuation arises from what has been used in valuing real estate for many years. The three basic approaches that must be considered by the appraiser are:

1. The Market Approach,
2. The Asset Based Approach, and
3. The Income Approach.

Within each of these approaches there are many acceptable valuation **methods** available for use by the appraiser. Appraisal standards suggest that an appraiser test as many methods as may be applicable to the facts and circumstances of the subject being appraised. It is then up to the appraiser's informed judgment as to how these various values may be reconciled in ultimately deriving a final estimate of value.

Market Approach:

The market approach suggests that the value of the company can be determined by examining the "market" that has been established by historical experience. In larger, publicly held corporations, the value is set by the most recent trading of the stock to private and public investors who have made their own determination as to value. It would be difficult to argue that the fair market value of a corporation would be significantly different than that which the public has deemed to be correct.

A second method within the market approach would be to search for transactions of similar and relevant corporations. When "guideline" companies can be identified and are deemed to be applicable, the appraiser may form comparisons in the performance of a group of companies (industry) and the subject business. These "value multiples" typically include:⁵ Deal Price/EBIT, Deal Price/EBITDA, Equity Price/Sales, Equity Price/Earnings, and Equity Price/Book Value.

When information is available, the Market Approach can be one of the most accurate approaches due to its reliance on market-oriented information. However, its use for

⁵ Guide to Business Valuations, 2005, Paragraph 203.3

appraising closely held businesses is often severely hampered by lack of available information on actual sales of businesses.

Income Approach:

This approach is the closest to the basic valuation principle, which states, "The value of a business is equal to the present worth of the future benefits of ownership." The term income does not refer to income in the accounting sense, but to the future benefits accruing to the owner. Under the income approach, the consultant estimates the future ownership benefits and discounts those benefits to present value using a rate suitable for the risks associated with realizing those benefits. As a shortcut method under the income approach, the consultant may capitalize some normalized level of ongoing benefits.

Within the Income Approach, anticipated benefits are expressed in monetary terms, and may be reasonably represented by such measures of income as Net Cash Flow, Dividends, and various forms of Earnings. The two primary methods that comprise the Income Approach are:

- A) Discounted Future Returns Methods:** Discounted Future returns methods may be used when the company's future returns (a) can be reasonably estimated and (b) are expected to differ significantly from its current operations because of factors such as changes in business structure or expected changes in economic conditions. To apply these methods, the consultant estimates the company's future returns until they reach a stabilized level. Then the consultant determines a terminal value of the company based on its stabilized net cash flow or earnings. Finally, the company's estimated future returns, including the terminal value, are then discounted to present value using a market discount rate.⁶

- B) Capitalized Returns Methods:** Capitalized returns methods may be used when a company's future operations are not expected to change significantly from its current normalized operations where future returns are expected to grow at a somewhat predictable rate. To apply these methods, a company's current operations (either net cash flow or earnings) are divided by a capitalization rate to estimate value.⁷

⁶ Guide to Business Valuations, 2005, Paragraph 203.10

⁷ Guide to Business Valuations, 2005, Paragraph 203.11

Asset Approach:

The Asset Approach is probably the least complex of all approaches to examine and use as an appraisal guideline. Within this approach, the assets of the corporation, principally tangible assets, are examined for value at “book value” and “market value,” and then adjustments are implemented.

In most cases, the appraiser also examines the possible value of an enterprise in liquidation. In some instances the value of the assets being separated from the business and being sold individually will have a greater value than the continuation of the firm as a business enterprise.

The Asset Approach also includes the “cost to create method.” It is conceivable that a business may be started from “scratch” at a lesser cash commitment than it would cost to purchase an existing business.

The Asset Approach typically does not take into consideration the “intangible” value of the enterprise. Therefore, intangible assets, i.e. goodwill, require estimation by some other method. The intangible value is then added to the net asset value via the Asset Approach to yield an overall value for the company.

Other Methods:

Utilizing a combination of approaches, there are several methods that are considered important to the appraisal process:

- A) **Excess Earnings:** This method was originally devised by the Internal Revenue Service as a formula for determining goodwill and other intangible value associated with closely held corporations. The specifics of this method are outlined in Revenue Ruling 68-609.⁸

Generally, this method applies a rate of return on the tangible assets of the business and a capitalization rate on the “excess earnings” (those earnings in excess of earnings on net tangible assets) forming a value for the intangibles. This value is then added to net tangible assets for a total estimated value of the business, or business equity.

The Internal Revenue Service states in Revenue Ruling 68-609 “the approach may be used only if there is no better basis available for estimating the value of intangible assets.”

⁸ Revenue Ruling 68-609, 1968-2, C.B. 327

This approach is often used by practitioners, as there is seldom a “better basis” to determine intangible value. However, its use must be implemented with caution as its’ apparent simplicity is often misunderstood by the untrained appraiser.

- B) Rules of Thumb:** Some industries have developed, over time, guidelines for the valuation of common business enterprises. Franchises, gas stations, professional practices and other businesses are sometimes initially valued in this manner. Rules of Thumb are not considered to be a recognized appraisal method *per se*; rather, they are utilized by the appraiser as a test of reasonableness as to the values derived via other recognized approaches.

Limitations of Rules of Thumb⁹: Rules of thumb are usually derived from comparative company transactions, and like most comparatives, those companies probably will differ from the subject company. Accordingly, those differences may need adjustment. With rules of thumb, the multiples may be known, but not the underlying transactions. Thus, the basis for adjusting the comparatives may be obscured. Other similar limitations of using rules of thumb include:

- a. *Insufficient data to derive a proper multiple.* Consultants may not be able to identify specific transactions or obtain enough comparative company data to derive a multiple. Also, there may not be enough information on the actual terms of sale. For example, there may be favorable financing terms on some comparatives, which may require adjustment.
- b. *Difficulty in defining a “typical” business from which to make adjustments.* A rule of thumb is assumed to apply to the valuation of a “typical” business. Obviously, no “typical” businesses exist. Thus, rules of thumb will always contain some degree of error.”

The following section documents the implementation of those applicable valuation methods utilized in estimating the fair market value of IHSF.

9 Guide to Business Valuations, 2005, Paragraph 706.2

**APPRAISAL REPORT OF
*Certain Assets of Island Hi-Speed Ferry***

**SECTION
CONTENTS**

VI. APPRAISAL CALCULATION	Page
Market Approach:	2
Direct Market Data	2
Merger & Acquisition Method	2
Income Approach:	3
Discount Rate	4
Capitalization Rate	4
Discount/Capitalization Rate Characteristics	4
Discount/Capitalization Rate Development	5
Build-up Approach	5
Calculation of Discount & Capitalization Rates	11
Capitalization of Future Benefits	12
Cost Approach:	13
Adjusted Book Value	13
Hybrid Methods:	15
Excess Earnings	15
Reconciliation & Final Value Estimate:	19
Asset-Based Approaches	20
Market Approach	20
Income Approach	21
Premiums & Discounts:	21
Premium/Discount Conclusion:	23
Conclusion:	23

VI APPRAISAL CALCULATION

It is widely recognized that there is no one correct method of valuation, and that any valuation depends upon an analysis of the relevant facts, common sense and the informed judgment of the appraiser.

Proper appraisal protocol requires the valuator to implement all relevant valuation methods that are appropriate to the particular valuation assignment. A final reconciliation of value must be logical, and well supported. The use of a single valuation method, while ignoring other applicable methods, is irresponsible, as it does not offer a credible result. As such, the appraiser developed a variety of methods in the appraisal of IHSF as follows:

APPROACH: MARKET
METHOD: DIRECT MARKET DATA METHOD

In order to apply the market approach, this appraiser located data that is maintained in a market data file by The Institute of Business Appraisers, Inc., a professional appraisal organization. A search of the database was performed, using SIC Codes 4489, 4482 and 4499.

We were unable to locate a sufficient quantity of data for analysis. Typically, the appraiser seeks a minimum of 5-6 transactions of comparable business in order to develop a level of confidence sufficient to determine the market. Data quantities in excess of 10 transactions greatly enhance the appraiser's ability to determine market influences. As we were unable to locate any transactions that were deemed useful in this analysis, this methodology was not deemed pertinent. Therefore, we have rejected implementation of the direct market data method.

APPROACH: MARKET
METHOD: MERGER & ACQUISITION METHOD

We have researched the databases of Pratt's Stats, and The World M&A (Done Deals) databases for comparable transaction data. The Merger & Acquisition method differs from the Direct Market Data method in that it reflects a "best-fit" strategy versus a "total market" strategy. By "best-fit" we mean the appraiser selects comparable transactions that are deemed most like the target company. As the Pratt's Stats and Done Deals databases report a quantity of data points, less comparables are required as more detailed information about each transaction is available.

The "total market" strategy requires a greater number of transactions, as less data is available per transaction. Therefore, the market is interpreted by the quantity of transactions of similar companies.

With respect to the Pratt's Stats and Done Deals analysis, we began our search of these two databases by utilizing the following parameters:

TABLE VI-1

SEARCH PARAMETER	PRATT'S STATS COUNT
SIC 4482	0
SIC 4489	0
SIC 4499	<u>2</u>
TOTALS:	2

Base on the Pratt's Stats search, which revealed 2 transactions, these transactions reflected a sea-going vessel maintenance and repair company with nearly \$400,000,000 in revenues, and a boat rental business with \$20,000,000 in revenues. Neither one of these entities were deemed comparable to the operations of the proposed new IHSF company. Therefore, the merger & acquisition method was considered and ultimately rejected in this analysis.

INCOME APPROACH

One authority commonly cited by business appraisers when valuing closely held businesses is Revenue Ruling 59-60. Section 5(a) of this Ruling states:

Earnings may be the most important criterion of valuing some cases, whereas, asset value will receive primary consideration in others. In general, the appraiser will accord primary consideration to earnings when valuing stocks of companies, which sell products or services to the public; conversely, in the investment or a holding type of company, the appraiser may accord the greatest weight to the assets underlying the security to be valued.

With respect to the purchase of small closely held businesses, buyers are primarily concerned with the capability of the business to generate profits. An objective analysis of the profit-generating potential of the business and the perceived risk of obtaining those

profits will be of primary importance to both the buyer and the seller in arriving at a mutually acceptable price.

After considering the nature of IHSF, the projected income of the new entity, alternative methods of valuation, and the valuation factors set forth in Revenue Ruling 59-60, as well as other factors deemed relevant, primary reliance has been placed on the single-period capitalization method to determine fair market value of the proposed entity. Further, the developed capitalization rate was used as a baseline to develop the applicable intangible rate utilized in the excess earnings method.

Discount Rate:

The discount rate represents the rate of return that an investor requires justifying investing in an asset based on the amount of risk associated with the investment. For example, an investor may expect a 5.0 - 6.0 percent return on a certificate of deposit from a bank, an 8-percent return on a corporate bond, and an 18-percent return on junk bonds. Usually, the higher the risk, the higher the required return. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.¹

Capitalization Rate:

A capitalization rate is generally derived from the subject's discount rate. It is used to convert income into an overall value for the company. The basis of the relationship between the discount rate and capitalization rate is the assumption that the business has a perpetual life and that its annual growth will be constant. The relationship is expressed as follows:²

$$\text{Discount Rate} - \text{Growth Rate} = \text{Capitalization Rate}$$

Discount/Capitalization Rate Characteristics:

Characteristics common to Discount Rates, and subsequently, Capitalization Rates include the following:

-
- 1 American Society of Appraisers, "Business Valuation Standards," 2002, International Glossary of Business Valuation Terms
 - 2 American Society of Appraisers, BV204, pp. 17

1. Discount/Capitalization rates are determined by the market;
2. Vary with time even for the same investment;
3. Are sensitive to, and incorporate inflationary expectations;
4. Accommodate the risk generally resident in the market, and must be adjusted to allow for the risk that is specific to the asset being appraised;
5. Are based on the yields available on alternative investments;
6. Depend on the nature of the "future income stream" being reduced to present worth (discount rates), and the nature of the income being capitalized to value (capitalization rates).

The Discount Rate represents a risk element. The growth and duration factors are expressly a function of the financial forecast. Capitalization Rates, on the other hand, represent all information required to turn "income" into value. The Capitalization Rate contains the risk element, growth element and duration element, usually assumed to perpetuity.

DISCOUNT/CAPITALIZATION RATE DEVELOPMENT

Build-Up Approach:

We have implemented the Build-Up Approach in the development of the discount rate, and subsequent capitalization rate in this appraisal assignment. The Build-Up Approach is based on the principle that a company's discount rate (and, consequently, its capitalization rate) is composed of a number of identifiable risk (or return) factors that, when added together, result in the total return that a prudent investor would demand from the purchase of the company. The components in the Build-Up Approach are: Risk-Free Rate, General (Equity) Risk Premium, Risk Premium for Size, and Specific Company Risk.

The risk-free rate when added to the general risk premium yields an average market return expected by an investor when investing in a publicly traded company. Once the average market return is determined, the next step is to add increments for risk factors that differ between the company being appraised and the market. There is obviously more risk associated with the typical small business than with large, publicly traded common stocks. As such, an investor in a closely held business will demand a rate of return in excess of the average market return. The Build-Up Approach was developed as follows:

Risk-Free Rate:

We begin with the “risk-free” or “safe rate” that an investor could achieve in the financial markets. The risk-free rate of return is the return an investor could obtain from a low-risk guaranteed investment. We assume that an investor has “choices” to make when considering an investment. Those choices usually begin with the least risk and the maximum return. For this purpose we have selected the 20-year “Treasury Bond” rate as published by the U.S. Federal Reserve Bank as of (or closest to) the valuation date.

Risk Free Rate:	4.74%
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Equity Risk Premium:

The equity risk premium reflects the rate of return investors are receiving to compensate for the perceived risk in an investment in the corporate equity market in excess of the rate of return investors are receiving to compensate for the perceived risk in an investment in a “risk-free” security. This premium encompasses risk associated with general economic conditions, and economic factors such as fluctuating interest rates. Our equity risk data comes from the annual study, “Stocks, Bonds, Bills, and Inflation” by Ibbotson Associates: “Long-horizon expected equity risk premium: large company stock total returns minus long-term government bond income returns.” We ultimately adjusted the rate to reflect 15-30 year holding period data.

Equity Risk Premium:	6.00%
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Risk Premium For Size:

The third component of the discount rate is a small company risk premium, or benchmark premium for size. This is a risk premium that is measured in the public market place for companies that have total market capitalization below \$98.6 million.³ Due to IHSF’s size, we have refined the size premium by utilizing the tenth decile (10a) information from the SBBI Valuation Edition 2005 Yearbook.

Risk Premium for Size:	4.54%
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³ “Stocks, Bonds, Bills, Inflation,” Valuation Edition, Ibbotson Associates, 2005.

Specific Company Risk:

The specific company risk is a measure of risk, which is associated with the specific business and/or industry in which the company operates. While it is impossible to know and identify all business risks, we have considered various classes of risk including:

1. Industry (Overall Growth, Market Conditions)
2. General Economic Conditions
3. The Company's Financial Risk (Ratio Analysis)
4. Diversification of the Company's Operations
5. Operational Attributes

In estimating the Specific Company Premium, it is important to note that this is clearly formulated by, and requires the judgment of the appraiser. While it is considered subjective, the appraiser's judgment is based on a variety of quantitative factors as discussed in numbers 1-5 above. The Specific Company Risk Premium is a PREMIUM to be added to the average market return, which measures the market's expectation of required rates of return as of the effective date of the appraisal. Certainly, there are inherent risks associated with the investment in a closely held business over the market rate of return for highly liquid investments of a public nature. Once a Specific Company Premium is determined, the resulting discount rate developed by the Build-Up Method is applicable to Net Cash Flow for the company.

Systematic and Unsystematic Risks:

Systematic risks are those risks that are formulated from market events such as risk free rates, calculated equity and/or size premiums. Their development is usually based on studies or formula relationships published by government⁴ or private sources.⁵ No discount has been considered for systematic risks at this point in the valuation process.

Unsystematic risks can be described as all other risks that may impede or redirect the operations (and earnings) of an enterprise. Some of the risks to be considered are listed in the following table:

Please Turn Page

⁴ Federal Reserve Statistical Releases, www.federalreserve.gov

⁵ Ibbotson Associates

TABLE VI- 2

RISK CONSIDERATIONS		
UNSYSTEMATIC RISK	Market Risk	<ul style="list-style-type: none"> • Barriers to market entry • Market size or share constraints • Strength of competition • Buyer product or service acceptance • Shifting buyer preferences
	Financial Risk	<ul style="list-style-type: none"> • Illiquidity • Unfavorable contractual obligations • Excessive debt
	Management Risk	<ul style="list-style-type: none"> • Depth of management talent • Key employee dependence • Management's past experience with product or service
	Product Risk	<ul style="list-style-type: none"> • Key supplier dependence • Obsolescence • Reliance on specific patents and licenses • Lack of productive capacity • Commercial impracticality of production
	Company Sales Risk	<ul style="list-style-type: none"> • Key Customer dependence • Lack of product diversification • Lack of geographic sales diversification
	Business Environment Risk	<ul style="list-style-type: none"> • General economic conditions • Government regulation

In order to assist the appraiser in quantifying the unsystematic risk associated with IHSF (as proposed), we considered the following factors and their impact on average risk relative to the market (small publicly held companies).

TABLE VI-3

SPECIFIC COMPANY UNSYSTEMATIC RISK ANALYSIS	HIGH	NEUTRAL	LOW
Operating history, volatility of revenues and earnings		X	
Profitability and realization (as projected)			
Access to capital resources		X	
Size			
Geographic diversification		X	
Product diversification		X	
Customer diversification		X	
Competition			
Marketing resources in light of competition			
Purchasing power and other economies of scales			
Seasoned management			
Conservative forecast given survey results			
Overall Risk Assessment for IHSF			
High Risk Total:	0		
Neutral Risk Total:		5	
Below Risk Total:			

A specific company risk premium of 1.00% was concluded based on the above-referenced factors.

Specific Company Risk Premium:

1.00%

Conversion Factor:

The resulting discount rate is a rate applicable to net cash flow. As the appraiser has developed a net earnings income stream, the net cash flow discount rate must be converted to a net earnings discount rate. There have been no definitive studies of public company data; however, many experienced practitioners feel that this difference most typically ranges from 3% to 6%.⁶ That is, a net cash flow discount rate can be converted to a net earnings discount rate by adding a 3%-6% increment, or conversion factor. For

⁶ Z. Christopher Mercer, "Adjusting Capitalization Rates for the Differences Between Net Income and Net Free Cash Flow," *Business Valuation Review*, December 1992

this assignment, we have anticipated a 3.00% conversion factor to convert the net cash flow discount rate to a net earnings discount rate.

Cash Flow to Earnings Conversion:

3.00%

Growth Rate:

The capitalization of earnings uses a single, normalized annual earnings amount. To develop a capitalization rate, the appraiser must subtract the expected long-term compound growth rate to convert the discount rate to a cap rate. This growth rate should include both price (inflationary) growth, and volume (real) growth. Because annual returns are held constant, the capitalization rate must be adjusted by the implied inflation factor in the risk free rate. If real growth is anticipated, this must be adjusted as well.

The growth rate is specifically applicable to forecast/anticipated long-term sustainable earnings for IHSE. We have relied upon the anticipated future expectations of the company and industry as discussed in this report.

Growth Rate:

4.00%

In order to develop our capitalization rate, we have subtracted the long-term sustainable growth rate from our discount rate calculation. The discount/capitalization rate development is exhibited in Table VI-4 below:

Please Turn Page

TABLE VI-4

Risk Free Rate – Appraisal Date	4.74%	20-Year Treasury bond yield at January 31, 2006
Equity Risk Premium	<u>6.00%</u>	Equity risk premium from Ibbotson Associates: “Stocks, Bonds, Bills and Inflation, 2005 Yearbook: Market Results from 1926 – 2004.” Adjusted to reflect 15-30 year holding period data.
EQUALS: Average Market Return	10.74%	
Risk Premium for Size	4.54%	Equity risk premium on the bottom (teath) decile of the NYSE stocks as reported in Ibbotson.
Company Specific Premium	<u>1.00%</u>	Premium based on additional factors unique to the subject company
Net Cash Flow Discount Rate	16.28%	DISCOUNT RATE-CASH FLOW
Plus: Conversion Increment	3.00%	Conversion factor for cash flow to earnings differential
Equals: Discount Rate for Net Income	19.29%	DISCOUNT RATE-EARNINGS
Minus: Growth Rate	4.00%	Long-Term earnings growth forecast
Equals: Net Earnings Capitalization Rate	15.28%	
ROUNDED TO:	<u>15.00%</u>	CAPITALIZATION RATE-EARNINGS

We have therefore concluded 15% as our after-tax capitalization rate in the valuation of certain assets of Island Hi-Speed Ferry.

A capitalization rate utilizing the above-referenced formula (DR-G=CR) should be applied to the next year's projected benefit stream. To apply the capitalization rate to a company's next period adjusted earnings, the current year's capitalization rate should be divided by 1 plus the long-term growth rate or: $(DR-G) \div (1+G) = CR$ current period. An alternative to this capitalization rate adjustment is to adjust the current-period income stream (developed in Section IV) to a "next-period" stream by multiplying the current stabilized income stream by the anticipated growth rate as follows:

CALCULATION OF PRE-DEBT SERVICE NET INCOME – CURRENT PERIOD		
Revenues		\$2,332,800
Expenses	\$1,448,600	
Less: Debt Service	- \$490,000	
Total Expenses		<u>\$958,600</u>
Pretax Net		\$1,374,200
Less: Federal Income Tax @ 36%		- <u>\$494,712</u>
ADJUSTED AFTER TAX NET INCOME (PRE-DEBT SERVICE)		<u>\$879,488</u>

"NEXT PERIOD" NET INCOME ADJUSTMENT	
Current Period Net Income (Per Adjusted Forecast)	\$879,488
Times: Growth Rate	x 1.04
NEXT PERIOD NET INCOME	<u>\$914,667</u>

APPROACH: INCOME
METHOD: CAPITALIZATION OF FUTURE BENEFITS

This method of valuation applies a single multiplier or capitalization rate to an earnings figure to determine a value for the income stream indicated. The two key elements are the capitalization rate and the benefit stream to be capitalized. The value to be determined represents the stockholder's equity. A financial forecast for IHSF has been

prepared based upon analysis in Section IV, Financial Information. We have utilized after-tax net earnings of \$914,667 as our benefit stream below:

CAPITALIZED FUTURE BENEFITS	
Forecast Net Earnings*	\$914,667
Divided by Capitalization Rate	÷ .15
EQUALS VALUE:	\$6,097,780
<p>* The forecast Net Earnings is the result of the normalization of earnings process. It is anticipated that the Net Earnings forecast above is representative of the business' sustainable earnings base on an after-tax basis, as of the valuation date.</p>	

Therefore, capitalizing the \$914,667 benefit stream by the developed capitalization rate of 15% results in a valuation on a control basis, of \$6,097,780.

APPROACH: COST
METHOD: ADJUSTED BOOK VALUE

The Asset Based Approach, sometimes referred to as the Replacement Cost Approach, is an asset oriented approach rather than a market-oriented approach. Each component of the business is valued separately, and then summed up to derive the total value of the enterprise.

The appraiser estimates value, using this approach by estimating the cost of duplicating or replacing the individual elements of the business property being appraised, item by item, asset by asset. The tangible assets of the business are valued using this approach, although it cannot be used alone as many businesses have intangible value as well, which this approach cannot be applied to. With respect to the intangible assets being acquired, we will implement the excess earnings method to be discussed later in this Section.

According to information furnished by the prospective borrowers, the acquisition includes certain assets of Island Hi-Speed Ferry, including the M/V Athena, the Galilee Berthing Permit, the CPCN, goodwill, covenant not to compete, and customer list.

According to information furnished by the borrowers, the following allocation has been made with respect to the \$5,612,500 acquisition price:

ASSETS BEING ACQUIRED	ASSIGNED FAIR MARKET VALUE
M/V Athena	\$4,200,000
Galilee Berthing Permit	\$200,000
Certificate of Public Convenience and Necessity (CPCN)	\$500,000
Goodwill	\$200,000
Covenant not to compete	\$500,000
Customer List	\$12,500
TOTAL:	\$5,612,500

According to our calculation, the intangible asset over and above the fair market value of the M/V Athena is \$1,412,500. We will test the reasonableness of this estimate using the excess earnings method to be discussed later in this Section. Each of the allocations and management's reasoning is discussed below:

GALILEE BERTHING PERMIT

According to the borrowers, obtaining a Berthing Permit in Galilee is extremely difficult if not impossible in today's present market. The M/V Athena shares its berth with the Southland, a local tour boat. During the winter months, the commercial fishing fleet utilizes the berth. Representatives of Interstate Navigation Company indicate that the existing permit is a split permit. According to our conversations, it is indicated that the location of the existing Galilee berth is directly across from the Interstate Navigation dock, which is considered to be extremely efficient from an operational standpoint. They're able to serve both the Hi-Speed and slow ferries through the same ticket booth and parking is available at the main state pier adjacent in Galilee. The permit is a year-to-year permit, which is renewable each year and the current rate is \$4,000 for the operating season, an extremely low berthing fee. Representatives of Interstate Navigation Company indicated that in the worse case scenario if the berthing permit was lost, the Hi-Speed Ferry could run out of Interstate Navigation Company's present dock across the way. We have included a copy of the RI DEM Berthing Permit and information at Exhibit 7 of this report.

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY (CPCN)

In our meetings with representatives of Interstate Navigation Company, we were provided with testimony of Walter Edge, as well as Dr. Timothy Tyrell. A review on-line of the procedure indicates many months of direct testimony and cross examination of nearly 50 witnesses as part of the process required to obtain approvals for Interstate Navigation Company to operate the Hi-Speed Ferry from Block Island to Newport. Although Interstate Navigation Company did receive the approval; Island Hi-Speed Ferry is expected to appeal the decision, which would require more time, more money and legal fees. Interstate Navigation Company has allocated a \$500,000 value for this portion of the license, which would essentially eliminate the major competitor in the marketplace, as well as the only objector to Interstate Navigation Company obtaining the Hi-Speed Ferry approval. This is truly an intangible asset, and will be valued collectively in the intangible assets utilizing the excess earnings method. Given the fact that without the CPCN, the ferry cannot operate, it is likely that the license is far more valuable than the \$500,000 allocation.

Goodwill, Covenant Not To Compete, and Customer List

The allocations for goodwill (\$200,000), covenant not to compete (\$500,000), and customer list (\$12,500) are all estimates prepared by Interstate Navigation Company. INTERSTATE's logic is that first of all the covenant not to compete gets allocated out as part of a tax allocation that would be more favorable to INTERSTATE. The goodwill and customer lists estimates are based on synergies that could be taken advantage of between Interstate Navigation Company's current operations and IHSF's operations being wrapped in to the process, as well as the ability to market to existing passengers for group sales, converting slow ferry passengers to Hi-Speed ferry passengers, etc.

In analyzing the asset values allocated, clearly, the sole "tangible" asset is the M/V Athena with a fair market value of \$4,200,000 (please refer to Exhibit 8 of this report for the appraisal survey of the M/V Athena). As a valuation of each underlying intangible asset is beyond the scope of this valuation, we have determined that the best methodology that would allow for a fair market value estimate of the intangible assets being conveyed in the proposed acquisition would be to utilize the excess earnings method. This would allow us to determine the reasonableness of the \$1,412,500 allocation for intangible assets being included in the acquisition. Therefore, we will use the excess earnings method to justify the variance between the tangible asset value of the M/V Athena, and the acquisition price of \$5,612,500.

APPROACH: HYBRID
METHOD: EXCESS EARNINGS

The Excess Earnings method is a valuation approach that is widely utilized to value the intangible value of a business. Since it seems logical that once the intangible value of a business is determined, the entity value could be determined by adding the value of the tangible assets.

In practice, this method is a hybrid of both an asset-based approach, and an income-based approach. As such, there are several steps involved in implementing the method. The steps are summarized as follows:⁷

1. **Determine a normalized level of earnings.** Revenue Ruling 68-609 does not define “earnings”; however, it does indicate that the earnings *should reflect the probable future earnings*. As such, we have utilized the after tax forecast net earnings previously determined. We are specifically utilizing the net of debt income in order to determine the valuation of the entity for financing purposes. This level of earnings is the result of the normalization of earnings process.
2. **Determine the net tangible asset value.** This is accomplished by implementing asset-based approaches such as the Adjusted Book Value method. The industry consensus is to utilize fair market value on a going concern basis of the assets and liabilities. Typically, this would be measured by replacement cost new less any deterioration and depreciation or for any functional or economic obsolescence. Any non-operating assets are removed from the calculations, and added back to the final value. In this instance, we are using the fair market value of the M/V Athena at \$4,200,000 as the sole **tangible** asset. There are no other tangible assets included in the proposed acquisition.
3. **Determine an appropriate rate of return for net tangible assets.** Based upon the type of assets employed (asset mix), an appropriate rate of return on the tangible assets must be ascertained. Assets that are highly liquid, low in risk and/or readily acceptable as loan collateral require lower rates of return than the contrary. Since banks will not typically lend 100 percent of the asset value, it is reasonable to suggest that the business needs to earn a rate of return of at least a few points above the rate at which the bank would lend money on the assets. Based upon the asset mix in this assignment, we have utilized a rate of return of 10%. We have taken into consideration that the bank prime rate as of January 31, 2006 was 7.50%, and have added an additional 2.50 points to determine an appropriate rate of return on the net tangible asset as an operating asset. Therefore we concluded a 10% rate of return on the underlying M/V Athena.

⁷ Shannon P. Pratt, Valuing Small Businesses and Professional Practices, 2nd Ed. Chapter 15.

4. **Determine an appropriate rate of return on excess earnings.** The excess earnings are then capitalized at an appropriate rate of return. As such, an excess earnings capitalization rate (EECR) must be developed. We have previously developed the EECR in this Section. It is logical that the EECR must be higher than the rate attributable to net tangible assets due to the fact that if earnings fail to materialize, the assets can be liquidated for some value. The excess earnings represent “intangible” value--the earnings over and above a reasonable rate of return on tangible assets. Intangible assets have no liquidation value since their value depends on their ability to generate earnings. Therefore, the level of risk associated with excess earnings would be higher, and a greater rate of return would be required to compensate for the increased risk.

In practice, many consultants determine excess earnings capitalization rates based on several factors, especially the persistence of the company’s intangible assets. Persistence refers to the average length of time that customers can be expected to continue doing business with the company. In view of the current money and capital market rates, excess earnings capitalization rates generally range from 20% to 400%, depending on persistence. For example, a company with a very consistent, dependable customer base might have persistence of five years or more, which equates to a 20% capitalization rate. On the other hand, a new company in an intensely competitive industry may have persistence of three months maximum, which equates to a 400% capitalization rate. Some factors to consider in evaluating the company’s persistence include:

- a. The nature of the business.
- b. Management quality and depth.
- c. The company’s market position.
- d. The company’s reputation.
- e. Earnings quality and consistency.
- f. The nature of related intangible assets, that is, whether there are any identifiable intangibles, their effect on the company’s earnings, their estimated remaining lives, etc.
- g. Historical patterns of persistence of the company’s customer base.

5. **Excess Earnings Premium:** In estimating the excess earnings of a company, there is an additional level of risk associated with those earnings over and above a return on the net tangible assets (referred to as “excess earnings”). In effect, these earnings are applicable to the intangible assets of the business, i.e. goodwill. In order to properly isolate risk associated exclusively with intangible assets, we have added an excess earnings risk premium (EERP) to our overall capitalization rate of 15% to capture the inherent risk associated with these assets. Therefore, after an EERP of 15% was added, our Excess Earnings Capitalization Rate was 30%. It is our opinion that as we are valuing the intangible assets exclusively

CALCULATION OF VALUE USING THE EXCESS EARNINGS METHOD			
ANNUAL EARNINGS (1)			\$879,488
Total Tangible Assets Net of Liabilities (2)		\$4,200,000	
Rate of Return on Tangible Assets (3)	x	10%	
Less Profit Attributable to Return on Tangible Assets	-	\$420,000	
"Excess Earnings"	=	\$459,488	
Excess Earnings Cap Rate (4)	÷	30%	
Estimated Value of Intangibles (5)	=	\$1,531,627	
Plus Tangible Assets (2)	+	\$4,200,000	
ESTIMATED TOTAL VALUE (5) + (2)	=	\$5,731,627	

We have utilized an Excess Earnings Cap Rate of 30%. As a means to test this rate, we have compared the tangible and intangible portion of value (as a percentage of calculated value) and calculated the overall capitalization rate developed of 15.3% (see box below). This rate is consistent with our capitalization rate developed in our Income Approach methodology. The following overall rate was calculated:

A) Tangible:	\$4,200,000	÷	\$5,731,627	=	73.3%	x	10%		0.07328
B) Intangible:	\$1,531,627	÷	\$5,731,627	=	26.7%	x	30%		0.08017
Overall Rate:									15.3%

As can be seen above, we have estimated the value of the intangible assets being acquired in the proposed transaction at \$1,531,627, which closely supports the borrower's estimate at \$1,412,500. The above referenced estimated value of intangibles is predominately based on "excess earnings" attributable from the projected income stream. Therefore, the

intangible assets are income driven and based on an appropriate rate of return given the level of risk associated with intangible assets.

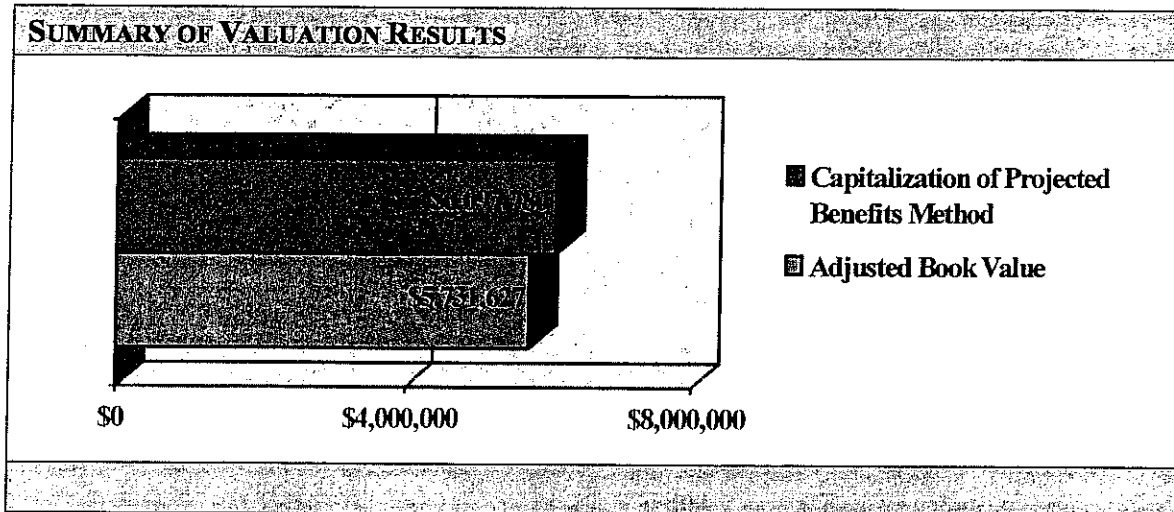
In order to determine the fair market value under the asset approach, we must add the intangible asset value to the tangible asset value of \$4,200,000. Therefore, the asset approach yields a fair market value of \$5,731,627, including both tangible and intangible value.

RECONCILIATION AND FINAL VALUE ESTIMATE

In estimating the market value of certain assets of Island Hi-Speed Ferry, the appraiser employed several recognized approaches to valuation. A summary of results derived via each method is as follows:

APPROACH	METHOD	VALUATION	BASIS
ASSET:			
	Adjusted Book Value/Excess Earnings	\$5,731,627	Control
MARKET:			
	Direct Market Data Method	N/A	
	Guideline Public Company Method	N/A	
INCOME:			
	Capitalization of Projected Benefits Method	\$6,097,780	Control

The above-referenced valuation indicators are shown graphically as follows:



For the purpose of developing a final estimate of value for IHFSF, the appraiser has placed primary emphasis on the income approach utilizing the capitalization of earnings method; as well as the asset approach, which utilizes the net asset value method and the excess earning method to determine the value of both tangible and intangible assets. We have reviewed each of the approaches in the valuation of IHFSF as follows:

Asset Based Approaches:

In estimating the fair market value of certain assets of Island Hi-Speed Ferry being acquired, we have specifically valued the tangible and intangible assets of the proposed entity. Accordingly, the primary underlying tangible asset, the M/V Athena was separately valued by a recognized Marine appraiser at \$4,200,000. We have utilized this fair market value estimate in our analysis. To the tangible assets, we next added the fair market value of the intangible assets as determined under the excess earnings method.

Under the excess earnings methodology, we are including the excess earnings result, which specifically values the intangible assets under the asset approach so that the total value can be ascertained by adding intangible assets to the tangible assets. Under the excess earnings method, the appraiser calculated rates of return for both tangible and intangible assets. The adjusted book value becomes an integral part of the method, as we are primarily interested in the fair market value of the business' net operating assets, so that an appropriate return can be calculated. The tangible asset return is then subtracted from the developed earnings base. The remaining income, or "excess" earnings is then capitalized at an excess earnings capitalization rate, which in this engagement was calculated at 30%. The fair market value of the intangible asset component was determined to be \$1,531,627.

Therefore, the fair market value under the asset approach was determined to be \$5,731,627.

Market Approach:

In the valuation of IHFSF, we have considered both private transaction data as well as public company guideline data in attempting to develop market multiples for comparative purposes. Private data, as requested from the Institute of Business Appraisers, did not yield any comparable information that was deemed useful in this engagement.

The appraiser also searched the Pratt's Stats database of merged and acquired companies and was unable to locate similar and relevant transactions that could be utilized. Therefore, the market approach was considered and ultimately rejected in this engagement.

Income Approach:

With respect to the income approach, the appraiser first relied on an unadjusted projection of revenues, expenses and profits as furnished by the borrower. Based upon the adjustments made to the forecast, we concluded an after tax (pre-debt service) income at \$879,488 for the proposed high-speed ferry operation.

Once adjustments were made for taxes and an appropriate long-term earnings growth adjustment, we concluded that the next period after-tax net income on a normalized basis would be \$914,667 for IHSF.

The next step in our income approach was to develop an appropriate rate of return, or discount rate from which a capitalization rate could be determined. We utilized a build-up method and relied upon empirical evidence from the marketplace as well as the appraiser's judgment with respect to the specific company risk premium assigned to IHSF. We determined a 15% after-tax net earnings capitalization rate and then applied this rate to our after-tax net income forecast (next period) of \$914,667. This generated a fair market value of \$6,097,780 on a control basis.

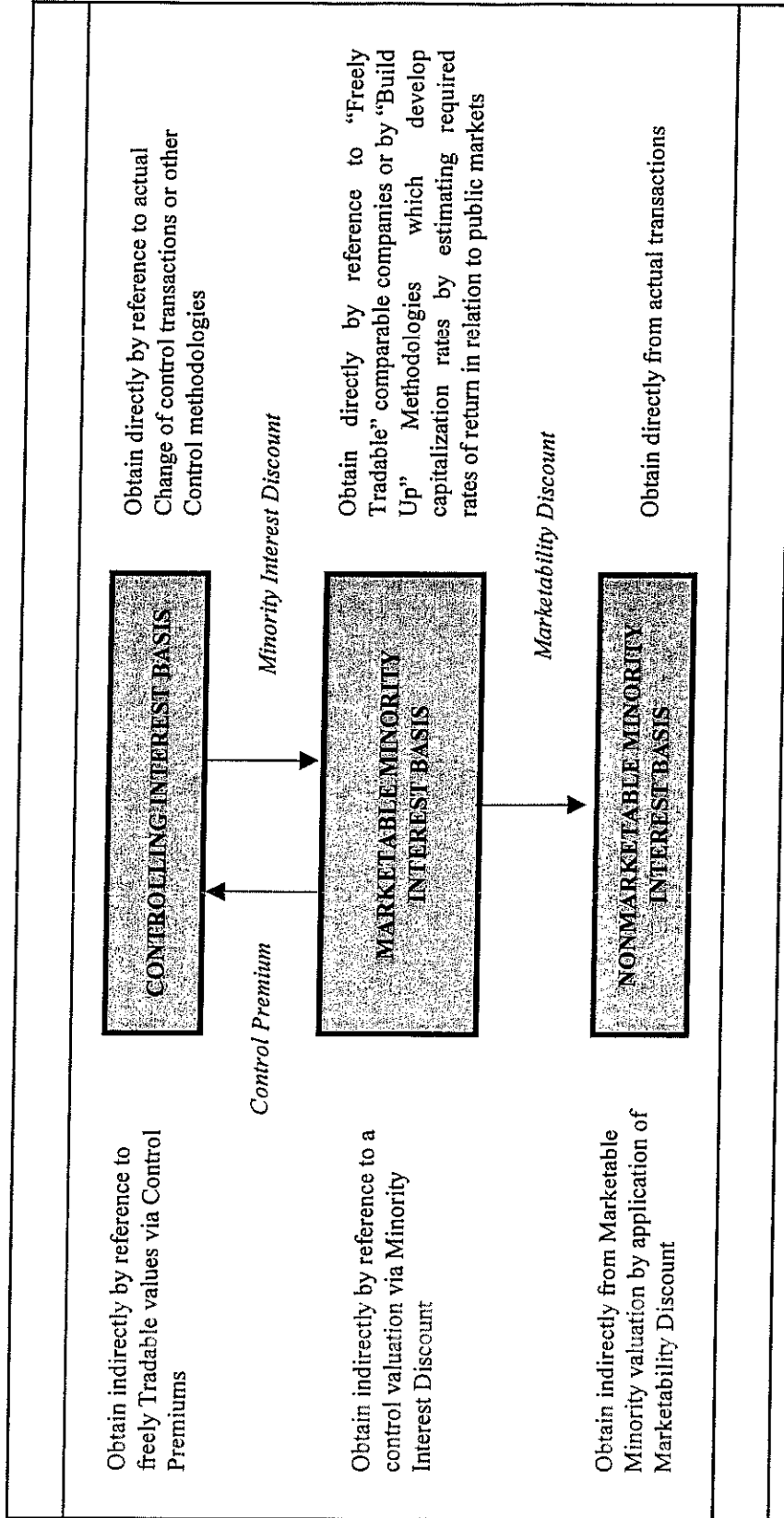
Therefore, the appraiser has determined that the fair market value for those certain assets of Island Hi-Speed Ferry being acquired as of the effective date of the appraisal was \$5,900,000.

PREMIUMS AND DISCOUNTS

The final step in our protocol will be to examine established premiums and discounts to the overall 100% *control level* business value determined thus far. Appraisers apply premiums and/or discounts for a variety of reasons. Their purpose is to bring the calculated value into a target range that would more adequately reflect "market" characteristics or habits. In some instances, these are supported by extensive studies of public companies and have established precedents in legal proceedings. Other situations may call upon the experience and judgment of the appraiser, who should, convincingly, explain his actions for either increasing or decreasing the calculated value.

Although there are many types of premiums and discounts that may be encountered in performing a business valuation, the most common are control premium, lack of control (minority interest) discount, and discount for lack of marketability.

**TABLE VI-5
LEVELS OF VALUE⁸**



⁸ Z. Christopher Mercer, *Quantifying Marketability Discounts*, Peabody Publishing, LP, 1997

PREMIUM/DISCOUNT CONCLUSION

PREMIUM/DISCOUNT CONCLUSION

With respect to IHSF, we have determined that based upon the appraiser's reliance on the capitalization of earnings method, as well as the net asset value/excess earnings method to estimate value, no premiums or discounts to the final value estimate were warranted. This is due to the fact that we have been engaged to value a control interest, and as such, have made necessary control adjustments in our normalization of earnings process. As such, neither premiums nor discounts were warranted.

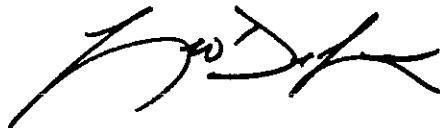
CONCLUSION

Based on our analysis of the information and data reviewed and collected, we conclude that the Fair Market Value of certain assets of Island Hi-Speed Ferry as of January 31, 2006 was:

\$5,900,000

FIVE MILLION NINE HUNDRED THOUSAND DOLLARS

Respectfully Submitted,



Leo J. DeLisi, Jr., ASA, MCBA, FACFE
ACCREDITED SENIOR APPRAISER
MASTER CERTIFIED BUSINESS APPRAISER
PRESIDENT

LJD/jet

APPRAISAL REPORT OF
Certain Assets of Island Hi-Speed Ferry

**SECTION
CONTENTS**

VII. APPENDICES

Appendix A
Contingent and Limiting Conditions

Appendix B
Appraiser's Certification

Appendix C
Appraiser's Qualifications

CONTINGENT AND LIMITING CONDITIONS

This appraisal is subject to the following contingent and limiting conditions:

1. Information, estimates, and opinions contained in this report are obtained from sources considered reliable; however, DeLisi & Ghee, Inc. has not independently verified such information and no liability for such sources is assumed by this appraiser.
2. All facts and data set forth in the report are true and accurate to the best of the appraiser's knowledge and belief. We have not knowingly withheld or omitted anything from our report affecting our value estimate.
3. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose without the previous written consent of the appraiser, and in any event only with proper authorization. Authorized copies of this report will be signed in blue ink by an officer of DeLisi & Ghee, Inc. Unsigned copies, or copies not signed in blue ink, should be considered to be incomplete.
4. None of the contents of this valuation report shall be conveyed to any third party or to the public through any means without the express written consent of DeLisi & Ghee, Inc.
5. No investigation of titles to property or any claims on ownership of the property by any individuals or company has been undertaken. Unless otherwise stated in our report, title is assumed to be clear and free of encumbrances and as provided to the appraiser.
6. Unless otherwise provided for in writing and agreed to by both parties in advance, the extent of the liability for the completeness or accuracy of the data, opinions, comments, recommendations and/or conclusions shall not exceed the amount paid to the appraisers for professional fees and, then, only to the party(s) for whom this report was originally prepared.
7. The various estimates of value presented in this report apply to this appraisal only and may not be used out of the context presented herein. Any other use of this report may lead the user to an incorrect conclusion for which DeLisi & Ghee, Inc. assumes no responsibility.

CONTINGENT AND LIMITING CONDITIONS

8. The appraisal estimate of fair market value reached in this report is necessarily based on the definition of fair market value as stated in the Introduction Section. An actual transaction may be concluded at a higher value or lower value, depending on the circumstances surrounding the company, the appraised business interest and/or the motivations and knowledge of both the buyers and sellers at that time. DeLisi & Ghee, Inc. makes no guarantees as to what values individual buyers and sellers may reach in an actual transaction.
9. It should be specifically noted that the valuation assumes the business will be competently managed and maintained by financially sound owners over the expected period of ownership. This appraisal engagement does not entail an evaluation of management's effectiveness, nor are we responsible for future marketing efforts and other management or ownership actions upon which actual results will depend.
10. No opinion is intended to be expressed for matters that require legal or other specialized expertise, investigation or knowledge beyond that customarily employed by appraisers valuing businesses.
11. It is assumed that there are no regulations of any government entity to control or restrict the use of the underlying assets, unless specifically referred to in the report, and that the underlying assets will not operate in violation of any applicable government regulations, codes, ordinances or statutes.
12. Valuation reports may contain prospective financial information, estimates or opinions that represent the view of the appraiser about reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, or that specific events will occur.
13. We assume that there are no hidden or unexpected conditions of the business that would adversely affect value, other than as indicated in this report.
14. Hazardous substances, if present, can introduce an actual or potential liability that will adversely affect the marketability and value of a business. Such liability may be in the form of immediate recognition of existing hazardous conditions or future liability that could stem from the release of currently nonhazardous contaminants. In the development of the opinion of value, no consideration was given to such liability or its impact on value. We have not taken into account any and all future environmental considerations and potential liability.

CONTINGENT AND LIMITING CONDITIONS

15. We have been furnished with a marine survey and appraisal prepared by Marine Safety Consultants, Inc. on the M/V Athena. We have relied on this appraisal as an accurate representation of fair market value (at \$4,200,000). Should the value be determined to be more or less than \$4,200,000, our underlying value of \$5,900,000 would change.
16. This valuation report relies significantly on a furnished financial projection included in a package sent by the client (Exhibit 1). We have met with representatives of Interstate Navigation Company who were instrumental in preparing the forecast. We reviewed the forecast, made adjustments and relied on the forecast as an accurate representation of anticipated results. We have satisfied ourselves that the projection appeared reasonable given the information furnished, and discussions with representatives of Interstate Navigation Company. We make no guarantee as to the borrower's ability to generate the anticipated revenues and profits.
17. To ensure compliance with requirements imposed by the IRS, we inform you that any US federal tax advice contained in our report (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of: (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing or recommending to another party any transactions or matter addressed herein.

APPRAISER'S CERTIFICATION

I certify that, to the best of my knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinion and conclusions are limited only by the reported assumptions and limiting conditions and is my personal impartial and unbiased professional analyses, opinions, and conclusions.

I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Foundation, the Principles of Appraisal Practice and Code of Ethics as promulgated by the American Society of Appraisers, and the Business Appraisal Standards and Code of Ethics of The Institute of Business Appraisers.

No one provided significant business valuation assistance to the appraiser signing this certification.

(Note: Authorized reports will be signed in blue ink by the Appraiser. Copies that do not bear said signature is unauthorized and incomplete.)

Certified by:



Leo J. DeLisi, Jr., ASA, MCBA, FACFE
President

LEO J. DELISI, JR., ASA, MCBA
Accredited Senior Appraiser – Business Valuation (ASA)
Master Certified Business Appraiser (MCBA)

**PROFESSIONAL
QUALIFICATIONS**

PROFESSIONAL

Mr. DeLisi has been involved in the business appraisal field since 1984 when he first joined the Institute of Business Appraisers. Since that time, he has been awarded the Institute's highest professional designation of MCBA (Master Certified Business Appraiser) and has been appointed to its seven-member Ethics & Discipline Committee overseeing the activities of members throughout the U.S. and Canada. Mr. DeLisi has also been appointed to IBA's Qualifications Review Committee responsible for report review/critique of applicants seeking the CBA designation. Mr. DeLisi was appointed to the IBA's Academy of Business Appraisal faculty as a national instructor of business valuation courses. He has taught courses 1001 and 1002 (fundamental level courses), 1003 and 1004 (advanced level courses) and 8001A, Mastering Appraisal Skills for Valuing the Closely Held Business (a 30-hour comprehensive course), for the Institute. Mr. DeLisi was also a featured speaker at the Institute's 2000 National Conference in Phoenix, AZ, the 2002 Conference in Washington, D.C., and IBA's 2004 conference in Las Vegas, NV.

As a member of the American Society of Appraisers, Mr. DeLisi has also been awarded the ASA (Accredited Senior Appraiser - Business Valuation) designation making him one of an elite handful of business valuation professionals in the U. S. to achieve both the MCBA and ASA designations.

Mr. DeLisi is an accredited sponsor as approved by the Rhode Island Bar Association to instruct Mandatory Continuing Legal Education classes for attorneys and has been a speaker for the Rhode Island and Florida Societies of Certified Public Accountants for Continuing Education credits, as well as for the Rhode Island Bar Association and other groups.

Mr. DeLisi has also been awarded a Fellowship from the American College of Forensic Examiners. He is President of DeLisi & Ghee, Inc., a full-service business valuation firm with offices in Rhode Island and Florida. Prior to forming DeLisi & Ghee, Inc., he was a partner with the national valuation practice of Trugman Valuation Associates Inc.

EXPERT WITNESS

Mr. DeLisi has been accepted as an expert witness and has testified in such venues as Family Court, U.S. Bankruptcy Court, Superior Court, IRS Administrative Appeals, and at municipal Boards of Assessment Review. His litigation experience includes divorce, bankruptcy, estate and gift tax, business damages and shareholder disputes.

EDUCATION

American Society of Appraisers	ASA - Accredited Senior Appraiser – Business Valuation
Institute of Business Appraisers (IBA)	MCBA – Master Certified Business Appraiser
American College of Forensic Examiners	FACFE - Fellow, American College of Forensic Examiners
Bachelor of Science (BS) in Business Administration	Bryant College, Smithfield, Rhode Island

APPRAISAL EDUCATION

- *The Market Approach, Discounts and Premiums, BVE-3*, Providence, RI, January 2006. American Institute of Certified Public Accountants.
- *Reports, Standards and Tax Valuations, BVE-4*, Providence, RI, January 2006. American Institute of Certified Public Accountants.
- *Business Valuation – Caucus, Nashua, NH*, The Institute of Business Appraisers, Inc., October 21, 2005.
- *Valuing Family Limited Partnerships*, Dallas, TX, Partnership Profiles, Inc., 2005.
- *26th Annual Business Valuation Conference*, Las Vegas, NV, The Institute of Business Appraisers, Inc., 2004.
- *25th Annual Business Valuation Conference*, Orlando, FL, The Institute of Business Appraisers, Inc., 2003.
- *The Valuation of Family Limited Partnerships*. Tysons Corner, VA, Center for Advanced Valuation Studies/American Society of Appraisers, 2002.
- *2002 Annual Business Valuation Conference*. Washington, D.C., The Institute of Business Appraisers, Inc., 2002.
- *National Conference on Appraising Closely Held Businesses*. Orlando, FL, The Institute of Business Appraisers, Inc., 2001.
- *19th Annual Advanced Business Valuation Conference*. Philadelphia, PA, American Society of Appraisers, Inc., 2000.
- *National Conference on Appraising Closely Held Business*. Phoenix, AZ, The Institute of Business Appraisers, Inc., 2000.
- *18th Annual Advanced Business Valuation Conference*. New Orleans, LA, American Society of Appraisers, Inc., 1999.

APPRAISAL EDUCATION (Continued)

- *Joint Business Valuation Conference.* Montreal, Canada, American Society of Appraisers, 1998.
- *Uniform Standards of Professional Appraisal Practice.* Chelmsford, MA, American Society of Appraisers, 1997.
- *15th Annual Advanced Business Valuation Conference.* Memphis, TN, American Society of Appraisers, 1996.
- *ASA Conference on Current Topics in Business Valuation.* New York, NY, American Society of Appraisers, 1996.
- *National Conference on Appraising Closely Held Businesses.* Orlando, FL, The Institute of Business Appraisers, Inc., 1996.
- *14th Annual Advanced Business Valuation Conference.* Boston, MA, American Society of Appraisers, 1995.
- *National Conference on Appraising Closely Held Businesses.* Las Vegas, NV, The Institute of Business Appraisers, Inc., 1995.
- *National Conference on Appraising Closely Held Businesses.* San Diego, CA, The Institute of Business Appraisers, Inc., 1993.
- *Principles of Business Valuation - Valuation of Small Businesses and Professional Practices.* Atlanta, GA, American Society of Appraisers, 1994.
- *Principles of Business Valuation - Selected Advanced Topics.* Vienna, VA, American Society of Appraisers.
- *Principles of Business Valuation - Business Valuation Case Study.* Vienna, VA, American Society of Appraisers.
- *Principles of Business Valuation - Business Valuation Methodology.* Tampa, FL, American Society of Appraisers.
- *Principles of Business Valuation - Introduction to Business Valuation.* Georgetown University, American Society of Appraisers.
- *Business Appraisal for Attorneys, Accountants and Brokers.* Secaucus, NJ, The Institute of Business Appraisers, Inc.
- *Completing the Appraisal.* Washington, DC, The Institute of Business Appraisers, Inc.
- *Analyzing the Facts-Methods for Appraising Closely Held Businesses.* Washington, DC, The Institute of Business Appraisers, Inc.
- *Business Appraisal Techniques.* Washington, DC, The Institute of Business Appraisers, Inc.
- *Introduction to Business Appraisal.* Providence, RI, The Institute of Business Appraisers, Inc.
- Has performed extensive reading and research on business valuation and related topics.

PROFESSIONAL HIGHLIGHTS

Accredited Senior Appraiser - Business Valuation, **ASA** Designation awarded by the American Society of Appraisers

Master Certified Business Appraiser, **MCBA** Designation awarded by the Institute of Business Appraisers to those CBAs with ten or more years of experience meeting the additional requirements of the Qualifications Review Committee and Board of Directors

Fellow, American College of Forensic Examiners, "**FACFE**" Designation in Business Valuations of Closely Held Companies awarded by the American College of Forensic Examiners

Instructor/Faculty – Academy of Business Appraisal

Member - Ethics & Discipline Committee, Institute of Business Appraisers

Member – Qualifications Review Committee, Institute of Business Appraisers

Speaker: *The Right Data for the Job*, 2000 National Conference, The Institute of Business Appraisers, Inc., Phoenix, AZ

Accredited Sponsor with the Rhode Island Mandatory Continuing Legal Education Commission

Engaged in the Business Appraisal Field since 1984

MEMBERSHIPS

Institute of Business Appraisers (Member since 1984) **MCBA** Designation

American Society of Appraisers, **ASA** Designation

American College of Forensic Examiners **FACFE** Designation, **FELLOW**

Member: Institute of Business Appraisers-Ethics and Discipline Committee

INSTRUCTOR/LECTURER

Regular instructor for numerous organizations, including: The Institute of Business Appraisers, The Rhode Island Estate Planning Council, Rhode Island Society of Certified Public Accountants, Rhode Island Bar Association, N.E. Study Group, Northeastern University, Phoenix Home Life, Connecticut Mutual Life/Lighthouse Financial Group, Providence College, Education Initiatives, Inc., New England Estate Planning Council, University of Rhode Island, SBANE-CEO Roundtable, Atlantic Chapter-Florida Society of Certified Public Accountants.

PERSONAL

Mr. DeLisi is an avid mountain biker. His hobbies include cycling, boating and music. He is married with two children.

**APPRAISAL REPORT OF
*Certain Assets of Island Hi-Speed Ferry***

**SECTION
CONTENTS**

VIII. EXHIBITS

- Exhibit 1
Original (Pre-Revised) Forecast

- Exhibit 2
Passenger Survey Prepared by Dr. Timothy Tyrell

- Exhibit 3
Interstate Navigation Passenger Court Data

- Exhibit 4
Direct Testimony of Dr. Timothy Tyrell

- Exhibit 5
Rhode Island Statute 39-12-13 (c)

- Exhibit 6
Crew Expense Worksheet

- Exhibit 7
RI DEM Point Judith Berthing Information/Rates

- Exhibit 8
Appraisal Survey of M/V Athena

- Exhibit 9
Starkweather & Shepley Insurance Letter (Quote)

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

Revenues:

Interstate's Current Customers:

Passengers (Point Judith - Block Island) - Net	35,500 passengers @ 14.50	\$ 514,750
	(uses only one-half of survey results)	

Projected IHSF Customers:

Passenger (Point Judith - Block Island)	37,000 passengers @ 29.00	<u>1,073,000</u>
Total Passenger Revenue		<u>1,587,750</u>
Other Revenues (Bar, bike, etc) estimated previously		150,000
Interstate Charter Revenue		*
Fuel Surcharge Revenue		<u>195,000</u>
Total Revenue		1,932,750

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	Previous estimate	25,000
Insurance	Estimate	10,000
Advertising	Guess	<u>15,000</u>
Bar expense	(66% of Bar, bike , etc.)	99,000
General and Administrative Expense		
Legal and accounting		
General office supplies		
Taxes		
Fees (coast guard, banking, etc)		
Overhead allocation (rent, etc)		
Total G&A Expense Plug		100,000
Debt service on \$5,612,500:		
Principal		279,000
Interest		<u>390,600</u>
Total Expense		<u>1,634,200</u>

Net profit available for regulated business \$ 298,550

* Assumes no charter revenue although Interstate believes that there may be opportunities to lease the Fast Ferry in the off season

Interstate conducted a survey, led by Dr. Timothy Tyrrell, a tourism expert at URI, to determine how many existing Interstate customers would switch to the high-speed ferry if it were available. The survey results indicated that approximately 37% of existing Interstate customers would switch to the high-speed ferry. This amounts to approximately 71,000 ferry rides per year based on passenger counts for June through September (conservative as the high speed will most likely run from May through Columbus Day weekend). For purposes of conservatism, Interstate used only half this number, which amounts to approximately 15% of all ferry rides from June through September and only 11.7% of annual ferry rides, which have averaged 300,000 for adults and children over the last two years. Interstate then multiplied the number (35,500) by the net increase in revenues expected from the switch related to the higher ticket prices of the high-speed ferry (\$29 vs. Interstate's \$14.50) and then added it to the revenues generated from the existing customer base of Island Hi-Speed. Dr. Tyrrell testified before the PUC on behalf of Interstate and indicated that he felt the 35,500 figure used to represent those existing customers who would switch to the high speed ferry is attainable and extremely conservative.

The primary reason that existing customers would switch to the high speed ferry is the new landing location, as Interstate will land in Old Harbor vs. New Harbor, cutting ten minutes from the current 40 minute ride and allowing passengers to depart at a more central location. Landing in New Harbor requires at least a \$7 taxi ride in order to travel to New Harbor. A secondary reason for the switch is loyalty as there are some existing customers who did not utilize the high-speed service under Island Hi-Speed due to loyalty to Interstate. The newly offered 30 minute ride on the high speed by Interstate is very attractive to those passengers still taking the traditional ferry to Old Harbor with a 60 minute ride.

The existing counts for Island Hi-Speed were derived by three difference sources:

- Interstate hires someone to count the passengers for Island Hi Speed during the summer to determine how many individuals utilize the high speed ferry service. This number is typically in the low 40,000 range.
- Island Hi-Speed inadvertently revealed their counts in a filing to the PUC – the specific number was not reported, however, a quick calculation results in figuring out the counts. I am currently trying to obtain a copy of this filing for our records. The calculation revealed 37,000 passengers (this figure was used in the projections as it was the lowest of all three sources).
- Landing fees (charged for adult passengers) for BI are a public record and according to the amount of landing fees paid by Island Hi-Speed, their counts are close to 40,000.

INTERSTATE NAVIGATION COMPANY'S RESPONSES TO
THE 1ST SET OF DATA REQUESTS ISSUED BY THE ADVOCACY SECTION OF
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

- 1-2 (Ref. page 2, line 6 to 11) Please provide complete copies of the survey results, and of the description and cost of the fast ferry referenced.

Response:

The description and cost of the fast ferry is set forth in the testimony of Mr. Edge, including pages 6 (description), and 11-12 (costs), and in more detail in the testimony of Joshua Linda who describes the ferry and its costs on pages 2-3. With regard to the survey results, they are set forth on WEE-2 (passengers) and WEE-3 (vehicles). In addition, the compilation of the raw data of the survey results is attached hereto.

Prepared by: WEE and MRMc

04 + 03 accounts

NEWPORT - BLOCK ISLAND QUESTIONNAIRE

1) GROUP SIZE?	2) TOTAL TICKET PRICE?	3) RIDDEN H.S. FERRY BEFORE?	4) WOULD YOU HAVE TAKEN OUR NEWPORT H.S. FERRY?	5) WOULD YOU HAVE TAKEN CURRENT OR H.S. BOAT TO B.I. FROM PT. JUDITH?
2A	\$35.00	Y	Y	HS
2A 1C	\$33.00	Y	Y	HS
5A	\$100.00	Y	Y	HS
3A 1C	\$46.00	Y	Y	C
2A	\$26.00	Y	Y	HS
1A 2C	\$27.00	N	Y	HS
1A	\$18.00	N	N	C
2A	\$26.00	Y	Y	C
2A	\$26.00	Y	N	C
4A 2C	\$17.00	Y	Y	HS
1A	\$9.00	N	N	C
1A	\$13.00	N	N	C
1A	\$13.00	Y	Y	HS
2A	\$27.00	N	Y	HS
1A	\$14.00	Y	Y	HS
TOTALS	15	\$28.67	Y=10 N=5	Y=11 N=4 C=6 HS=0

36 passengers

*Y=28
N=8*

*Y=31 = 86%
N=5 = 14%*

*Y=25 = 69%
N=11 = 31%*

NEWPORT - BLOCK ISLAND QUESTIONNAIRE : RESPONSE SUMMARY

1) TOTAL RESPONSES: 15 (36)

2) TOTAL TICKET PRICE? \$28.67

3) RIDDEN H.S. FERRY BEFORE?

YES	10	67%
NO	5	33%
	<u>15</u>	<u>100%</u>

4) WOULD YOU HAVE TAKEN
OUR NEWPORT H.S. FERRY?

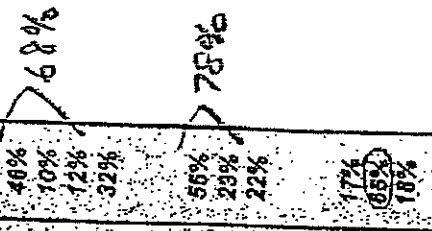
YES	11	73%	31 = 86%
NO	4	27%	5 = 14%
	<u>15</u>	<u>100%</u>	

5) WOULD YOU HAVE TAKEN
CURRENT OR H.S. BOAT TO B.I.
FROM PT. JUDITH?

HIGH SPEED	9	60%	25 = 69%
CURRENT	6	40%	11 = 31%
	<u>15</u>	<u>100%</u>	

Survey Questionnaire

	7/31	8/1	8/2	8/3	8/4	8/5	8/6	8/7	8/8	8/9	8/10	8/11	8/12	8/13	8/14	8/15	8/16	Totals	%
Frequency of Departures																			
Increase from 1 to 2	5	3	4	9	1	1	3	5	7	10	6	0	0	NB	0	1	1	64	46%
Increase from 1 to 3	1	1	0	1	1	1	3	1	1	1	0	0	0	0	1	0	0	12	10%
Increase from 1 to 4	0	1	1	0	5	3	0	1	0	2	0	1	0	0	0	0	0	14	12%
Keep Existing Schedule	3	7	3	4	2	1	0	3	8	7	2	0	0	0	0	0	0	36	32%
Length of Time																			
Shorten to 1 hour	6	7	4	10	3	1	4	11	5	10	4	1	1	0	0	0	0	65	56%
Shorten to 1 1/2 hour	1	1	1	4	6	5	0	1	3	3	1	0	0	0	1	0	0	37	23%
Leave the same	3	4	3	0	0	0	0	0	6	7	2	0	0	0	0	0	1	26	22%
Location																			
Downtown Newport	1	3	3	1	0	0	2	0	3	4	2	0	0	0	0	1	1	20	17%
Fort Adams	8	9	4	8	6	3	2	7	10	14	4	1	1	1	1	0	0	77	65%
Utilize both	0	0	1	5	3	3	0	6	1	2	1	0	0	0	0	0	0	21	18%
Daily Totals:	9	12	8	14	9	6	4	12	14	20	7	1	1	0	1	0	1	118	



State / City

RI

Newport	21
Providence	3
Warren	1
Bristol	5
Portsmouth	3
Pawtucket	1
Total:	34

New York

Westchester	1
New York City	4
Halfmoon	2
Aquebogue	2
Port Chester	1
Newark	1
Iltaca	1
Total:	12

Penn.

Berwick	1
Norristown	1
Total:	2

Florida

Orlando	1
Melbourne	1
Total:	2

Mass.

North Attleboro	1
Boston	2
Brockton	1
Fitchburg	1
Southwick	1
Swanssea	2
Wareham	1
Norfolk	1
Walpole	1
Natick	1
Sheffield	1
Fall River	1
Total:	14

Indiana

Indiapolis	1
Muskegon	2
Total:	3

Michigan

Lakeville	1
Muskegon	2
Total:	3

Connecticut

Southington	5
Manchester	1
Seymour	1
Bristol	2
Total:	9

Arkansas

Johnson	2
Total:	2

Kentucky

Lexington	1
Total:	1

North Carolina

Raleigh	1
Cary	1
Total:	2

New Jersey

Brick	1
Millington	1
Lyndhurst	1
Total:	3

Comments

- *Advertise more in Newport Publications
- *Difficult to find out times on company phone number. Only stated PJ departures.
- *Increase arrivals & departures.
- *Softer seats
- *Music
- *Fast line service
- *Within advertisements state " Free parking at the dock!"
- *In advertising state " You have not done Newport unless you've done the Block!"
- *Arcade games
- *Great crew
- *Televisions
- *Newport maps should indicate area where ferry departs with dates & times
- *More signs from town
- *Better concession selections
- ***Improve bathroom facilities**
- *Faster ferry
- *Starbucks / Ocean Roasters Coffee
- *Military Discount
- *Shade on top deck
- *Magazines
- *Payphones
- *Make engine & horn quieter
- *Leave from Providence
- *Add first class
- *Include ferry service fro motorcycles
- *Arrange with RIPA & Water Taxi to transport customers to ferry in Ft. Adams.

****Bold indicates most popular responses**

PT. JUDITH - BLOCK ISLAND QUESTIONNAIRE : REPOSNSE SUMMARY

1) TOTAL RESPONSES: 422

2) BROUGHT CAR?

NO	248	59%
YES	168	40%
NO RESPONSE	6	1%
	<u>422</u>	<u>100%</u>

3) AVERAGE MONEY SPENT ON TICKETS?

\$50.52

4) RIDDEN A H.S. FERRY BEFORE?

NO	216	51%
YES	204	48%
NO RESPONSE	2	0%
	<u>422</u>	<u>100%</u>

5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?

NO	263	62%
YES	147	35%
NO RESPONSE	12	3%
	<u>422</u>	<u>100%</u>

6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?

CURRENT	385	91%
HIGH SPEED	24	6%
NO RESPONSE	13	3%
	<u>422</u>	<u>100%</u>

7) RIDDEN NEWPORT FERRY BEFORE?

NO	353	84%
YES	60	14%
NO REPOSNSE	9	2%
	<u>422</u>	<u>100%</u>

8) WOULD YOU HAVE TAKEN CURRENT OR H.S. FERRY TO NEWPORT?

CURRENT	234	55%
HIGH SPEED	146	35%
NO RESPONSE	42	10%
	<u>422</u>	<u>100%</u>

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRENT OR H.S. BOAT TO NEWPORT?
2A	N	\$37.00	N	Y	C	N	NR
2A	Y	\$116.00	Y	N	C	N	C
2A 1C	Y	\$120.00	Y	N	C	N	HS
2A	Y	\$80.00	N	Y	C	N	HS
2A	Y	\$80.00	Y	N	C	N	HS
1A	NR	\$18.00	Y	N	C	N	NR
1A	N	\$11.00	N	N	C	N	NR
2A 3C	N	NR	NR	N	C	N	NR
4A 2C	Y	\$40.00	N	Y	C	N	C
2A	N	NR	N	N	C	N	C
5A 1C	N	\$85.00	N	NR	C	N	C
NR	NR	NR	N	N	NR	NR	NR
4A	N	\$35.00	Y	N	C	N	C
2A 3C	N	\$92.00	N	N	NR	N	C
2A	Y	\$77.00	N	N	C	N	NR
1A	N	\$11.00	Y	N	C	N	C
1A	N	\$12.00	N	N	C	Y	C
1A	N	\$11.00	Y	N	C	N	C
1A	N	\$11.00	Y	N	C	Y	C
1A	N	\$11.00	Y	Y	C	N	C
1A	N	\$11.00	Y	Y	C	N	HS
2A	N	\$22.00	N	NR	C	N	HS
2A	N	NR	Y	Y	C	N	HS
2A	N	\$22.00	Y	Y	C	N	NR
2A	N	\$35.00	N	Y	C	N	NR
2A	N	\$35.00	N	N	C	N	NR
1A	N	\$35.00	Y	N	C	N	NR
1A	N	\$10.00	Y	N	C	N	C
1A	N	\$12.00	Y	N	C	N	NR
1A	N	\$15.00	N	N	C	N	C
2A	N	NR	Y	Y	C	N	C
2A	N	\$22.00	Y	Y	C	Y	HS
2A	N	\$25.00	N	NR	HS	N	HS
1A	N	\$25.00	Y	N	C	N	HS
2A 1C	N	\$12.00	N	N	C	N	NR
2A 2C	N	\$37.00	Y	Y	C	Y	C
2A 2C	N	\$38.00	Y	Y	NR	N	C
15A 8C	Y	NR	Y	N	NR	Y	HS
3A	Y	NR	N	NR	C	N	HS
4A 3C	Y	\$30.00	Y	Y	C	N	C
3A	Y	\$38.00	N	Y	HS	N	C
2A	Y	\$110.00	Y	Y	C	Y	C
2A 2C	Y	\$80.00	N	Y	C	N	C
2A 2C	Y	NR	Y	Y	C	Y	HS
3A	N	\$45.00	Y	Y	C	N	C
2A 2C	Y	NR	Y	N	C	N	NR
2A 2C	Y	NR	Y	N	C	N	HS
1A	Y	\$86.00	Y	N	C	N	C
3A	N	\$48.00	Y	N	C	N	C
11A 4C	N	\$15.00	N	N	C	N	C
1A	N	\$200.00	N	N	C	N	C
2A	N	\$11.00	Y	N	C	N	C
1A	N	\$60.00	N	N	C	N	C
1A	N	\$18.00	N	Y	C	Y	NR
2A 3C	Y	NR	Y	N	C	N	HS
3A	Y	NR	Y	N	C	N	C
5A	N	NR	Y	N	C	N	C
2A 1C	Y	\$100.00	N	Y	C	N	C
3A	N	\$150.00	N	N	C	N	C
1A	N	\$55.00	N	N	C	N	C
1A	N	\$19.00	N	N	C	N	C
3A BC	Y	\$160.00	Y	N	C	N	C
2A	NR	NR	N	Y	C	N	C
2A 2C	N	\$50.00	N	Y	C	N	C
TOTALS:	59						

N=37
 Y=18
 NR=3
 \$40.58
 N=26
 Y=32
 NR=1
 N=22
 Y=20
 NR=4
 C=52
 HS=2
 NR=5
 N=47
 Y=9
 NR=3
 C=33
 HS=13
 NR=13

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRECT OR H.S. BOAT TO NEWPORT?
2A 2C	Y	\$46.00	Y	N	C	N	NR
2A 4C	Y	\$51.00	Y	Y	C	N	NR
3C	Y	\$35.00	N	N	C	N	NR
3A	N	\$54.00	Y	NR	C	N	C
1A	N	\$30.00	N	Y	HS	N	C
2A	N	NR	N	N	C	N	HS
2A	Y	NR	N	N	C	N	C
2A 2C	Y	\$71.00	N	N	C	N	C
2A 1C	N	\$22.00	N	N	C	N	C
NR	Y	NR	NR	N	C	N	C
2A	Y	\$25.00	Y	N	C	NR	HS
3A	N	\$30.00	Y	Y	C	N	NR
2A 1C	Y	\$80.00	Y	Y	C	N	HS
2A 2C	Y	\$80.00	N	N	C	N	C
1A	Y	\$75.00	Y	N	C	N	NR
3A 2C	Y	\$37.00	Y	N	C	N	HS
2A	N	\$80.00	Y	N	C	N	HS
2A	N	\$36.00	Y	N	C	N	HS
2A	N	\$37.00	Y	Y	C	N	NR
2A	N	\$33.00	N	Y	C	N	HS
2A 3C	Y	\$130.00	N	N	C	Y	HS
2A 3C	Y	\$130.00	N	N	C	N	C
2A	Y	NR	Y	N	C	N	C
3A	Y	\$110.00	N	Y	C	N	C
2A 2C	Y	\$112.00	Y	Y	C	N	C
2A 2C	Y	\$116.00	N	Y	C	N	C
2A	N	\$30.00	N	N	C	N	C
2A	Y	\$102.00	Y	N	C	N	NR
3A 2C	Y	\$75.00	Y	N	C	N	C
3A	N	\$45.00	Y	N	C	N	C
2A 1C	Y	\$108.00	N	N	C	N	HS
1A	N	\$18.00	N	N	C	Y	C
3A	Y	\$30.00	N	N	C	N	C
3A	N	\$30.00	Y	Y	C	N	C
2A 2C	Y	\$24.00	Y	Y	C	N	HS
2A 2C	Y	\$35.00	Y	N	C	N	HS
1A	N	\$11.00	N	N	C	N	C
2A	N	NR	Y	N	C	N	HS
5A	N	\$75.00	Y	N	C	N	C
2A	N	\$35.00	Y	Y	C	N	HS
2A	Y	\$17.00	N	N	C	N	NR
1A	N	\$10.00	Y	N	C	N	HS
7A 1C	Y	\$200.00	Y	N	C	N	C
1A	N	\$20.00	Y	Y	HS	Y	HS
1A	N	\$16.00	Y	N	C	N	HS
1A	N	\$11.00	Y	Y	C	N	C
4A	N	NR	N	N	C	N	NR
4A	N	\$0.00	Y	N	C	N	C
1A	N	\$25.00	Y	N	C	Y	C
2A	N	\$25.00	Y	Y	C	N	HS
1A	N	\$37.00	N	N	C	N	NR
2A	N	\$18.00	N	Y	C	N	C
2A	N	\$10.00	Y	Y	C	N	C
3A	N	\$54.00	Y	N	C	Y	HS
3A	N	NR	Y	Y	C	N	HS
2A 2C	Y	\$31.00	Y	Y	C	N	HS
2A	N	\$29.00	N	NR	NR	Y	C
1A 1C	N	\$28.00	N	N	C	NR	NR
4A 2C	Y	\$110.00	N	Y	C	Y	C
4A	Y	\$44.00	N	N	C	N	HS
3A 4C	Y	\$150.00	Y	Y	C	N	HS
8A 1C	N	\$135.00	N	N	C	N	HS
2A 2C	Y	NR	N	N	C	N	C
2A 2C	Y	NR	N	N	C	N	C

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRECT OR H.S. BOAT TO NEWPORT?	
2A 2C	Y	NR	Y	N	C	N	C	
2A 2C	Y	NR	Y	N	C	N	C	
2A 2C	Y	NR	Y	N	C	N	C	
1A 2C	Y	\$35.00	Y	N	C	N	C	
2A	N	NR	Y	N	C	N	HS	
10A	N	\$153.00	Y	Y	C	N	C	
5A	N	\$75.00	Y	Y	C	N	NR	
4A	N	\$85.00	Y	Y	C	N	NR	
5A	N	\$75.00	Y	Y	C	N	NR	
5A	N	\$75.00	Y	Y	C	N	NR	
2A	Y	\$70.00	Y	Y	C	Y	NR	
2A	N	\$38.00	Y	N	C	N	HS	
2A	N	\$38.00	Y	N	C	N	HS	
1A	N	\$18.00	Y	Y	C	N	C	
1A	NR	\$18.00	Y	Y	C	N	HS	
3A 1C	N	\$64.00	Y	N	C	NR	HS	
2A	N	\$500.00	Y	N	C	N	HS	
11A 4C	Y	NR	N	Y	C	N	HS	
1A	N	\$11.00	Y	Y	C	Y	HS	
2A 1C	N	\$30.00	Y	Y	C	N	HS	
1A	N	\$18.00	Y	N	C	N	HS	
2A	N	\$30.00	N	N	C	N	C	
1A	N	NR	Y	N	C	N	C	
3A	N	\$45.00	Y	N	C	N	C	
1A	N	\$10.00	Y	Y	C	N	C	
2A	Y	\$120.00	N	N	C	N	C	
1A	N	\$11.00	N	N	C	N	HS	
2A	N	\$17.00	N	N	C	Y	HS	
2A	Y	\$70.00	Y	N	C	N	C	
1A	Y	\$10.00	N	N	C	N	HS	
3A	N	\$25.00	N	N	C	N	HS	
2A	Y	NR	Y	N	C	N	C	
2A	N	\$18.00	Y	Y	C	N	C	
4A	N	NR	N	NR	C	N	NR	
2A	Y	\$17.00	N	N	C	N	C	
2A	Y	\$100.00	N	Y	C	N	C	
2A	N	\$18.00	Y	Y	C	Y	C	
2A	N	\$14.00	Y	Y	C	N	HS	
2A	N	\$15.00	Y	Y	HS	N	C	
1A	N	\$11.00	N	Y	HS	N	C	
2A	N	\$22.00	Y	N	C	N	HS	
1A	N	\$11.00	Y	N	C	Y	NR	
1A	N	\$11.00	Y	N	C	N	NR	
1A	N	NR	N	Y	C	N	C	
2A	N	NR	N	Y	HS	Y	HS	
2A	Y	NR	N	N	C	Y	C	
1A	Y	\$100.00	Y	Y	C	N	C	
1A 1C	N	\$10.00	N	N	C	NR	HS	
1A 10C	N	NR	Y	N	HS	N	HS	
1A	Y	\$63.00	Y	N	C	N	C	
2A	N	\$23.00	N	N	C	N	C	
2A	N	\$23.00	N	N	C	N	C	
3A	N	NR	Y	N	C	N	NR	
1A	N	\$9.00	N	N	C	N	C	
2A 1C	N	\$23.00	Y	N	C	N	HS	
2A 1C	N	\$24.00	Y	N	C	N	HS	
1A 1C	N	\$55.00	Y	Y	C	N	HS	
2A	Y	\$58.00	Y	NR	C	N	HS	
4A	N	\$60.00	Y	N	C	N	NR	
3A	Y	\$45.00	Y	N	C	Y	HS	
TOTALS	60	N=42 Y=17 NR=1	\$39.15	N=10 Y=12 NR=2	N=37 Y=21 NR=2	C=58 HS=4	N=49 Y=9 NR=2	C=25 HS=15 NR=10

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRENT OR H.S. BOAT TO NEWPORT?
1A BC	Y	NR	Y	Y			
3A 4C	Y	NR	Y	Y	C	N	HS
3A 4C	Y	NR	Y	Y	C	N	HS
3A 4C	Y	NR	Y	N	C	N	HS
1A 5C	Y	NR	Y	Y	C	Y	C
2A	N	\$30.00	Y	N	C	N	C
1A	Y	\$48.00	Y	N	C	N	HS
1A	Y	\$62.00	N	N	HS	N	C
1A	N	\$11.00	Y	N	C	N	C
1A	N	\$18.00	N	N	NR	Y	HS
2A	N	\$22.00	N	N	C	N	C
4A	N	\$80.00	Y	Y	C	N	C
5A	N	\$75.00	Y	Y	C	N	HS
BA 7C	Y	\$120.00	Y	Y	C	N	HS
3A	Y	\$125.00	Y	Y	C	N	HS
5A	Y	\$185.00	Y	Y	C	N	HS
2A 2C	N	\$45.00	Y	Y	C	Y	C
8A	N	\$90.00	Y	Y	C	Y	HS
4A	N	\$60.00	Y	Y	C	N	HS
5A	N	\$75.00	Y	Y	C	N	HS
2A	N	\$30.00	Y	Y	C	N	HS
10A	N	\$150.00	Y	Y	C	N	HS
4A	N	\$85.00	Y	Y	C	N	NR
15A	N	NR	Y	Y	C	N	NR
2A	N	\$30.00	Y	Y	C	N	NR
1A	Y	NR	N	N	C	Y	HS
2A	N	\$22.00	N	N	NR	Y	HS
2A	N	\$10.00	Y	N			HS
5A	N	\$75.00	Y	Y	C	N	C
2A	N	\$26.00	Y	N	C	N	NR
4A	N	\$60.00	N	N	C	N	C
1A	N	\$11.00	Y	N	C	N	HS
1A	N	\$11.00	Y	N	C	N	NR
1A	NR	\$18.00	N	N	C	Y	C
2A	N	\$30.00	Y	Y	C	N	C
2A	Y	\$116.00	N	N	C	Y	HS
3A 1C	N	\$70.00	Y	Y	C	N	C
2A	Y	\$115.00	N	N	HS	Y	HS
2A 3C	Y	\$100.00	N	N	C	N	C
2A	N	\$18.00	Y	Y	C	N	C
2A	Y	\$100.00	Y	N	C	N	HS
5A	Y	\$75.00	N	N	C	N	C
2A 1C	Y	\$75.00	N	N	C	N	C
3A 2C	N	NR	N	N	C	N	C
1A	N	\$10.00	N	N	C	N	C
1A	N	\$19.00	N	N	C	N	C
2A	Y	\$75.00	Y	Y	C	Y	C
2A	N	\$40.00	Y	N	C	N	C
3A	Y	\$137.00	N	N	C	N	C
9A 7C	Y	NR	Y	N	C	Y	C
2A 2C	Y	\$28.00	N	N	C	Y	C
2A 2C	Y	\$29.00	Y	Y	C	N	C
5A	N	\$9.00	N	N	C	N	HS
2A 2C	Y	\$38.00	N	NR	C	N	C
2A	N	\$30.00	Y	Y	C	N	C
4A 2C	Y	\$45.00	Y	Y	C	Y	C
2A 1C	Y	\$40.00	Y	Y	C	N	C
5A 5C	N	\$110.00	N	Y	C	N	HS
3A 1C	N	\$55.00	N	Y	C	N	HS
5A	Y	NR	N	Y	HS	N	HS
TOTALS:	60	\$47.90	N=22	N=20	C=15	N=46	C=29
			Y=38	Y=40	HS=9	Y=1	HS=26
			NR=1	NR=1	NR=2		NR=3

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CORRECT OR H.S. BOAT TO NEWPORT?
2A 2C	Y	\$53.00	Y	N	C	N	C
2A	Y	NR	N	N	C	N	C
4A	N	\$81.00	N	N	C	N	HS
6A	N	\$92.00	N	NR	C	N	HS
1A 3C	Y	\$81.00	Y	N	C	N	C
2A 1C	Y	\$47.00	N	N	C	N	HS
4A	N	\$12.00	Y	N	C	Y	C
1A	Y	\$70.00	Y	NR	C	N	C
3A	N	NR	N	N	C	N	C
2A 2C	Y	\$140.00	N	N	NR	N	C
2A	N	NR	Y	Y	C	N	C
5A	N	\$79.00	N	N	C	N	C
2A	N	\$38.00	N	N	C	Y	HS
2A	N	\$30.00	N	N	C	N	HS
4A	N	\$48.00	Y	N	C	N	C
4A 1C	N	\$80.00	N	Y	C	N	C
1A	N	\$15.00	N	N	HS	N	C
3A 2C	Y	\$80.00	Y	N	C	N	C
2A	N	\$30.00	N	N	C	N	C
6A	N	\$82.00	Y	N	C	N	HS
1A	Y	\$115.00	N	Y	C	N	C
4A	N	\$60.00	N	N	HS	Y	HS
1A	N	\$9.00	N	N	C	Y	HS
2A 2C	Y	\$78.00	Y	N	C	NR	C
2A	N	\$30.00	N	N	HS	N	C
2A	Y	\$118.00	Y	N	C	N	HS
2A 2C	Y	\$150.00	Y	N	C	N	C
2A 4C	Y	\$190.00	Y	Y	C	N	C
2A 2C	N	\$48.00	N	N	C	N	C
2A	N	\$30.00	N	N	C	N	C
2A 2C	N	\$53.00	N	N	C	N	C
4A	Y	\$59.00	N	N	C	Y	C
2A 1C	N	\$30.00	Y	Y	HS	N	C
2A	N	\$31.00	N	Y	C	N	HS
5A	Y	\$150.00	N	N	C	N	HS
2A 1C	N	\$40.00	N	N	C	N	C
4A	N	\$60.00	N	N	C	N	C
6A 2C	N	\$100.00	N	N	C	N	C
4A	Y	\$300.00	N	N	C	N	C
2A 1C	Y	\$123.00	N	N	C	N	C
2A	Y	\$35.00	N	N	C	N	C
2A 3C	Y	\$145.00	N	N	C	N	C
1A	N	\$18.00	Y	N	C	N	C
2A	Y	\$75.00	N	N	C	N	C
1A 1C	Y	\$80.00	N	N	C	N	C
1A	Y	NR	N	N	C	N	C
4A 2C	N	\$108.00	Y	N	C	N	C
2A	N	\$29.00	Y	N	C	N	HS
2A	N	\$37.00	N	N	C	N	C
2A 2C	N	\$55.00	N	N	C	Y	HS
2A	N	\$30.00	N	N	C	N	C
2A	Y	\$35.00	N	Y	C	N	C
2C	Y	\$30.00	N	Y	C	N	C
3A	N	NR	N	Y	C	N	NR
2A	N	\$30.00	N	N	C	Y	C
2A	N	\$20.00	N	N	C	N	C
1A 1C	N	\$24.00	N	N	C	N	C
2A	N	\$36.00	N	N	C	N	C
4A	N	\$80.00	N	Y	C	N	HS
2A	N	\$18.00	N	N	C	N	C
TOTALS	80						

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRENT OR H.S. BOAT TO NEWPORT?
4A	N	\$60.00	N	N	C	N	C
4A	N	\$60.00	N	N	C	N	C
2A	N	\$16.00	N	N	C	Y	C
2A	N	\$30.00	N	Y	C	N	C
2A	N	\$31.00	Y	Y	C	N	C
1A	N	\$30.00	N	N	C	N	C
2A 1C	N	\$38.00	N	N	C	N	C
2A	N	\$31.00	Y	N	C	N	C
2A	N	\$30.00	N	Y	C	N	C
2A 2C	N	\$15.00	N	Y	C	N	C
2A 2C	Y	\$38.00	Y	N	C	N	HS
5A	N	\$105.00	Y	Y	C	N	C
3A 2C	Y	\$125.00	N	Y	C	N	C
3A 2C	Y	NR	N	N	C	N	C
2A 2C	Y	\$120.00	N	N	C	N	C
2A	Y	\$60.00	N	N	C	N	C
1A	Y	\$90.00	N	N	C	N	C
2A	N	\$28.00	N	Y	HS	Y	HS
2A	N	\$15.00	N	N	C	N	HS
6A 2C	Y	\$200.00	Y	N	C	N	C
2A	N	\$18.00	N	N	C	N	HS
2A	Y	\$87.00	Y	N	C	N	HS
2A	Y	\$110.00	N	N	C	N	C
3A 3C	Y	\$110.00	N	Y	C	N	HS
2A 2C	Y	\$180.00	N	Y	NR	N	C
3A 3C	Y	\$188.00	N	N	C	N	HS
5A	N	\$49.00	Y	Y	C	N	C
2A	Y	\$77.00	N	Y	C	N	HS
3A 1C	Y	NR	N	N	C	N	HS
5A	Y	\$150.00	Y	Y	HS	N	HS
4A 1C	Y	\$80.00	N	N	HS	N	C
5A	N	\$80.00	N	N	C	N	HS
2A	Y	\$114.00	N	N	C	N	C
5A	Y	\$195.00	N	N	C	N	C
2A 2C	Y	\$50.00	Y	Y	C	N	C
5A	Y	\$18.00	N	Y	HS	N	HS
5A	Y	\$18.00	N	Y	C	N	HS
2A	Y	\$114.00	N	Y	C	N	HS
3A 1C	Y	NR	N	N	C	Y	C
5A	Y	\$150.00	N	Y	C	N	C
3A 4C	Y	\$95.00	N	Y	C	Y	C
2A 3C	N	\$52.00	Y	N	C	N	HS
2A	N	\$30.00	N	N	C	N	C
4A	N	NR	N	N	C	N	C
4A 1C	Y	\$88.00	N	N	C	N	C
3A 2C	N	\$80.00	N	N	C	N	C
2A 2C	N	\$45.00	N	N	C	N	C
2A	N	\$28.00	N	N	C	Y	C
4A	N	\$30.00	N	N	C	N	HS
4A	N	\$74.00	N	N	C	N	C
3A 1C	Y	\$64.00	N	N	C	N	C
4A 2C	N	\$90.00	N	N	C	N	C
2A	N	\$30.00	N	N	C	N	C
2A	N	\$27.00	Y	N	HS	N	HS
1A 1C	N	\$27.00	Y	N	C	Y	HS
2A	N	\$15.00	N	N	C	N	C
5A	N	\$13.00	Y	Y	C	N	C
4A	N	NR	N	N	C	N	NR
2A 2C	N	\$75.00	Y	N	C	N	HS
2A 1C	Y	\$48.00	Y	N	C	N	NR
6A	N	\$100.00	N	N	C	N	C
TOTALS							

Pt. Judith - Block Island Questionnaire

1) GROUP SIZE?	2) BROUGHT CAR?	3) TOTAL TICKET PRICE?	4) RIDDEN H.S. FERRY BEFORE?	5) WOULD YOU HAVE TAKEN OUR H.S. FERRY?	6) WOULD YOU HAVE TAKEN OUR CURRENT OR H.S. CAR FERRY?	7) RIDDEN NEWPORT BOAT BEFORE?	8) WOULD YOU HAVE TAKEN CURRENT OR H.S. BOAT TO NEWPORT?
4A	Y	\$140.00	N	N	C	N	C
2A	Y	\$54.00	N	N	C	N	C
3A	N	\$51.00	Y	N	C	N	C
1A	Y	\$115.00	N	N	NR	N	C
1A	N	\$92.00	Y	N	C	N	HS
3A 1C	N	\$60.00	Y	Y	C	N	HS
2A 2C	Y	\$150.00	Y	N	C	N	HS
1A	Y	\$90.00	Y	N	C	N	C
2A	Y	\$115.00	Y	Y	C	N	HS
1A 1C	Y	\$125.00	N	N	C	N	C
2A 2C	Y	\$24.00	N	N	C	N	C
2A	Y	\$100.00	Y	Y	C	N	C
2A 2C	N	\$53.00	Y	Y	C	N	HS
3A	N	\$45.00	N	Y	C	N	HS
NR	N	\$18.00	Y	N	C	N	HS
1A	NR	\$25.00	Y	N	C	N	C
2A	N	\$38.00	Y	Y	C	N	C
1A	N	\$15.00	N	N	C	N	C
2A 1C	N	\$54.00	N	N	C	N	C
2A 1C	N	\$38.00	N	Y	C	N	C
4A	Y	\$37.00	Y	N	C	N	HS
2A	N	\$30.00	Y	N	C	N	C
2A	N	\$10.00	Y	N	C	N	C
2A	N	\$18.00	Y	Y	C	N	HS
2A	N	\$15.00	Y	Y	C	N	HS
4A	N	\$72.00	N	N	C	N	HS
1A	N	\$13.00	Y	Y	C	N	C
1A	N	\$18.00	N	Y	C	Y	HS
1A 1C	Y	\$58.00	Y	N	C	N	HS
1A	Y	\$38.00	N	N	C	N	C
2A 3C	Y	\$30.00	N	N	C	N	C
12A 11C	Y	NR	N	N	C	N	C
2A 2C	Y	\$118.00	N	N	C	N	HS
2A	N	\$24.00	Y	Y	C	N	C
2A 2C	Y	\$128.00	N	Y	C	Y	HS
1A	N	NR	N	Y	C	N	HS
5A	Y	\$155.00	N	Y	HS	N	HS
5A 25C	Y	NR	Y	Y	C	N	HS
7A 2C	N	\$105.00	N	Y	C	N	HS
4A	N	\$60.00	N	N	HS	Y	HS
5A	N	\$77.25	Y	N	C	N	C
2A 2C	Y	NR	N	N	C	N	HS
5A	Y	\$155.00	Y	N	C	N	C
NR	Y	\$15.00	Y	N	NR	N	C
2A 3C	N	\$50.00	N	N	C	N	C
2A	N	\$40.00	Y	N	C	N	C
2A	N	\$40.00	Y	N	C	N	C
2A	N	\$40.00	Y	N	C	N	C
9A	N	\$16.00	N	N	C	N	HS
2A	N	\$40.00	N	N	HS	Y	C
7A 2C	N	\$15.00	N	NR	C	N	C
2A	N	\$47.00	N	N	NR	N	NR
2A	N	\$20.00	N	N	C	N	C
2A	N	\$47.00	N	N	C	N	C
5A	N	\$86.00	N	Y	C	N	C
2A	Y	\$106.00	Y	N	C	Y	HS
2A	N	\$15.00	N	Y	C	N	C
9A	Y	\$30.00	N	Y	HS	N	HS
2A	N	\$30.00	Y	Y	C	N	HS
4A	Y	\$75.00	N	Y	C	NR	C
3A	Y	\$107.00	Y	Y	C	Y	HS
2A 1C	Y	\$110.00	N	N	C	N	HS
2A	N	\$31.00	N	Y	C	N	C

TOTALS: K3 N=38 \$55.54 N=37 N=38 C=56 N=55 C=35
 Y=26 Y=29 Y=24 HS=4 HS=7 HS=27
 NR=1 NR=1 NR=1 NR=3 NR=1 NR=1

Yes Adults	Children	No Adults	Children	NR Adults	Children
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page 5

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Yes Adults	Children	No Adults	Children	NR Adults	Children
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page 6

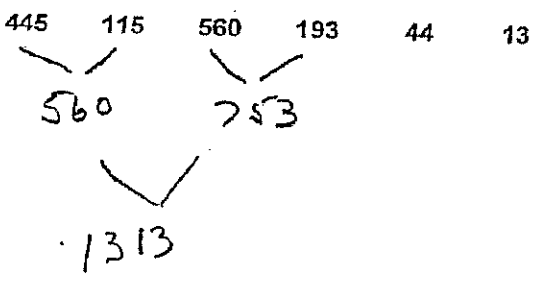
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See will get me the 34K
 pres income June - Sept (4 mos)
 \$ x 35% (min) → 43% (max) = \$
sanitized.

% yes adults/kids = 80/20
 % no adults/kids = 75/25



Total responses represented = 1313
 % yes = 560 ÷ 1313 = 43%
 % no = 753 ÷ 1313 = 57%

Subj: RE: Passenger survey for Newport
Date: 8/16/04 8:23:32 AM Eastern Daylight Time
From: tim@uri.edu
To: McElroyMik@aol.com

Mike,
They look good to me. Good luck with the survey.
Tim

—Original Message—

From: McElroyMik@aol.com [mailto:McElroyMik@aol.com]
Sent: Saturday, August 14, 2004 7:12 AM
To: tim@uri.edu
Subject: Fwd: Passenger survey for Newport

Tim:

I am so sorry I forgot the attachments. Here is the Newport one. The Point Judith one will follow.

Thanks again for your help.

Mike McElroy
Schacht & McElroy
PO Box 6721
Providence, RI 02940-6721
401-351-4100
401-421-5696 (fax)
e-mail: McElroyMik@aol.com
Web site: <http://members.aol.com/McElroyMik/index.html>

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Subj: Passenger Surveys
Date: 8/12/2004 3:36:29 PM Eastern Daylight Time
From: McElroyMik
To: tim@uri.edu

Dr. Tyrrell:

Attached are the 2 passenger surveys, one for Point Judith and one for Newport. We made slight modifications to Point Judith and more substantial modifications (mostly deletions) to Newport to make it fit for our Newport situation (we do not carry cars from Newport because the docks are not set up for cars).

Please let me know if you see any problems.

We plan to start this weekend.

Thanks again so much for you help.

Mike McElroy
Schacht & McElroy
PO Box 6721
Providence, RI 02940-6721
401-351-4100
401-421-5696 (fax)
e-mail: McElroyMik@aol.com
Web Site: <http://members.aol.com/McElroyMik/index.html>

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Date _____

Time _____

Newport – Block Island Passenger Questionnaire

Dear Valued Passenger:

Interstate Navigation (The Block Island Ferry) is conducting a survey to determine whether or not our existing customers feel there is a public need for a new high-speed ferry between Newport and Block Island, and another high-speed ferry between Pt. Judith and Block Island, which would land at Old Harbor (downtown) rather than New Harbor. There are only 5 questions and it shouldn't take you more than 5 minutes).

1. How large is your group? ____ Adults ____ Children
2. What was the approximate total price of your ferry tickets?
\$ _____ (Round Trip)
3. Have you ever ridden a high-speed ferry? ____ (Y or N)
4. If Interstate Navigation had offered a high-speed ferry (about 1 hour) from Newport to Old Harbor (downtown) with adult passenger fares of about \$26.00 round-trip and other fares approximately double current prices, would you have taken it today? (The current adult round-trip regular fare is \$13.00 (including port taxes). The current trip time is about two hours.) ____ (Y or N)
5. Interstate Navigation has given some thought to operating a high-speed ferry between Old Harbor, Block Island and Pt. Judith (Narragansett). If Interstate Navigation offered a high-speed ferry from Pt. Judith to Old Harbor with passenger fares about double current prices (the current round trip adult fare from Pt. Judith is \$15.15, including port fees), would you choose high-speed or the current ferry service (if you had to choose)? ____ Current ____ High-Speed

Thank you for your time and patience.

Susan Linda, President
Interstate Navigation

Date _____

Time _____

Pt. Judith – Block Island Passenger Questionnaire

Dear Valued Passenger:

Interstate Navigation (The Block Island Ferry) is conducting a survey to determine whether or not our existing customers feel there is a public need for another high-speed ferry between Pt. Judith and Block Island, which would land at Old Harbor (downtown) rather than New Harbor, and a new high-speed ferry between Newport and Block Island. There are only 8 questions and it shouldn't take you more than 5 minutes.

1. How large is your group? ____ Adults ____ Children
2. Did you bring a car? ____ (Y or N)
3. What was the approximate total price of your ferry tickets?
\$ _____ (Round Trip)
4. Have you ever ridden a high-speed ferry? ____ (Y or N)
5. If Interstate Navigation had offered a high-speed ferry (about 25 minutes) from Point Judith to Old Harbor (downtown) with adult passenger fares of about \$30.00 round-trip and other fares approximately double current prices, would you have taken it today? (The current adult round-trip regular fare is \$15.15 (including port taxes). The current trip time is about an hour.) ____ (Y or N)
6. One idea has been to add a small deck on a new high-speed ferry for a few cars, but the car price could be as high as \$200 round-trip in order to justify the substantial added construction cost. (The current standard auto fare is \$78 round-trip.) If you brought your car, would you choose the new high-speed ferry service or the current ferry service (if you had to choose)? ____ Current ____ High-Speed
7. Have you ever taken a ferry between Block Island and Newport? ____ (Y or N)
8. Interstate Navigation has given some thought to operating a high-speed ferry between Old Harbor, Block Island and Newport. If Interstate Navigation had offered a high-speed ferry between Newport and Old Harbor with passenger fares about double current prices (the current round trip Newport adult fare is \$13.00, including port fees), would you choose high-speed or the current ferry service (if you had to choose)? ____ Current ____ High-Speed

Thank you for your time and patience.

Susan Linda, President
Interstate Navigation

Subj: RE: Block Island Ferry Survey
Date: 8/12/2004 10:12:39 AM Eastern Daylight Time
From: tim@uri.edu (Tim Tyrrell)
To: McElroyMik@aol.com
File: PtJudithBIPassengerQuestionnaire.doc (25600 bytes) DL Time (TCP/IP): < 1 minute

Mike,
Here's my suggested questionnaire. You might need to edit the \$ fares. Also, this one assumes the passenger is traveling from Pt Judith to BI. You will need a different version for passengers on the Newport - BI ferry.
Tim

-----Original Message-----

From: McElroyMik@aol.com [mailto:McElroyMik@aol.com]
Sent: Wednesday, August 11, 2004 12:17 PM
To: tim@uri.edu
Subject: Block Island Ferry Survey

August 11, 2004

Tim@uri.edu

**Dr. Timothy Tyrrell
University of Rhode Island
Kingston, RI 02881**

Dear Dr. Tyrrell:

As you know, I represent the Block Island Ferry.

Thank you for speaking with me yesterday and agreeing to help the Block Island Ferry draw up a questionnaire for immediate use.

The ferry is thinking about asking the DPUC for permission to operate a high speed ferry in the summer time only from Point Judith to Old Harbor, Block Island. We recognize that in order not to unduly compete with Island Hi-Speed Ferry (IHSF), we would probably be required to operate at the same price they operate at, which is approximately twice our current fares. The current adult round-trip fare (excluding port fees) is \$14.30. IHSF currently charges \$29.00 for an adult round-trip fare (excluding port fees). We would operate our own high speed ferry if given permission to do so at the same \$29.00 rate that IHSF operates at (of whatever rate they increase their fares to).

If our existing riders feel that there is a need for a high speed ferry operated by Interstate Navigation Company from Point Judith to Old Harbor, their fares would increase from \$14.30 to \$29.00 round trip. Other fares would approximately double (one-way, children, etc.).

In all likelihood, the high speed vessel would carry passengers and bicycles

only, although some thought has been given to adding a small deck for a few cars, but the car price would have to be quite high in order to justify the substantial cost of adding even a small freight deck. We therefore also need to know if there is any demand for a high speed car service.

In addition, there has been some serious thought given to having the ferry operate, not just between Point Judith and Block Island, but between Block Island and Newport as well. In other words, the ferry could make a number of runs each day between Point Judith and Block Island (Old Harbor) and also make a number of runs during the same day between Block Island and Newport. We need to know if there is a perceived need for Block Island to Newport (and back) high speed service.

The primary focus of a questionnaire we would like to utilize in the immediate future would be to determine whether or not our existing customers feel there is a public need (in the language of the DPUC is the "public convenience and necessity" served) for a high speed ferry between Point Judith to Block Island and between Newport and Block Island. We also want to try to determine how many of Interstate's current passengers would move from our existing vessels to our high speed vessel at \$29.00 (adult round trip) if such a vessel were made available to them. If the survey result shows a substantial number of our existing passengers moving from our regular ferries to a high speed ferry, then it may be financially beneficial for us (and it may serve the public's needs) if we get permission from the DPUC and place a high speed ferry in service.

As I explained on the phone, for every passenger that moves from our regular ferry to our high speed ferry, we are essentially getting the equivalent of two passengers because they would be paying twice the rate. Of course, we would need to pay the debt service on the new boat, so the increased rate would be required to cover the cost of building the new boat.

Because of the long lead time involved in permitting and building a boat, and the need to get the boat in service in the summer, if the survey shows a strong demand for a high speed ferry among our existing customers, then we would like to file for permission with the DPUC this fall, which is why we would like to do the survey over the course of the next few days between now and Labor Day before we lose our summer tourist traffic.

Also, to the extent we are taking passengers off our own boat and putting them on our own high speed ferry, we are not detracting from IHSF's passenger base because we will be surveying only those customers that are traveling on our boat and have chosen not to travel on IHSF.

We would like the survey to be simple to administer so that we can get as many responses as possible in the short period of time that we have left in the summer. We also want the results of the survey to have meaning and validity, which is why I asked you if you would assist us in drawing up the questions so

that we do not have a "garbage in, garbage out" problem. We want answers which will have meaning for both the company and the DPUC in evaluating whether Interstate should add a high speed ferry to its fleet.

I am also wondering how we handle the situation with children. We carry a substantial number of children, but in most, if not all cases, I would expect that the survey taker will be speaking to the parents of the children and not to the children. We want to make sure we do not undercount responses. For example, if there is a husband, wife, and two children traveling together as a family and the interviewer speaks only to the husband or wife and the husband or wife indicates a willingness to travel on the high speed ferry with the family, we should know that so we do not just count that as one response, but we count it as a family response and we get the appropriate number. I am not sure how best to handle that and am open to any suggestions you might have about an appropriately drafted question in that regard.

I apologize for interrupting your summer and Susan Linda, the president of Interstate, has asked me to extend her deep appreciation to you for agreeing to help us in this matter.

If you need any further information to draw up the questionnaire, please do not hesitate to call me. My office number is 351-4100. My home in Providence is 273-8283. My home in Narragansett is 789-7383.

Thank you again for your help.

Very truly yours,

Michael R. McElroy

MRMc:tmg

**Mike McElroy
Schacht & McElroy
PO Box 6721
Providence, RI 02940-6721
401-351-4100
401-421-5696 (fax)
e-mail: McElroyMik@aol.com
Web Site: <http://members.aol.com/McElroyMik/index.html>**

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Date _____
Time _____

Pt Judith - Block Island Passenger Questionnaire

Dear Passenger:

Interstate Navigation is conducting a survey to determine whether or not our existing customers feel there is a public need for another high-speed ferry between Point Judith and Block Island and a new one between Newport and Block Island. There are only 8 questions and it shouldn't take you more than 5 minutes.

1. How large is your group? _____ Adults, _____ Children
2. Did you bring a car? _____ (Y or N)
3. What was the total price of your ferry tickets \$ _____ (Round Trip)
4. Have you ever ridden a high-speed ferry? _____ (Y or N)
5. If Interstate Navigation had offered a high-speed ferry (25 minutes) from Point Judith to Old Harbor, with adult passenger fares of \$30.00 round-trip and other fares approximately double current prices would you have taken it today? (The current adult fare is \$15.15. The current time is 50 minutes.) _____ (Y or N)
6. One idea has been to add a small deck on a new high-speed ferry for a few cars, but the car price would have to be \$200 in order to justify the substantial cost. (The current standard auto fare is \$78, RT.) If you brought your car, would you choose the new high-speed ferry service or the current ferry service (if you had to choose)?
_____ Current _____ High-Speed?
7. Have you ever taken a ferry between Block Island and Newport? _____ (Y or N)
8. Some thought has been given to operating a high-speed ferry between Block Island and Newport. If Interstate Navigation had offered a high-speed ferry from Newport to Old Harbor, with passenger fares about double current prices would you choose it or the current ferry service (if you had to choose)? _____ Current _____ High-Speed

Our Sincere thanks for your time and patience.

Susan Linda, President
Interstate Navigation

Subj: Block Island Ferry Survey
Date: 8/11/2004 12:17:21 PM Eastern Daylight Time
From: McElroyMik
To: tim@uri.edu

August 11, 2004

Tim@uri.edu

Dr. Timothy Tyrrell
University of Rhode Island
Kingston, RI 02881

Dear Dr. Tyrrell:

As you know, I represent the Block Island Ferry.

Thank you for speaking with me yesterday and agreeing to help the Block Island Ferry draw up a questionnaire for immediate use.

The ferry is thinking about asking the DPUC for permission to operate a high speed ferry in the summer time only from Point Judith to Old Harbor, Block Island. We recognize that in order not to unduly compete with Island Hi-Speed Ferry (IHSF), we would probably be required to operate at the same price they operate at, which is approximately twice our current fares. The current adult round-trip fare (excluding port fees) is \$14.30. IHSF currently charges \$29.00 for an adult round-trip fare (excluding port fees). We would operate our own high speed ferry if given permission to do so at the same \$29.00 rate that IHSF operates at (or whatever rate they increase their fares to).

If our existing riders feel that there is a need for a high speed ferry operated by Interstate Navigation Company from Point Judith to Old Harbor, their fares would increase from \$14.30 to \$29.00 round trip. Other fares would approximately double (one-way, children, etc.).

In all likelihood, the high speed vessel would carry passengers and bicycles only, although some thought has been given to adding a small deck for a few cars, but the car price would have to be quite high in order to justify the substantial cost of adding even a small freight deck. We therefore also need to know if there is any demand for a high speed car service.

In addition, there has been some serious thought given to having the ferry operate, not just between Point Judith and Block Island, but between Block Island and Newport as well. In other words, the ferry could make a number of runs each day between Point Judith and Block Island (Old Harbor) and also make a number of runs during the same day between Block Island and Newport. We need to know if there is a perceived need for Block Island to Newport (and back) high speed service.

The primary focus of a questionnaire we would like to utilize in the immediate future would be to determine whether or not our existing customers feel there is a public need (in the language of the DPUC is the "public convenience and necessity" served) for a high speed ferry between Point Judith to Block Island and between Newport and Block Island. We also want to try to determine how many of Interstate's current passengers would move from our existing vessels to our high speed vessel at \$29.00 (adult round trip) if such a vessel were made available to them. If the survey result shows a substantial number of our existing passengers moving from our regular ferries to a high speed ferry, then it may be financially beneficial for us (and it may serve the public's needs) if we get permission from the DPUC and place a high speed ferry in service.

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I apologize for interrupting your summer and Susan Linda, the president of Interstate, has

asked me to extend her deep appreciation to you for agreeing to help us in this matter.

If you need any further information to draw up the questionnaire, please do not hesitate to call me. My office number is 351-4100. My home in Providence is 273-8283. My home in Narragansett is 789-7383.

Thank you again for your help.

Very truly yours,

Michael R. McElroy

MRMc:img

Mike McElroy
Schacht & McElroy
PO Box 6721
Providence, RI 02940-6721
401-351-4100
401-421-5696 (fax)
e-mail: McElroyMik@aol.com
Web Site: <http://members.aol.com/McElroyMik/index.html>

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The Duclos Corporation

GLADDING-HEARN
SHIPBUILDING

August 16, 2004

Joshua Linda, Vice President
Interstate Navigation Co.
PO Box 608
Block Island, RI 02807

Subject: New Ferry

Dear Josh:

Thanks for spending your time with me on Thursday. It's always helpful for me to see how you do things. Enclosed are two 100:1 scale drawings of the passenger-only and passenger-vehicle ferries. As we discussed the prices for the vessels are approximately as follows:

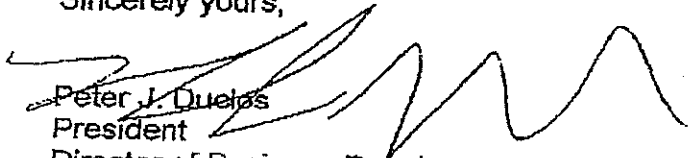
- 35 meter – Passenger-only catamaran ferry, 350 passengers, Lakes, Bays Sounds, 4 x Caterpillar C-32 rated 1400 bhp, Hamilton HM521 waterjets, Active Trim Tab ride control system. Fully loaded with 35 tonnes the speed will be 34-35 knots at full power. It will take about 4 x 1000bhp to achieve 30 knots... Price \$4.9-5.0 million.
- 38 meter – Passenger-vehicle catamaran ferry, 350 passengers, 6 vehicles, Lakes Bays and Sounds, 4 x caterpillar C-32 rated 1400 bhp, Hamilton HM 571 waterjets, Active trim tabs ride control system. Fully loaded with 44 tonnes the speed will be 30-31 knots at full power..... Price \$5.4 – 5.5 million.

You will save about \$100,000 if you go with 2 x 12V4000's and props, which should give you about 30 knots in a loaded condition.

I still have some reservations regarding the fire protection to accommodate the vehicles on the 38 meter boat. I have made only minimal assumptions. We need to meet with the USCG fire protection guys in DC to be sure what will be required. While you are thinking about which direction you want to go, I will do some research on the USCG requirements and work on a more detailed specification.

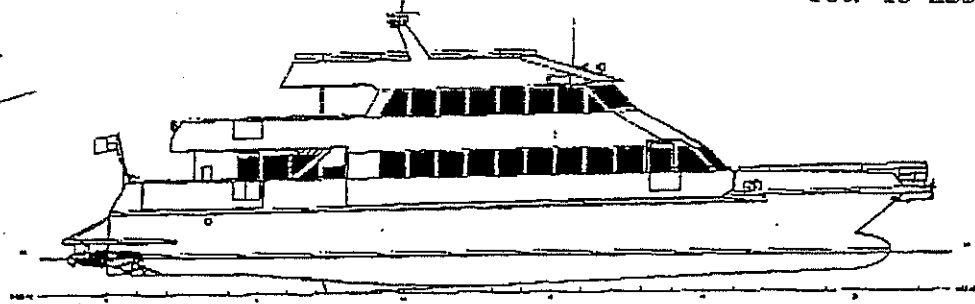
Thanks for the opportunity to provide this preliminary proposal

Sincerely yours,

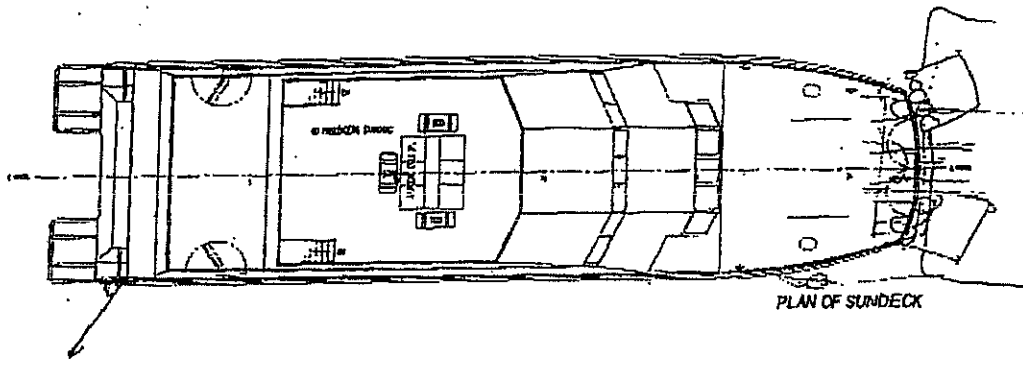


Peter J. Duclos
President
Director of Business Development

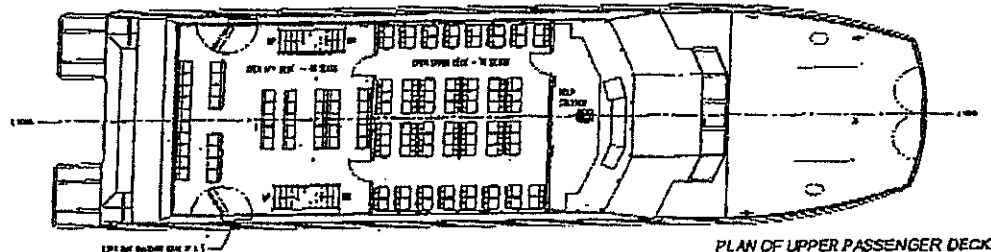
34 meter



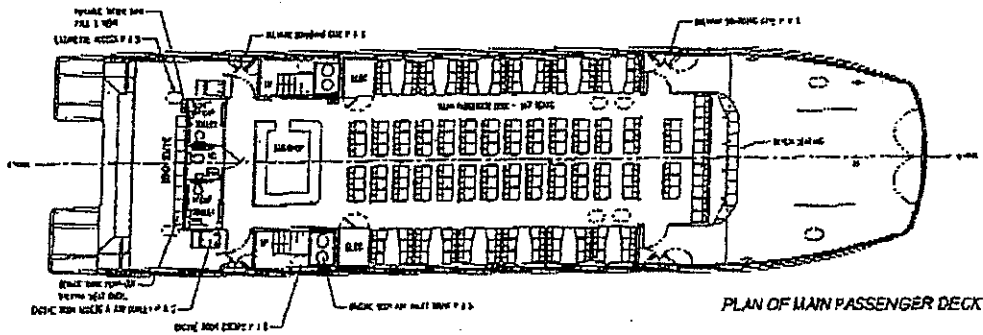
OUTBOARD PROFILE



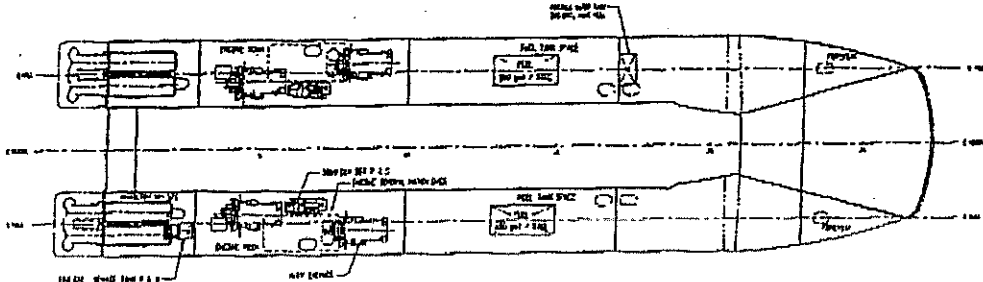
PLAN OF SUNDECK



PLAN OF UPPER PASSENGER DECK



PLAN OF MAIN PASSENGER DECK



PLAN BELOW DECK

NOTES

GENERAL PARTICULARS	
LENGTH OVERALL	34.30m
LENGTH WATERLINE	31.35m
BEAM OVERALL	8.10m
BEAM AT DECK	7.25m
DRAFT	1.65m

INCAT DESIGNS - SYDNEY

1:100

3

The Duclos Corporation

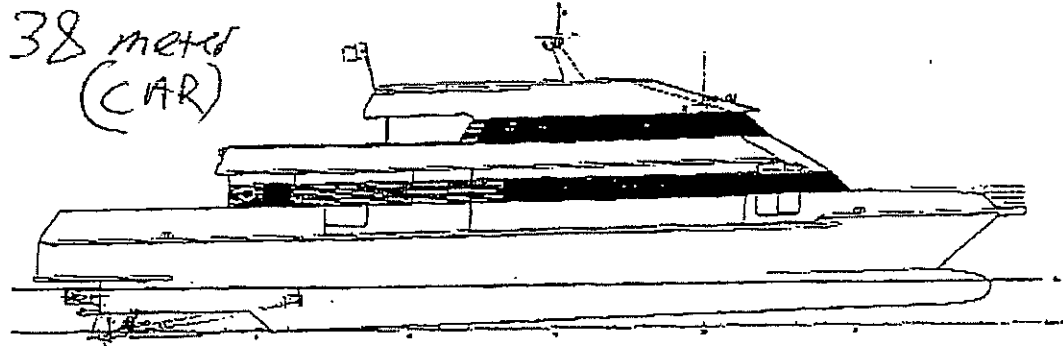
GLADDING-HEARN
SHIPBUILDING**34 METER**
WHALE WATCHERGeneral Particulars

- Length..... 34.6 m (111.5')
- Beam 9.22 m (30.2')
- Draft..... 1.02 m (4.2')
- Air Draft..... 10.3 m (33'9")
- Passenger Capacity 325 total, 190 inside
- Fuel Capacity..... 2800 US gallons
- Main Engines..... 4 X Detroit Diesel 12V2000 rated
at 965 Bhp @ 2100rpm
- Reduction Gears..... Twin Disc DD5202
- Water Jets..... 4 X Hamilton HM461
- Generators..... 2 X KiloPak 35Kw
- Seating..... Turnbull, Inc.

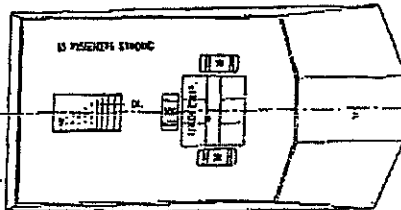
Performance

- Speed..... 31 knots fully loaded
- Fuel Consumption..... 194 Gph or .019 gal/passenger/mile
- Range at full power..... 445 nautical miles
- Interior Sound Level..... less than 70 DbA at full power
- Stopping Distance From Full Speed approx. 2 boat lengths
- Wake Height..... <250mm (10") at 300m (984') from centerline

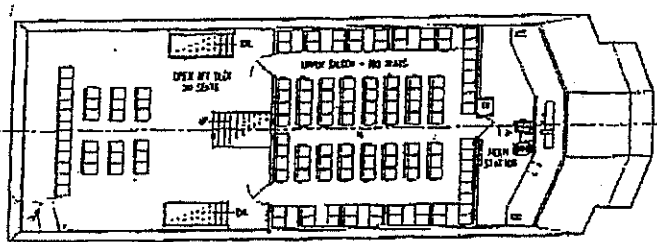
38 meter
(CAR)



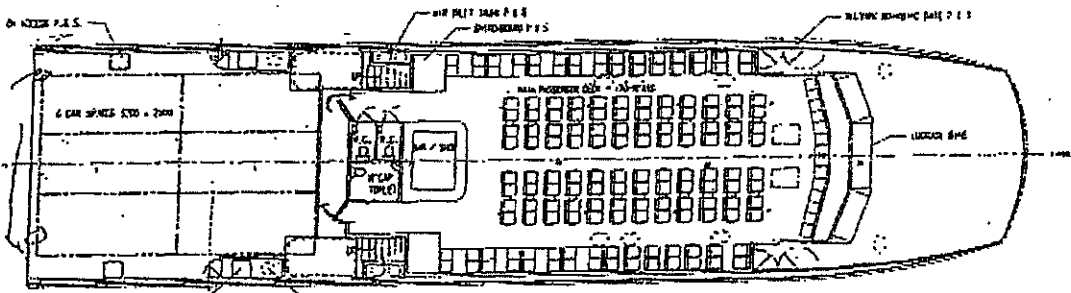
OUTBOARD PROFILE



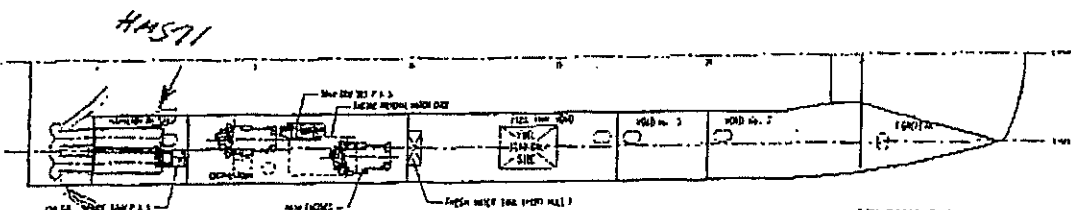
PLAN OF SUNDECK



PLAN OF UPPER PASSENGER DECK



PLAN OF MAIN PASSENGER DECK



PLAN BELOWDECK

GENERAL PARTICULARS		INCAT DESIGNS - SYDNEY	39m CATAMARAN FERRY GENERAL ARRANGEMENT
ES	LENGTH OVERALL 38.00m LENGTH MAINLINE 36.00m BEAM OVERALL 4.25m BEAM OF HULL 2.75m DRAFT 1.70m		

1.5.02

Gladding-Hearn Shipbuilding **39 Meter High Speed Ferry**

Design Description: This economical 32-33 knot, 350 passenger ferry excursion, offers excellent efficiency and seakeeping ability. Four engines and waterjets, an active trim tab ride control system and an "S" Bow provide a high degree of mechanical and weather reliability.

General Particulars

- Length.....39.97m(131 feet)
- Beam9.95m(32.6 feet)
- Draft.....2.0 m(6.5 feet)
- Passenger Capacity.....350 total(275 interior, 75 exterior)
- Fuel Capacity.....2600 gallons
- Main Engines.....4 x Cummins KTA38 M2 at 1300 Bhp each
- Fuel Consumption.....246 gph
- Water Jets.....4 x MJP 500S, KaMeWa 50SII, Hamilton HM571
- Ride Control.....Maritime Dynamics Active Trim Tab
- Generators.....2 x 70 kw
- Seating.....Beurteaux
- Speed.....32-33 knots loaded

One Riverside Avenue • Box 300 • Somerset, MA 02726-0300, USA(GMT-5) • Tel. (01) 508-876-8596
Fax (01) 508-872-1873 Website: gladding-hearn.com Email: sales@gladding-hearn.com

DESIGNERS • BUILDERS

	<u>Passengers</u>	<u>Vehicles</u>	<u>Freight</u>	<u>Bar</u>	<u>Charter</u>	<u>Cycles, etc.</u>	<u>Mail</u>	<u>Other</u>	<u>Commissions</u>	<u>Total</u>
6/00	528,890	190,377	85,080	56,996	10,206	20,163	2,571	446	2,718	897,448
7/00	953,579	203,293	79,399	100,986	20,153	37,504	2,575	289	4,715	1,402,491
8/00	940,851	163,651	79,628	92,335	15,781	41,484	2,578	260	4,815	1,341,182
9/00	475,454	148,557	49,596	49,977	10,667	18,493		230	2,341	755,314
10/00	221,758	137,560	36,820	27,935	5,844	6,299	5,156	126	1,094	442,592
11/00	82,800	93,946	27,105	9,104	2,926	564	2,578	184	440	219,647
12/00	45,775	71,317	28,078	5,511	5,643	63	2,578	1,261	269	160,496
1/01	43,284	273,044	21,446	4,821	2,631	28	2,578	1,196	238	349,265
2/01	44,613	160,832	19,143	4,364	3,275	30	2,578	100	247	235,181
3/01	54,145	172,492	25,976	5,309	2,952	496	5,156	1,033	310	267,869
4/01	131,067	208,109	38,507	14,112	3,863	2,437	2,578	442	703	401,818
5/01	283,188	250,825	110,012	31,978	11,630	7,729	2,578	573	1,475	699,987
TOTALS	3,805,404	2,074,001	600,788	403,428	95,570	135,289	33,504	6,142	19,164	7,173,291

Note: A deferred revenue adjustment was made to vehicle revenue for the months of April and May 2001. This adjustment represents an estimate of reservations taken in those months for use after 5/31/01. Deferred revenue fye 05/31/01 totaled \$114,386.67.

6/01	548,849	210,720	83,026	64,607	9,368	18,701	2,578	976	2,828	941,651
7/01	1,022,269	188,073	89,198	112,119	15,961	42,052		308	5,152	1,475,133
8/01	998,697	186,473	90,828	102,133	22,691	43,427	5,156	2,310	4,937	2,931,786
9/01	442,582	143,568	44,466	46,940	8,300	20,056	2,578	247	2,189	710,925
10/01	208,758	147,517	37,252	23,546	8,065	6,020	2,578	194	1,026	434,956
11/01	90,643	100,767	28,887	11,715	2,546	773	2,578	85	493	238,486
12/01	63,613	91,115	29,876	8,121	9,282	156	2,578	836	370	205,947
1/02	57,936	270,961	25,565	6,189	2,986	36	2,578	344	277	366,871
2/02	58,938	180,094	25,286	6,730	2,624	150	2,578	407	309	277,116
3/02	81,233	175,721	28,812	8,896	3,125	826	5,156	35	438	304,243
4/02	146,497	260,453	41,296	19,850	3,139	2,926		81	777	475,018
5/02	286,537	211,641	89,233	36,496	9,698	7,989	5,156	570	1,479	648,799
TOTALS	4,006,554	2,167,102	613,724	447,340	97,785	143,111	33,515	6,394	20,274	7,535,799

Note: A deferred revenue adjustment was made to vehicle revenue for the months of April and May 2002. This adjustment represents an estimate of reservations taken in those months for use after 5/31/02. Deferred revenue fye 05/31/02 totaled \$147,290.27

	<u>Passengers</u>	<u>Vehicles</u>	<u>Freight</u>	<u>Bar</u>	<u>Charter</u>	<u>Cycles, etc.</u>	<u>Mail</u>	<u>Other</u>	<u>Commissions</u>	<u>Total</u>
6/02	482,052	200,620	78,653	57,327	9,355	18,227	2,578	913		849,726
7/02	968,132	215,769	94,207	122,866	25,026	38,676	2,578	843		1,468,097
8/02	1,068,705	172,515	86,626	125,174	16,259	48,856	2,578	440		1,521,153
9/02	383,351	149,589	44,899	44,324	10,839	15,742	2,578	465		651,787
10/02	179,880	139,960	32,621	21,273	5,439	4,196	2,578	96		386,043
11/02	86,434	94,115	27,868	10,914	2,881	727	2,578	183		225,699
12/02	58,867	85,728	29,822	7,046	4,255	84	2,578	1,624	29,823	219,826
1/03	48,280	310,105	21,809	6,500	3,049	121	2,578	91		392,533
2/03	42,575	157,852	18,868	5,640	3,065	18	2,578	74		230,670
3/03	67,021	207,005	27,270	7,245	590	633	2,578			312,342
4/03	117,239	221,617	38,538	14,049	4,530	1,566	2,578	308		400,425
5/03	205,890	293,129	68,157	28,416	9,415	4,895	5,156	289	1,912	617,260
TOTALS	3,708,426	2,248,003	569,338	450,775	94,704	133,740	33,515	5,326	31,735	7,275,561

Note: A deferred revenue adjustment was made to vehicle revenue for the months of April and May 2003. This adjustment represents an estimate of reservations taken in those months for use after 5/31/03. Deferred revenue fye 05/31/03 totaled \$129,996.39

6/03	422,286	201,159	80,521	55,024	19,463	12,773	2,578	316		794,120
7/03	905,638	185,019	97,939	114,652	22,315	35,155	2,653	7,678		1,371,050
8/03	980,512	186,726	83,727	117,663	18,281	37,637	2,770	1,101		1,428,417
9/03	325,547	157,248	45,179	39,373	12,583	12,173	2,770	855		595,728
10/03	191,247	138,143	36,162	25,607	7,562	4,656	2,770	152		406,299
11/03	82,928	93,975	26,996	12,450	23,678	766	2,770	146	24,524	268,233
12/03	50,891	76,599	25,868	7,214	55,782	190	5,540	950		223,034
1/04	44,915	329,998	22,964	6,524	3,315	42	2,770	120		410,648
2/04	50,140	192,128	21,261	7,579	5,168	56		95		276,427
3/04	60,545	184,144	27,519	8,453	2,418	363	2,770	216		286,428
4/04	133,127	225,788	43,797	18,068	3,526	2,342	2,770	555		429,973
5/04	291,095	280,495	82,483	42,959	11,126	7,231	2,770	765	5,711	724,635
TOTALS	3,538,871	2,251,422	594,416	455,566	185,217	113,384	32,931	12,949	30,235	7,214,991

Note: A deferred revenue adjustment was made to vehicle revenue at 5/31/04. This adjustment represents an estimate of those reservations taken in April and May 2004 for use after 5/31/04. Deferred revenue fye 5/31/04 totaled \$139,734.94.

① PS # 2 400,000
New 40,000

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
874.00	1,042.00	1,031.50	896.00
1,015.00	1,315.50	961.00	1,166.50
1,360.00	2,046.50	1,589.00	1,506.00
3,652.50	4,106.50	3,222.00	3,734.50
8,622.50	8,660.00	7,190.00	8,444.00
17,550.00	15,755.50	13,210.50	14,500.00
32,384.50	31,125.00	29,496.00	26,633.50
30,862.50	33,984.50	30,728.00	26,598.50
13,400.00	11,389.50	9,785.50	11,011.00
<u>5,744.50</u>	<u>4,894.00</u>	<u>5,442.50</u>	<u>3,794.50</u>
115,465.50	114,319.00	102,656.00	98,284.50

Interstate Navigation Company

Name of company

Amended 1/17/06

May 31, 2005

Year-end date of report

MONTHLY STATISTICAL INFORMATION

Provide the following information to the extent that it is available. If information is not available, enter "N/A" in the appropriate response column.

Ticket Sales - number of tickets sold, by category:

MONTH	(a)		(b)		(c)		(d)	
	Passengers (one way)	Passengers (round trip)	Passengers (commuter)	Vehicles (one way)	Vehicles (round trip)	Vehicles (commuter)		
June 2004	18,591	21,451	2,203	7,416				461
July 2004	32,632	42,231	1,849	10,650				379
August 2004	34,220	45,908	1,917	10,872				403
September 2004	15,935	16,872	2,002	6,631				557
October 2004	9,845	7,786	2,192	4,891				844
November 2004	4,289	2,662	1,988	2,165				797
December 2004	2,689	1,621	1,903	1,732				545
January 2005	2,104	1,117	1,611	1,556				366
February 2005	2,123	1,335	1,464	1,376				612
March 2005	2,836	1,691	1,676	1,639				669
April 2005	5,577	5,072	2,134	2,911				826
May 2005	9,180	8,865	2,180	4,809				743
12 MONTH TOTAL	140,021	156,611	23,119	56,648				7,202

Note

Item (a) One way passenger counts contains both adult and child purchases, as well as, the 7 day adult and child purchase. Also, these figures do not include group ticket purchases.

Item (b) Round trip passenger counts contains both adult and child purchases. Also, these figures do not include group ticket purchases.

Item (c) Vehicle tariff rates are presented as one way, thus counts are only presented one way. The count reflects cars, pickups and trucks.

Interstate Navigation Company

Name of company

Amended 1/17/06

May 31, 2005

Year-end date of report

MONTHLY STATISTICAL INFORMATION - CONTINUED

Provide the following information to the extent that it is available. If information is not available, enter "N/A" in the appropriate response column.

Revenue by category

MONTH	(a)		(b)		(c)		(d)		(e)	(f)
	Passengers (one way)	Passengers (round trip)	Passengers (one way)	Passengers (round trip)	Vehicles (one way)	Vehicles (round trip)	Vehicles (commuter)	Cargo	Total Revenue	
June 2004	\$ 160,563	\$ 315,953	\$ 409,162	\$ 22,536			\$ 12,667	\$ 132,718	\$ 1,053,599	
July 2004	298,114	611,241	530,182	18,890			10,241	134,627	1,603,295	
August 2004	295,925	662,013	535,987	20,052			10,830	125,606	1,650,413	
September 2004	148,361	263,836	330,871	22,573			15,138	84,042	864,821	
October 2004	96,386	117,653	265,115	24,071			22,815	61,551	587,591	
November 2004	38,729	41,002	133,549	22,339			21,707	41,695	299,021	
December 2004	27,712	22,242	115,008	22,197			14,829	90,265	292,253	
January 2005	21,231	16,056	103,015	18,087			9,589	38,754	206,732	
February 2005	20,497	18,923	95,242	16,247			16,821	30,836	198,566	
March 2005	28,051	23,998	112,104	19,009			18,567	38,393	240,122	
April 2005	53,931	71,406	187,632	23,262			22,543	62,999	421,773	
May 2005	96,161	128,427	278,685	23,871			20,433	86,953	634,530	
12 MONTH TOTAL	\$ 1,285,661	\$ 2,292,750	\$ 3,096,552	\$ 253,134	\$ -	\$ -	\$ 196,180	\$ 928,439	\$ 8,052,716	

Note

- Item (a) One way passenger counts contains both adult and child purchases, as well as, the 7 day adult and child purchase.
- Item (b) Round trip passenger counts contains both adult and child purchases.
- Item (c) Vehicle tariff rates are presented as one way, thus counts are only presented one way. The revenue reflects cars, pickups and trucks.
- Item (d) The revenue reflects both commuter cars and pickups.
- Item (e) The cargo revenue column includes mail, freight and charters.
- Item (f) The total revenue column does not include other revenue such as bar, landing fees, bikes, etc.

Interstate Navigation Company

Name of company

May 31, 2004

Year-end date of report

MONTHLY STATISTICAL INFORMATION

Provide the following information to the extent that it is available. If information is not available, enter "N/A" in the appropriate response column.

Ticket Sales - number of tickets sold, by category:

MONTH	(a)		(b)		(c)			(d)
	Passengers (one way)	Passengers (round trip)	Passengers (commuter)	Vehicles (one way)	Vehicles (round trip)	Vehicles (commuter)		
June 2003	24,619	12,162	2,133	7,214		489		
July 2003	41,262	41,195	1,809	8,939		355		
August 2003	44,969	44,384	1,907	9,756		352		
September 2003	19,779	8,828	2,032	6,417		506		
October 2003	12,429	3,964	2,266	4,737		715		
November 2003	5,443	1,220	1,937	2,461		682		
December 2003	2,947	653	1,784	1,551		788		
January 2004	2,535	731	1,648	1,524		596		
February 2004	2,877	813	1,629	1,560		584		
March 2004	3,507	1,028	1,745	1,899		637		
April 2004	8,291	2,758	2,302	3,646		795		
May 2004	15,028	7,781	2,484	4,846		693		
12 MONTH TOTAL	183,686	125,517	23,676	54,550	-	7,192		

Note

309203

Item (a) One way passenger counts contains both adult and child purchases, as well as, the 7 day adult and child purchase. Also, these figures do not include group ticket purchases.

Item (b) Round trip passenger counts contains both adult and child purchases. Also, these figures do not include group ticket purchases.

Item (c) Vehicle tariff rates are presented as one way, thus counts are only presented one way. The count reflects cars, pickups and trucks. Item (d) The count reflects both commuter cars and pickups.

Interstate Navigation Company

Name of company

May 31, 2004

Year-end date of report

MONTHLY STATISTICAL INFORMATION - CONTINUED

Provide the following information to the extent that it is available.
If information is not available, enter "N/A" in the appropriate response column.

Revenue by category

MONTH	(a)		(b)		(c)		(d)		(e)		(f)
	Passengers (one way)	Passengers (round trip)	Passengers (commuter)	Vehicles (one way)	Vehicles (round trip)	Vehicles (commuter)	Cargo	Total Revenue			
June 2003	\$ 237,747	\$ 165,342	\$ 19,197	\$ 269,372		\$ 11,682	\$ 102,695	\$ 806,035			
July 2003	391,798	497,559	16,281	324,156		8,485	122,940	1,361,219			
August 2003	416,884	546,465	17,163	338,256		8,471	105,050	1,432,289			
September 2003	192,711	114,548	18,288	223,801		12,048	60,536	621,932			
October 2003	119,944	50,909	20,394	167,960		17,095	47,075	423,377			
November 2003	49,263	16,232	17,433	97,888		16,266	18,219	215,301			
December 2003	26,100	8,737	16,056	70,841		18,734	87,190	227,658			
January 2004	21,794	8,289	14,832	70,315		14,318	29,110	158,658			
February 2004	25,327	10,152	14,661	66,489		13,927	26,765	157,321			
March 2004	31,716	13,124	15,705	88,613		15,361	32,707	197,226			
April 2004	77,781	34,627	20,718	158,903		19,055	50,146	361,230			
May 2004	150,337	118,402	22,356	202,712		16,664	130,129	640,600			
12 MONTH TOTAL	\$ 1,741,402	\$ 1,584,386	\$ 213,084	\$ 2,079,306	\$ -	\$ 172,106	\$ 812,562	\$ 6,602,846			

Note

- Item (a) One way passenger counts contains both adult and child purchases, as well as, the 7 day adult and child purchase.
- Item (b) Round trip passenger counts contains both adult and child purchases.
- Item (c) Vehicle tariff rates are presented as one way, thus counts are only presented one way. The revenue reflects cars, pickups and trucks.
- Item (d) The revenue reflects both commuter cars and pickups.
- Item (e) The cargo revenue column includes mail, freight and charters.
- Item (f) The total revenue column does not include other revenue such as bar, landing fees, bikes, etc.

Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Attorneys at Law

(401) 351-4100
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Members of Rhode Island
and Massachusetts Bars

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

email: RMSchacht@aol.com
McElroyMit@aol.com

January 10, 2005

Eleanor Lough, Clerk
Division of Public Utilities and Carriers
Motor Carriers Division
89 Jefferson Boulevard
Warwick, RI 02888

Re: Interstate Navigation Company
Application for Water Carrier Certificates of Public Convenience and Necessity
Docket 04-MC-174

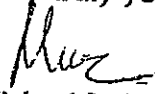
Dear Eleanor:

As you know, this office represents Interstate Navigation Company d/b/a the Block Island Ferry (Interstate). Enclosed for filing are an original and nine copies of the direct testimony of Dr. Timothy Tyrell in support of Interstate's requests for authority to operate a fast ferry water vessel passenger and freight carrier between (1) Point Judith and Old Harbor, and (2) between Newport and Old Harbor, Block Island.

Please note that I have sent a copy of this additional supporting testimony to the Towns of New Shoreham and Narragansett and to the City of Newport and their legal counsel. I have also sent a copy to Hagopian & Hagopian, counsel for Island Hi-Speed Ferry.

If you need any further information, please feel free to call.

Very truly yours,


Michael R. McElroy

MRMc:tmg / In19:CPCN-Clerk2

cc: Susan E. Linda
Walter E. Edge, Jr.
Packer & O'Keefe
Hagopian & Hagopian
Mark McSally, Esq.
Block Island Town Clerk
Narragansett Town Clerk
Newport City Clerk
Newport City Solicitor
John Spirito, Esq.

DIRECT TESTIMONY of
TIMOTHY TYRELL
INTERSTATE NAVIGATION COMPANY
d/b/a The Block Island Ferry

Regarding Application for
Water Carrier Certificates of Public Convenience and Necessity
To Operate a Fast Ferry (1) between Point Judith and Block Island (Old Harbor), and
(2) between Newport and Block Island (Old Harbor)

For
INTERSTATE NAVIGATION COMPANY
DOCKET No. 04-MC-174

December 2004

1 Q. Please identify yourself for the record.

2 A. My name is Dr. Timothy Tyrell. I am a Professor in the Department of Environmental
3 and Natural Resource Economics at the University of Rhode Island.

4
5 Q. Could you briefly state your qualifications?

6 A. I have been employed by the University of Rhode Island since 1978. I have been
7 studying the tourism industry in Rhode Island since 1980. My resume is attached hereto
8 as Exhibit A and incorporated by reference herein.

9
10 Q. Have you ever been qualified as an expert on tourism at the Division of Public
11 Utilities and Carriers?

12 A. Yes. I was qualified as an expert on tourism at the Rhode Island Division of Public
13 Utilities and Carriers hearings dealing with Island Hi-Speed Ferry, Docket No. 98-MC-
14 16.

15
16 Q. Are you being compensated for this testimony or the work that you did for
17 Interstate Navigation Company?

18 A. No, I am providing this as a public service.

19
20 Q. Did you help Interstate Navigation Company design a passenger survey?

21 A. Yes. During the summer of 2004, I helped design a passenger survey for Interstate
22 Navigation Company to determine the interest of Interstate Navigation Company's
23 current passengers in having a high speed ferry alternative from the same company.

1

2 **Q. How was the questionnaire written?**

3 A. The questionnaire was written according to best current practices in order to obtain an
4 unbiased estimate of the percentage of Interstate Navigation Company's ridership that
5 would switch to a high speed alternative if offered by Interstate Navigation Company.

6

7 **Q. Did Interstate Navigation Company implement the survey?**

8 A. Yes. Interstate Navigation implemented the survey during the summer and fall of 2004
9 on their own boats.

10

11 **Q. Did the survey produce reliable results?**

12 A. Yes. While I did not participate in the survey work itself, from discussions with
13 Interstate Navigation Company, I believe that Interstate's survey procedures were reliable
14 and unbiased. I also believe that the results reported to me by Interstate Navigation
15 Company, which are that from 35% to 43% of Interstate's current passengers would
16 switch to a high speed ferry alternative if Interstate offered one, in my opinion, are both
17 reliable and conservative figures.

18

19 **Q. Does this conclude your testimony?**

20 A. Yes.

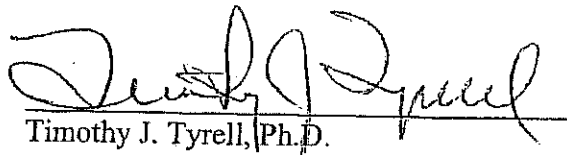
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Timothy J. Tyrell, Ph.D.

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STATE OF RHODE ISLAND
COUNTY OF WASHINGTON

Sworn to and Subscribed before me this 5th day of January, 2005.

Brandon J. Donovan, Notary Public
Notary Public

My commission expires 8/15/2005

TIMOTHY J. TYRRELL, PH.D.
Tourism Economist

Professor
Department of Environmental and Natural Resource Economics
University of Rhode Island
Kingston, RI 02881
Tel (401) 874-4580
Fax (401) 782-4766
Tim@uri.edu
<http://www.uri.edu/cels/enre/>

45 Lake Street
Wakefield, RI 02879
USA
(401) 783-5743

Dr. Tyrrell received a B.A. in mathematics from the University of South Florida, an M.A. in economics from the University of Tennessee, and a Phd. in Agricultural Economics from Cornell University. He has been employed at the University of Rhode Island since 1978 and currently holds the rank of Professor.

He has provided consulting services to various private firms including Economic Analysis, Inc., the International Marina Institute, Harza-Ebasco, Inc., and the Newport Harbor Corporation. He has also served as a consultant to Rhode Island government agencies including Departments of Environmental Management, Economic Development, and Administration (Budget Office), Statewide Planning, the Rhode Island Foundation, the Outdoor Recreation Review Commission and the Strategic Development Commission. He has also served as a consultant for U.S. Departments of Interior, Agriculture and Commerce, the U.S. Travel Data Center and the California Trade and Commerce Agency.

Dr. Tyrrell has conducted tourism research studies in Rhode Island, Connecticut, New York, Massachusetts, Minnesota, Florida, Vermont, New Hampshire, South Carolina and elsewhere in the U.S. and overseas for the past twenty five years. He has conducted major studies in France of the impacts of pollution on the tourism industry and in Thailand of the consequences of overdevelopment and mismanagement of natural resources as they relate to tourism. He has developed tourism industry monitoring programs in Rhode Island, Connecticut, Brazil, Nova Scotia, South Carolina and Alaska.

He conducted studies of the impacts of the flyfishing industry on Roscoe, New York and an economic analysis of the role of scenic byways in Vermont. Under his guidance, a student completed a benefit-cost analysis of a proposed marine reserve in Guaymas, Mexico.

Dr. Tyrrell developed and has maintained Rhode Island's state tourism data base since 1983, providing annual reports of sales, wages, jobs and taxes for the state and its' regions for the Rhode Island Economic Development Corporation and the Governor's Office. Students in his classes on Tourism Economics frequently participate in recreation and tourism research projects for communities in the state.

Some of the outreach projects conducted for the state include economic impact analyses of tourism for the towns of Westerly and New Shoreham and the City of Newport. Tyrrell has also analyzed the impacts of tourism events including the America's Cup, Block Island Race Week, the Newport International Sailboat Show and the Charlestown Seafood Festival. He completed

economic impact studies of the Blackstone Valley Heritage Corridor for the National Park Service, the Festival of Historic Homes for the Providence Preservation Society, and the sea level rise at the south shore of Washington County for the Coastal Resources Center.

Tyrrell has served as an adviser/consultant to the URI Small Business Development Center, Cranston Department of Economic Development, the RI Boating Council, the Rhode Island Charter/Head Boat Association, the Providence-Warwick Visitor and Convention Authority, the Newport Visitor and Convention Bureau, the Governor's Advisory Council on Tourism, the Shelter Harbor Conservation Society and the Narragansett Indian Tribe. He has been a member of the Economic Development Commission for South Kingstown and is currently on the board of directors of South County Tourism Council and the Blackstone Valley Tourism Council.

ARTICLES IN REFEREED JOURNALS (since 1994)

- Tyrrell, Timothy, "The Effects of Recession on Rural Tourism Employment", Trends 31 (1), 1994.
- Susan Bush, Maureen Devitt, Stephanie Krasnoff and Tim Tyrrell, "The Local Impacts of Foxwoods 1992-1994: Economic Benefits vs. Social Costs", New England Journal of Travel and Tourism, Volume V, Fall 1994, pp. 11-22.
- Tyrrell, Timothy, Young-Tae Chang and Sung-Gwi Kim, "Marine Resource Tourism Development in Korea", Marine Resource Economics, Summer 1999.
- Tyrrell, Timothy J. and Maureen F. Devitt, "Valuing Changes to Scenic Byways", Chapter 11, p.227-244 in Consumer Behavior in Travel and Tourism, Abraham Pizam and Yoel Mansfeld, editors, The Haworth Hospitality Press, New York, 1999.
- Tyrrell, Timothy J. and Robert J. Johnston, "A Framework for Assessing Direct Economic Impacts of Tourist Events: Distinguishing Origins, Destinations, and Causes of Expenditures," Journal of Travel Research, August, 2001.
- Pacheco, Andrada and Timothy Tyrrell, "Testing Spatial Patterns and Growth Spillover Effects in Clusters of Cities", Journal of Geographical Systems 4, 2002: 1:11.
- Tyrrell, Timothy J. & Robert J. Johnston, "Estimating Regional Visitor Numbers," Tourism Analysis 7 (1), 2002, pp. 33-41.
- Johnston, Robert J. and Timothy J. Tyrrell Estimating Recreational User Counts, American Journal of Agricultural Economics, 85 (3), August, 2003, pp.554-568.
- Tyrrell, Timothy J. and Robert J. Johnston "Assessing Expenditure Changes Related to Welcome Center Visits," Journal of Travel Research , August, 2003.
- Johnston, Robert J., Stephen K. Swallow, Timothy J. Tyrrell, and Dana Marie Bauer, "Rural Amenity Values and Length of Residency," American Journal of Agricultural Economics, November 2003, pp. 1000-15.
- Tyrrell, Timothy J., Peter W. Williams, and Robert J. Johnston, "Estimating Sport Tourism Visitor Volumes: The Case of Vancouver's 2010 Olympic Games", Tourism Recreation Research 29(1) 2004: 75-82.
- Tyrrell, Timothy J. and Mark J. Okrant, "Importance-Performance Analysis: Some Recommendations from an Economic Planning Perspective", Tourism Analysis, Volume 9, Number 2, 2004, pp. 63-76.

ARTICLES CURRENTLY UNDER REVIEW

- Johnston, Robert and Timothy Tyrrell, "A Dynamic Model of Sustainable Tourism", Journal of Travel Research.

OTHER PUBLISHED WORKS (since 1994)

- Tyrrell, Timothy "A View on the Developing Tourism Industry," Intercoast Network, International Newsletter of Coastal Management, Narragansett, RI, Spring 1998, p. 21.
- Tyrrell, Timothy J. and Maureen F. Devitt, "Valuing Changes to Scenic Byways", Chapter 11, p.227-244 in Consumer Behavior in Travel and Tourism, Abraham Pizam and Yoel Mansfeld, editors, The Haworth Hospitality Press, New York, 1999.
- Tyrrell, Timothy, Young-Tae Chang and Sung-Gwi Kim, "Coastal Tourism Development and EXPO 2010 in Korea", Korea Observer 30 (1), Spring, 1999, 187-210.
- Book Review of "The Economics of Tourism (Volumes I and II)," Edited by Clem Tisdell, Edward Elgar Publishing, Inc. 2000, Marine Resource Economics, 16(3), Fall 2001.
- Tyrrell, Timothy "Economic Impacts of Tourism on New London County", Travel and Tourism Research Association Annual Meeting, Alexandria Virginia, Proceedings, June 2002.
- Tyrrell, Timothy J. and Andrada I. Pacheco, "What's the Bay Worth? Estimating Economic Value", Narragansett Bay Journal, Number 6, Fall 2003, Narragansett Bay Estuary Program, University of Rhode Island, p.6.

TECHNICAL AND OUTREACH REPORTS (since 1994)

- "Rhode Island Hospitality Statistics" Office of Travel Tourism and Recreation, Department of Resource Economics, University of Rhode Island, April, 1994
- "Employment Health Care and Jewelry" Office of Travel Tourism and Recreation, Department of Resource Economics, University of Rhode Island, June, 1994
- Tyrrell, Timothy J., Maureen Devitt and Lynn Smith, "The Economic Importance of Narragansett Bay", Office of Travel Tourism and Recreation, Department of Resource Economics, University of Rhode Island, November 4, 1994
- Tyrrell, Timothy J. and Michael B. McNair, "The Economic Impact of the 1994 JVC Jazz Festival on Newport and the State of Rhode Island", Office of Travel Tourism and Recreation, Department of Resource Economics, University of Rhode Island, December, 1994
- Tyrrell, Timothy J. and Maureen Devitt, "Clean Marinas – Clear Value: Economic Analysis: The Marina Sample – Apples, Oranges and Coconuts" and "Bibliography and Literature Review" in Clean Marinas – Clear Value, U.S. EPA, Office Of Water, EPA 841-R-96-003, August 1996.
- Tyrrell, T.J., "The Economic Impacts of The North Cape Oil Spill on the Rhode Island Tourism Industry: A Preliminary Assessment," Office of Travel Tourism and Recreation, Department of Environmental and Natural Resource Economics, University of Rhode Island, January, 1996.
- Tyrrell, T.J., "Economic Impact of the 1996 ESPN Extreme Games on Rhode Island," Office of Travel Tourism and Recreation, Department of Environmental and Natural Resource Economics, University of Rhode Island, July, 1996.
- Spencer, Michael A and Timothy J. Tyrrell, "Local Public Expenditures: A Pooled Cross-Section and Time Series Analysis", Department of Environmental and Natural Resource Economics, January 22, 1996.
- Tyrrell, T.J., and Sophie Morse, "The Economic Impacts of the Rhode Island Convention Center: FY 1996", Department of Environmental and Natural Resource Economics, URI, Kingston, March 31, 1997.
- Tyrrell, Timothy, Michael McNair and Sarah McNair, "The Economic Impacts of the Utica Boiler Maker Road Race on the City of Utica and the Utica Metropolitan Area", Impact Research Associates, Wakefield, RI, June 1997

- Tyrrell, T.J. and Jos, Edgard da Mota Freitas, RELATORIO DE PESQUISA SOBRE VIAGEM E TURISMO EM SERGIPE, volume 2, number 1. SEPLANTEC, Aracaju, Sergipe, Brasil, August 15, 1997.
- Tyrrell, "Summer Sessions at URI: Analysis of a Fall 1997 Survey," Department of Environmental and Natural Resource Economics, University of Rhode Island, January 15, 1998.
- Tyrrell, Tim and Victoria Nally, "The Economic Impact of the 1997 Ben&Jerry's Folk Festival on Newport and the State of Rhode Island," Office of Travel Tourism and Recreation, Department of Environmental and Natural Resource Economics, University of Rhode Island, May 1998.
- Tyrrell, Timothy J., "Elements of Sustainable Tourism", Proceedings of The Third International Conference ' Tourism and Hotel Industry In Indo-China & Southeast Asia: Development, Marketing and Sustainability', Phuket, Thailand, June 4-6, 1998, p. 29-34.
- Tyrrell, Timothy J. "The Economic Impacts of Film Production in 1997 on the State of Rhode Island", Office of Travel Tourism and Recreation, Department of Environmental and Natural Resource Economics, University of Rhode Island, June 16, 1998.
- Tyrrell, Timothy J., Young-Tae Chang and Sung-Gwi Kim, Coastal Tourism Development and EXPO '10 in Korea," Department of Environmental and Natural Resource Economics, University of Rhode Island, October, 1998.
- Tyrrell, Timothy J., Jason Harrison and Cheryl Grady, " The Value of Rhode Island's Natural Resources", Department of Environmental and Natural Resource Economics, University of Rhode Island, November, 1998.
- Tyrrell, Timothy J., "Rhode Island Tourism Multipliers," Department of Environmental and Natural Resource Economics, University of Rhode Island, July 1999.
- Tyrrell, Timothy, "The Economic Impact of the Gravity Games of the State of Rhode Island," Department of Environmental and Natural Resource Economics, University of Rhode Island, 1999.
- Tyrrell, Timothy, "A Block Island Tourism Study: Visitor Survey Results", Department of Environmental and Natural Resource Economics, Office of Travel, Tourism and Recreation, University of Rhode Island, March, 2000.
- Tyrrell, Timothy, "A Block Island Tourism Study: Economic Impact", Department of Environmental and Natural Resource Economics, Office of Travel, Tourism and Recreation, University of Rhode Island, May, 2000.
- Colt, Ames, Timothy Tyrrell and Virginia Lee, "Marine Recreation and Tourism in Narragansett Bay: Critical Values and Concerns", April 11, 2000, Bay Summit 2000 White Paper, Narragansett Bay Estuary Program, Rhode Island Department of Environmental Management <http://www.nbep.org/summit/pdf/rectour.PDF>
- Tyrrell, Timothy, "From your Backyard to Narragansett Bay: Point of View – Marina Operators", a chapter of curriculum materials for NSF GEMS-NET, a guidebook for Rhode Island elementary school teachers on marinas and the environment, Barbara Sullivan, director, URI, GSO, Kingston, 1999-2000.
- Tyrrell, Timothy, "Effectiveness of the Rhode Island Welcome Center," Department of Environmental and Natural Resource Economics, URI, February 4, 2002.
- Pacheco, Andrada and Timothy Tyrrell, "A RAS Procedure for Estimating Suppressed Spatial Economic Data." Department of Environmental and Natural Resource Economics, URI, Kingston, 2002
- Pacheco and Tyrrell, "A Review of Economic Analyses of Narragansett Bay", March, 2003
- Tyrrell, Timothy J. "Annotated Bibliography of Impacts of College Athletics", June, 2003.
- RI Water Resources Board, "The Economic, Social and Environmental Impacts of Water Use in Rhode Island", Impact Analysis Subcommittee member, RI policy Council, October 2003, www.wrb.state.ri.us/programs/wa/index.html.

AWARDS AND HONORS (since 1994)

<u>Year</u>	<u>Award</u>	<u>Awarding Agency/Institution</u>	<u>Nature of Award</u>
1996	Captain of Industry	South County Tourism Council	Citation
1996	Governor's Award	State of Rhode Island	Citation
1997	Nomination	URI Foundation Teaching Excellence	Letter
1997	Honorary Member	Golden Key National Honor Society	Citation, Pin
2000	President's Award	Travel and Tourism Research Association	Award Plaque
2002	Outstanding Article	Journal of Travel Research (Hon Mention)	Citation

COURSES TAUGHT (since 1994)

<u>Course No.</u>	<u>Title (Years)</u>
REN 325	Planning and Managing a Small Natural Resources Firm (Team Taught 1996-97)
REN 366	Interdisciplinary Topics in the Coastal Environment (1998, Team Taught)
REN 456	Tourism Economics (1994, 1995, 1996, 2000, 2003, 2004)
REN 576	Econometrics (1995-2003)
REN 676	Advanced Econometrics (2001)
REN 524	Dynamic Economic Models (1994, 1995, 1997)
REN 624	Dynamic Economic Models (1999, 2001, 2002, 2003)
REN 677	Topics in Econometrics (1996, 1998, 2000)
NRS 520	Quantitative Methods for Natural Resource Sciences (2002, 2004)

GRADUATE STUDENTS (Serving a Major Professor since 1994)

<u>Student</u>	<u>Degree</u>	<u>Date</u>
Stephanie Krasnoff	M.S. (non-thesis)	1994
Maureen Devitt	M.S. (thesis)	1994
Wiwat Lee	Ph.D.	1995
Michael McNair	M.S. (non-thesis*)	1996
Michael McLaughlin	M.S. (non-thesis)	1996
Victoria Nally	M.S. (non-thesis)	1998
Andrada Toma	Ph.D.	2002
Gabriela Dobrot	Ph.D.	2004

* Award-winning paper.

GRADUATE STUDENTS (Program Committee Member since 1994)

<u>Student (Department)</u>	<u>Degree</u>	<u>Date</u>
Sahat Simanjutak (REN)	Ph.D.	1994
Piyali Talukdar (REN)	Ph.D.	1994
Ellen Link (MAF)	MA (thesis)	1996
Kenneth Kim (FIN)	Ph.D. (thesis)	1997
Piman Limpaphayom (FIN)	Ph.D. (thesis)	1997
Barbara DeMeo (MAF)	M.A. (thesis)	1997
John Oneil (MGT)	Ph.D.	1997
Owen Oneil (CPAD)	MCP (thesis)	1998

Alison Macrae (MAF)	M.A. (thesis)	1998
Stephanie Matraw (MAF)	M.A. (thesis)	1999
William Gerdson (MAF)	M.A. (thesis)	1999
Chunlin Liu (FIN)	Ph.D	2000
Matthew Eriksen (MGT)	Ph.D.	2000
Charles Boynton (FIN)	Ph.D.	2000
Vivian Jeng (FIN)	Ph.D.	2001
Peter Hanlon (MAF)	M.A.(thesis)	2001
Mumdah (MAF)	M.A.(thesis)	2001
Xia Pan (FIN)	Ph.D.	2001
Joyce Hsieh (FIN)	Ph.D.	2001
Ismail Silla (MGT)	Ph.D.	2001
Hend Ouda (CSC)	M.A.(thesis)	2002
Alyson Novak (NRS)	M.S. (thesis)	2002
Jay Ostenskowski (NRS)	M.S.(thesis)	2002
Zhiyi (FIN)	Ph.D.	2002
Siripat Polwitoon (FIN)	Ph.D.	2002
Sara daSilva (NRS)	M.S.(thesis)	2003
Nathan Sage (MA)	M.A.(thesis)	2003
Barbara Waberski, (CSS)	M.S. (thesis)	2004
Xuanjuan Chen (FIN)	Ph.D. (thesis)	2004

GRANTS AWARDED (since 1994) Total for 13 grants is approximately \$600,000.

UNIVERSITY SERVICE

URI Athletic Advisory Board: Subcommittee on Economic Impacts of Athletics, 2002-2003.
 URI Athletic Advisory Board, 2003-
 URI NCAA accreditation review committee, 2004-
 URI University Judicial Board, 2002-
 URI Faculty Senate, 2002-
 Economic Impact of the University of Rhode Island, Advisory Committee, 2002-2003.

PROFESSIONAL SERVICE

Editorial Review Board for Journal of Travel Research, 2000-
 Reviewer for Tourism Analysis, 2003-
 Reviewer for American Journal of Agricultural Economics, 2004-
 Master's Thesis awards committee, American Association of Agricultural Economists, 2003
 Professional Teaching Awards Committee, American Association of Agricultural Economics
 2001-2004
 Reviewer, New York Sea Grant. 2002
 Reviewer, Michigan State University 2002-2003, Washington State University 2004
 Chairman of the Board, North Eastern Chapter of the Travel and Tourism Research
 Association, 2000-2004.

Island, their transfer and the income therefrom, including any profit made on the sale thereof, shall at all times be free from taxation with this state.

History of Section.
P.L. 2003, ch. 386, § 2.

CHAPTER 12

MOTOR CARRIERS OF PROPERTY

SECTION. 39-12-13.	Alteration of common carrier rates by the administrator.	SECTION. 39-12-26.	Registration and identification of vehicles.
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39-12-13. Alteration of common carrier rates by the administrator. — (a) The administrator, upon complaint of any common carrier by motor vehicle or of any person, or upon his or her own motion, after a hearing, may allow or disallow any filed or existing rates and may alter or prescribe the rates of common carriers in connection with the transportation of any or all classes of property to any or between any and all points within the state and any service connected therewith in accordance with the legal standards provided in this chapter. Whenever, upon complaint or in any investigation on his or her own initiative, the administrator, after a hearing shall be of the opinion that any rate or charge collected, charged, or demanded by any common carrier by motor vehicle, or any classification, rule, regulation, or practice whatsoever of the carrier affecting the rate, charge, or the value of the service thereunder, is or will be unjust or unreasonable, or unjustly discriminatory, or unduly preferential, or unduly prejudicial, he or she shall determine and prescribe the lawful rate or charge, or the maximum and/or minimum rate or charge thereafter to be observed or the lawful classification, rule, regulation, or practice thereafter to be effective.

(b) The administrator shall implement a gasoline price emergency surcharge program whereby a person licensed under this chapter to perform "drive away-tow away operations" shall be permitted to impose and collect a surcharge, during such times and under such conditions wherein the administrator determines that the average price of gasoline in this state exceeds one dollar and fifty cents (\$1.50) per gallon. Provided, that the administrator shall have discretion as to when to permit such surcharge to be imposed, except that the administrator shall not impose the surcharge at any time when the average price of gasoline, as determined by the administrator, does not exceed the price of one dollar and fifty cents (\$1.50) per gallon.

(c) On or before September 1, 2001, the administrator shall implement a diesel price emergency surcharge program whereby a person licensed under §§ 39-3-3, 39-3-3.1, or 39-3-4 to perform as a "common carrier of persons and/or property upon water between termini within the state" shall be permitted to impose and collect a surcharge, not to exceed three dollars (\$3.00) for each passenger and vehicle carried, during periods when it is determined that the average retail price of diesel fuel in this state exceeds one dollar and twenty cents (\$1.20) per gallon.

History of Section.

P.L. 1935, ch. 2268, art. 3, § 3; G.L. 1933, ch. 99, art. 3, § 3; P.L. 1946, ch. 1805, § 1;

G.L. 1956, § 39-12-12; G.L. 1956, § 39-12-13; P.L. 1958, ch. 87, § 1; P.L. 2001, ch. 307, § 2; P.L. 2003, ch. 412, § 2; P.L. 2005, ch. 352, § 1.

Crew Expense

<u>Per week:</u>	
Captain 1	4 days captain at \$210 per day = \$840.00
Captain 2	3 days captain at \$210 per day = \$630.00
Captain 2	1 day mate at \$145 per day = \$145.00
Mate 1	4 days mate at \$145 per day = \$580.00
Mate 2	2 days mate (28.5 hours) at \$8.00 per hour = \$262.00
Mate 2	2 days deck hand (28.5 hours) at \$8.00 per hour = \$262.00
Engineer 1	4 days engineer at \$150 per day = \$600.00
Engineer 2	3 days engineer at \$150 per day = \$450.00
Deck hand 1	4 days deck (57 hours) at \$7.50 per hour = \$491.25
Deck hand 2	4 days deck (57 hours) at \$7.50 per hour = \$491.25
Deck hand 3	4 days deck (57 hours) at \$7.50 per hour = \$491.25
Bartender 1	4 days (57 hours) at \$6.75 per hour = \$442.13
Bartender 2	3 days (42.75 hours) at \$6.75 per hour = <u>\$297.84</u>

Weekly Total:

\$5,982.72

Daily Total:

\$854.67

Per summer season:

June 18 - September 5 (80 days)

\$68,373.60

Per off season:

Weekends September 9 - October 10 (16 days)

\$13,674.72

Total:

\$82,048.32

*Ties to 6,000/wk prof
(user more weeks in projection) MS*



RHODE ISLAND
DEPARTMENT OF ENVIRONMENTAL MANAGEMENT

DIVISION OF COASTAL RESOURCES
301 Great Island Road
The Port of Galilee
Narragansett, R.I. 02882

401 783-5551
Fax 401 783-7285

State Pier #3 - Galilee

PERMIT # : 4125

Date : 01/08/2003

Berthing space for the period of 07/01/2002 through 06/30/2003
is allocated to:

Name : ISLAND HI SPEED FERRY, LLC
Address : PO BOX 5447
WAKEFIELD RI 02880

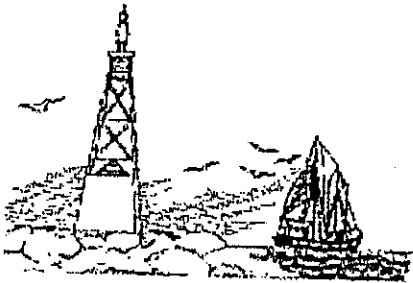
For the Vessel : ATHENA PIER 3-SOUTH END 100'

This allotment of space is subject to the Rules and Regulations
pertaining to the State Piers.

Chief
Div. of Coastal Resources

II. USE OF PIERS:

1. No boat shall berth at State owned facilities in the Port of Galilee without a berth permit or a lease.
2. Initial application for a berth permit shall be made by the boat owner to the State of Rhode Island/D.E.M. on application forms available from the Port of Galilee Superintendent as early as possible since dockage space will be assigned in order of receipt of applications. However, because of the particular length of a boat with relation to the pier space available or other pertinent factors, it may be sometimes necessary to deviate from this rule.
3. A boat owner whose application has been approved and has been so notified shall pay the required dockage fee and any arrearages owed prior to the issuance of a berthing permit. If such payment is not received within ten days after applicant's receipt of notice of approval of an application, the state may deem the approval withdrawn, and consider other applications.
4. A boat owner who holds a berthing permit and who is not in arrears on any payments to the State, shall have his permit automatically renewed for the following year. Dockage fees in arrears for 15 days or more after the due date shall be considered cause for revocation of berth permits. The superintendent may postpone enforcing this regulation if there are circumstances that warrant the delay. Berthholders who have their permits revoked lose all seniority rights and cannot be reinstated in the port or be placed on a waiting list for entry into the port until all past due amounts are paid in full plus any interest due.
5. When a vessel is sold, the berthing permit shall not be transferred with the vessel. The berthing permit may remain with the permit holder provided that a new vessel is purchased within one year and all fees remain paid in full. The sale of the ownership of 50% or more in the ownership of a vessel shall be deemed to be the sale of the vessel with the same prohibition on the transfer of berthing rights as described above.
6. When the holder of a berthing permit dies, the berthing permit shall become the right and obligation of his/her estate.
7. The fee for a berth is dependent upon the length of the boat. For this purpose the length shall be determined by measuring the overall length of the boat (including pulpit, if any). Boat lengths involving fractions of a foot of six (6) inches or more shall be increased to the next highest foot. Fractions under six (6) inches shall be ignored.
8. The berthing permit schedule is:
 - A. Berth permits shall cost \$40.00 per foot of vessel length per year.
 - B. The minimum rate for the medium duty lobster docks is based on 40 foot boats. All vessels at the medium duty backdown lobster docks shall be charged for the minimum plus all footage over 40 feet.



BOSTON OFFICE
10 Mazzeo Drive, Suite 217
Randolph, MA 02368
Tel: 781-963-8445
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MAINE/NH OFFICE
400 Commercial St., Suite 4
Portland, ME 04101-4660
Tel: 207-775-7933
Fax: 207-775-7471

Marine Safety Consultants, Inc.

Tel: (508) 996-4110
Fax: (508) 990-2094

26 Water Street P.O. Box 615

Fairhaven, MA 02719-0615

November 3, 2005
File No.: 05-1201

Island Hi-Speed Ferry
P.O. Box 5447
Wakefield, RI 02880

Attn: Mr. Richard Nolan

APPRAISAL SURVEY

VESSEL	: M/V ATHENA
OFFICIAL NO.	: 1113316
LENGTH	: 85.6' (Registered)
DEPTH	: 11'
MAXIMUM DRAFT	: 6' 2 3/4"
BREADTH	: 29.9'
GROSS TONS	: 88 ITC; 229: 88 regulatory
NET TONNAGE	: 89 ITC; 60 regulatory
PROPULSION	: Quad water jet, 4,400 total HP
FUEL CAPACITY	: 2000 gallons
BUILT	: 2001 Duclos Corporation, Somerset, MA, Hull #P-330
CLASSIFICATION	: none
DOCUMENTED OWNER	: Key Corporate Capital Inc. 54 State Street, 9 th Floor Albany, NY 12207
PASSENGER CAPACITY	: 250

M/V ATHENA
FILE NO: 05-1201

2

THIS IS TO CERTIFY THAT the surveyors from this office did, at the request of Island Hi-Speed Ferry, conduct an appraisal survey of the M/V ATHENA while she lay afloat at Point Judith, RI on October 26, 2005. The purpose of this survey was to determine the general overall condition and valuation of the vessel for financing purposes only.

The survey was carried out accompanied by Tiger McDonald.

VESSEL DESCRIPTION

The M/V ATHENA is a 30 meter high-speed catamaran passenger, of all welded aluminum construction. The vessel is twin-hulled with the superstructure constructed as a self-contained unit and supported on resilient mounts for isolation of machinery noise and vibration. The passenger carrying space is on the first and second deck of the superstructure.

The main deck consists of an enclosed passenger space forward, with upscale upholstery, wool carpeting and aluminum overhead panels. Aft is a smaller passenger space, which is utilized as a luggage or cargo room on some high speed ferries of this design. The second deck finds the pilothouse forward, followed by an enclosed passenger space immediately aft, with an open passenger deck area aft.

The catamaran's pontoons are joined together by two (2) welded aluminum bridge structures, one forward and one aft. The pontoons are specially developed, high-speed type, featuring single hard chine form.

The pontoons are divided into five (5) watertight subdivisions by four (4) transverse watertight bulkheads, as follows: forward void space, #2 void space containing CO2 engine room suppression bottles, #3 void space containing 1,000 gallon cylindrical non-integral fuel tank, the engine room, and the with the aft space being the hydraulics steering and jet water propulsion room.

The vessel was built at Gladding & Hearn Shipbuilding, by the Duclos Corporation, in Somerset, MA in 2001 and was issued Hull #P-330. This welded aluminum construction is of the patented In cat design, and conforms to the light craft code as adopted by the United States Coast Guard.

CERTIFICATES/STABILITY/ROUTE

The vessel is documented at the National Documentation Center, and according to the United States Coast Guard Certificate is restricted to coastwise use from Eastport, Maine to Key West, Florida within 20 miles of safe refuge.

M/V ATHENA
FILE NO: 05-1201

3

A stability test was performed at Somerset, MA on July 9, 2001. Results indicate the vessel has suitable stability to operate on partially protected route with a maximum number of 260 persons on two (2) decks, of which 250 persons may be passengers.

The vessel was last drydocked at Fairhaven, MA in May 2005, with the next drydocking scheduled at the builder's yard in Somerset, Ma during early November 2005. At that time routine hull work and maintenance of the water jets will take place. The U.S. Coast Guard Certificate of Inspection expires in July 2006.

CONDITIONS FOUND

The vessel is found to be in overall very good to excellent condition, appearing to be very well maintained since new construction.

All upholstery, appurtenances, seating and carpeting are in very good to excellent condition without notable staining, tattering or wear.

All handrails, landings, ladders, bulwarks and gates are in excellent condition, with good nonskid and with hand rails secure and well placed for maximum advantage. Nonskid surfaces in the passenger boarding areas, port and starboard sides, fore and aft, are considered excellent. The vessel is also suitable for bow loading.

Inspection of the pilothouse found a full array of operational navigation and electronics equipment, consistent with the service. The vessel is fully alarmed and has monitoring gauges and cameras for continuous condition reports on the interior and machinery spaces of the vessel.

The engine rooms were found to be clean and well maintained, with machinery appearing in very good condition. The port and starboard 60 KW John Deere/Marathon generators each showed approximately 11,000 hours of operation. The four (4) Caterpillar Model 3412 main engines, which develop 1,100 horsepower at 2,300 RPMS, were each receiving complete top end overhauls, with crankshaft inspections, by Milton Caterpillar at the time of survey.

The jet room was found to be in very good condition; with propulsion by four (4) Hamilton Model H521 water jet drives through ZF reduction gears.

All fire fighting equipment, life saving equipment and passenger safety systems are in operating condition and conform to the U.S.C.G Certificate of Inspection.

M/V ATHENA
FILE NO: 05-1201

4

REMARKS

The M/V ATHENA is found to be in very good to excellent condition, overall, reflecting the highest level of continuous maintenance.

The vessel operates as a passenger carrying ferry, seasonally, between Point Judith, RI and Block Island, RI. The vessel operates during the winter months on a scheduled passenger route between Old San Juan, Puerto Rico and the island of Culebra.

VALUATION/RATIONALE

A demand for high-speed catamarans of this type remains high, generally worldwide. There is consistently a modest backlog for new construction, running between 18 and 20 months. Only two shipyards in the United States build the InCat-designed catamaran, which has become the high-speed catamaran standard in North America.

In considering the valuation of the ATHENA we have considered both fair market value and orderly liquidation values. **Market value** is defined as the most probable price realized when changing hands between a willing seller and a willing buyer, with neither required to act, and both having reasonable knowledge of the relevant facts. It is the price the seller would probably realize or the buyer would have to pay.

It is based on the assumption that if other vessels, identical, equivalent or otherwise comparable to the subject vessel, have sold within a certain price range then the subject vessel would also command the same price or range. Recent comparable sales were researched and utilized as a basis for determining market value.

In determining market value of the M/V ATHENA, it is understood that this appraisal includes the hull structure, furnishings, all appurtenances, equipment, materials, machinery, tools, anchors and other apparel pertaining to the vessel as found aboard on the date of survey.

In considering a replacement cost, less depreciation, method we choose to depreciate the vessel at 1.5% per year for functional depreciation and 1.5 % per year for physical depreciation. We have consulted with the builder, and he tells us that the new construction price of the M/V ATHENA in 2005/2006 is in the range of \$5,000,000.00, which includes the MDI Ride Control System. Thus, this method would yield a current value of \$4,350,00.00.

We have also included our opinion of **orderly liquidation value**, indicating a price likely to be obtained from a forced liquidation, with adequate market exposure to an 8 to 10 months availability to realize the value. This would not include an auction or other quick sale, which would be typical of a much shorter market exposure.

M/V ATHENA
FILE NO: 05-1201

5

The valuation below considers a charter free delivery, free of any liens or encumbrances, and free of any damages that might form an average claim.

Subject to consideration of the preceding remarks, and considering the age of the vessel, its condition in comparison to vessels of like size, age and service, and in consideration of the current market, the following estimated values are considered appropriate:

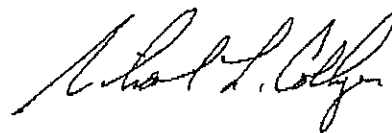
ESTIMATED FAIR MARKET VALUE : \$4,200,000.00

ORDERLY LIQUIDATION VALUE : \$3,650,000.00

This report is based on examination of the vessel, and of those parts, spaces and equipment that could be sighted without removals or operation, and is rendered without bias or prejudice. In accepting same, it is agreed that the extent of obligation of this surveyor, with respect thereto, is limited to furnishing a competent survey, and in the making of this report, this surveyor is acting on behalf of the person or firm requesting same and no liability shall attach to this surveyor, for the accuracy, errors and/or omissions therefore.

Naval architecture and marine engineering analysis as usually performed in the design stage of the vessel's construction were not part of this survey and typical subjects such as adequacy of stability and seakeeping were not within the scope of this survey.

Submitted without prejudice
MARINE SAFETY CONSULTANTS, INC.



Michael L. Collyer
Marine Surveyor

MLC/ml

Enclosures: 1. Photographs
2. MSC Invoice



STARKWEATHER & SHEPLEY INSURANCE, INC.

...an Assurex Global Partner

February 14, 2006

Ms. Susan Linda
Interstate Navigation Company
P.O. Box 482
New London, CT 06320

Re: Insurance/High-Speed Ferry

Dear Sue:

Pursuant to our recent telephone conversations, please accept the following as our indication & accounting of Marine Insurance coverage & premiums, for the noted 100ft HSF, with (4) covered crew:

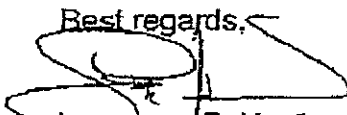
- Hull & Machinery Limit \$4,100,000.
- Protection & Indemnity \$1,000,000.
- Excess P&I \$5,000,000.
- Marine General Liability including "gangways and docks" \$1,000,000.
- Breach of Warranty (included)
- OPA 90 Pollution \$1,000,000.
- Annual Premium \$33,000.

Note above indications based on underwriters receipt and review of a current vessel condition and value survey, and are reflective of your favorable experience.

Upon receipt and review, should you have any questions or concerns or wish additional coverage quotes/options, please call Christine or myself.

Thank you for your ongoing consideration and most valued business.

Best regards,



Lawrence E. Keefe
President

Enclosures

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Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-4. Does the term of the loan, 25 years, correspond to the expected remaining useful life of the Athena?

Response: Interstate believes that with proper maintenance the *MV Athena* could last more than 25 years. Interstate has in the past operated its vessels for 30 years and more (i.e. the *MV Manitou* and the *MV Manisee*). Interstate is diligent regarding regular maintenance and upkeep of its vessels.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-5. Does Interstate have an expectation of chartering the *Athena* to IHSF (in the non-summer months) beyond the filed 2006/2007 charter period?

Response: Interstate has not addressed the charter of the *MV Athena* to IHSF beyond the filed charter period. Interstate may be willing to lease the *MV Athena* to IHSF should they require it. Interstate's first choice would be to avoid leasing the *MV Athena* if possible, which would reduce the wear and tear on the vessel and extend the useful life. Interstate maintains its vessels at the highest level and does not believe that leasing its vessels is in the best interest of the company or the ratepayers. That said, if Interstate has to lease the vessel to make a profit in the fast ferry operations Interstate believes that it will be able to find a lease agreement that may be even more beneficial to Interstate than the IHSF lease. The IHSF lease was a compromise lease rate made for the good of both IHSF and Interstate (who were both leasing the *MV Athena* at the same price).

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-6. If IHSF does not plan to charter the Athena beyond the 2006/2007 period, would Interstate seek to charter the boat to other parties?

Response: If necessary, yes. See the response to AS1-5.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-7. Please explain how, and to what extent, Interstate proposes to shield lifeline customers from any risk associated with the failure to obtain winter charter income to offset debt costs associated with the Athena?

Response: The answer to this question is the same as the answer to AS 1-1.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-8. In docket D-05-06 (Interstate application for high-speed service), Interstate provided a substantial amount of evidence regarding the need for high-speed ferry service between Block Island and Newport. The granting of the certificate was premised, in part, on Interstate serving that market with a high-speed ferry. In the cases presently before the Division it is clear that Interstate does not intend to provide that service in the 2007 summer season. Interstate indicates that high speed service between Newport and Block Island may occur in the future, contingent upon Interstate following through on the original plans to build a high speed boat. In the interim, how does Interstate plan to address the dormancy of the high speed service portion of its CPCN (assume the Division does not, or can not, allow that service to be dormant indefinitely)?

The estimate of the cost to build a high speed ferry provided by Interstate in D-05-06 was \$6,000,000. Does Interstate believe it would have adequate ridership to financially support building another high speed boat, and presumably taking on another \$6 million in debt? Are there any other means to provide high speed service between Newport and Block Island, such as with the *Athena*, that would work financially? Please address this issue.

Response: Interstate is not in a position at this time to answer this question other than to say that serving Newport with the *MV Athena* is not financially prudent. Interstate is using the *MV Athena* to service IHSF customers and any Interstate customers to and from Point Judith and Block Island the location of greatest demand. If the *MV Athena* were to run to Newport (twice the distance of the Point Judith run) the current level of fast ferry service to Block Island would suffer and Interstate's fast ferry operation would be less profitable.

Interstate is faced with at least two very interesting options regarding the provision of fast ferry service to Block Island and Newport. One option is to build a new car/freight/passenger fast ferry vessel to serve the three way (Point Judith to Block Island to Newport and return) route proposed by Interstate in its CPCN filing. To do this Interstate could sell the *MV Athena* and use the proceeds to significantly reduce the cost of the new vessel. This would however reduce the fast ferry service to Block Island from Point Judith.

The second option would be much more expensive but would improve the fast ferry service to and from Block Island. Interstate would still build the new vessel but run it back and forth between Block Island and Point Judith. Then Interstate could use the *MV Athena* to service the three way run from Point Judith to Block Island to Newport and return. Or maybe Interstate could run the *MV Athena* partially on the three way run and partially back and forth to Block Island from Newport. The final decision can only be made after Interstate has a better handle on fast ferry demand.

Prepared by WEE

Division of Public Utilities and Carriers
First Data Request of the Advocacy Section
Dockets D-06-51 / D-06-53

AS 1-9. Does Interstate plan to resume services to and from New Harbor on Block Island? When and in what circumstances?

Response: At this time Interstate has no such plans but it is possible that Interstate may in the future provide some level of service to New Harbor, but only after giving 180 days notice to the Town and seeking approval from the Division.

Prepared by WEE