YOUNG BROTHERS
Your Neighbor Island Partner

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VIA ELECTRONIC FILING

May 29, 2020

The Honorable Chair and Members
of the Hawai'i Public Utilities Commission
Kekuanao'a Building, First Floor
465 South King Street
Honolulu, Hawaii, 96813
Attention: Caroline Ishida, Esq.

Re: Requested Information Regarding Young Brothers, LLC's Access to Financing, Financial Impact, and Contingency Plans

Dear Commissioners and Commission Staff:

The following responds to the Division of Consumer Advocacy's ("Consumer Advocate") letter on May 26, 2020 concerning "Young Brothers, LLC and Ongoing Current Events." In its letter, the Consumer Advocate, in part, urged the Hawaii Public Utilities Commission ("Commission") to require that Young Brothers, LLC ("Young Brothers", "YB" or "Company") produce certain information by May 29, 2020. The requested information included, but was not limited to, the following: "1) the facts and circumstances around YB's access to financing; 2) YB's most recent financial statement information and an assessment of the impact any changes in access to financing might have; and 3) a comprehensive identification of the measures that YB has been exploring and evaluating to address its financial condition and the contingency plans that are being developed to address its situation."

YB respectfully responds to these requests as follows:

1) The facts and circumstances around YB's access to financing

Prior to the onset of the COVID-19 pandemic, Young Brothers had already experienced significant operating losses in the face of increasing operating costs and declining cargo volumes. Following actual operating losses of $11,380,000 in 2018 and $10,186,000 in 2019, prior to the onset of the COVID-19 pandemic, the Company initially forecasted a loss of $12,333,000 in 2020.

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On May 26, 2020, Young Brothers filed a letter with the Commission ("YB's May 26th Letter")[1] providing a detailed overview of YB's finances and reiterating that, as detailed in a May 5, 2020 letter to the Commission,[2] the precipitous drop in cargo volumes that have occurred since the onset of the COVID-19 pandemic have resulted in a nearly $8 million loss through the month of April 2020, and a projected loss of approximately $25 million through the end of 2020. These increased losses that YB has experienced since the onset of the COVID-19 pandemic have only exacerbated the financial condition the company was in prior to the onset of the COVID-19 pandemic. YB's May 26th Letter also noted that, despite YB's cost containment efforts, including reductions to YB's sailing schedule, tug workforce, and other costs, YB only expects to save (approximately) an additional $7 million through the remainder of 2020.[3] Finally, in YB's May 26th Letter, YB also communicated that YB's parent company,[4] after covering losses of more than $21 million in calendar years 2018 and 2019, recently informed YB that additional infusions of cash would not be available after May 31, 2020. In a May 26, 2020 news release that YB issued simultaneously with YB's May 26th Letter ("May 26th News Release"), Jason Childs, the chairman of Young Brothers' board of directors, stated that "[t]he mounting losses at Young Brothers are more than any parent company can absorb."

Young Brothers expects that, in the face of the continued revenue losses associated with the drastic drops in cargo volumes that have occurred since the onset of the COVID-19 pandemic, and in the absence of any other source of funding, YB will soon be unable to meet its current operating expense obligations and will be forced to consider suspending certain services it has been providing to its customers since 1900. The chart provided on the following page illustrates Young Brothers' 13-week cash forecast for June through August and clearly demonstrates the urgency of YB's need for immediate relief as the Company forecasts to run out of cash by the end of July 2020.[5]

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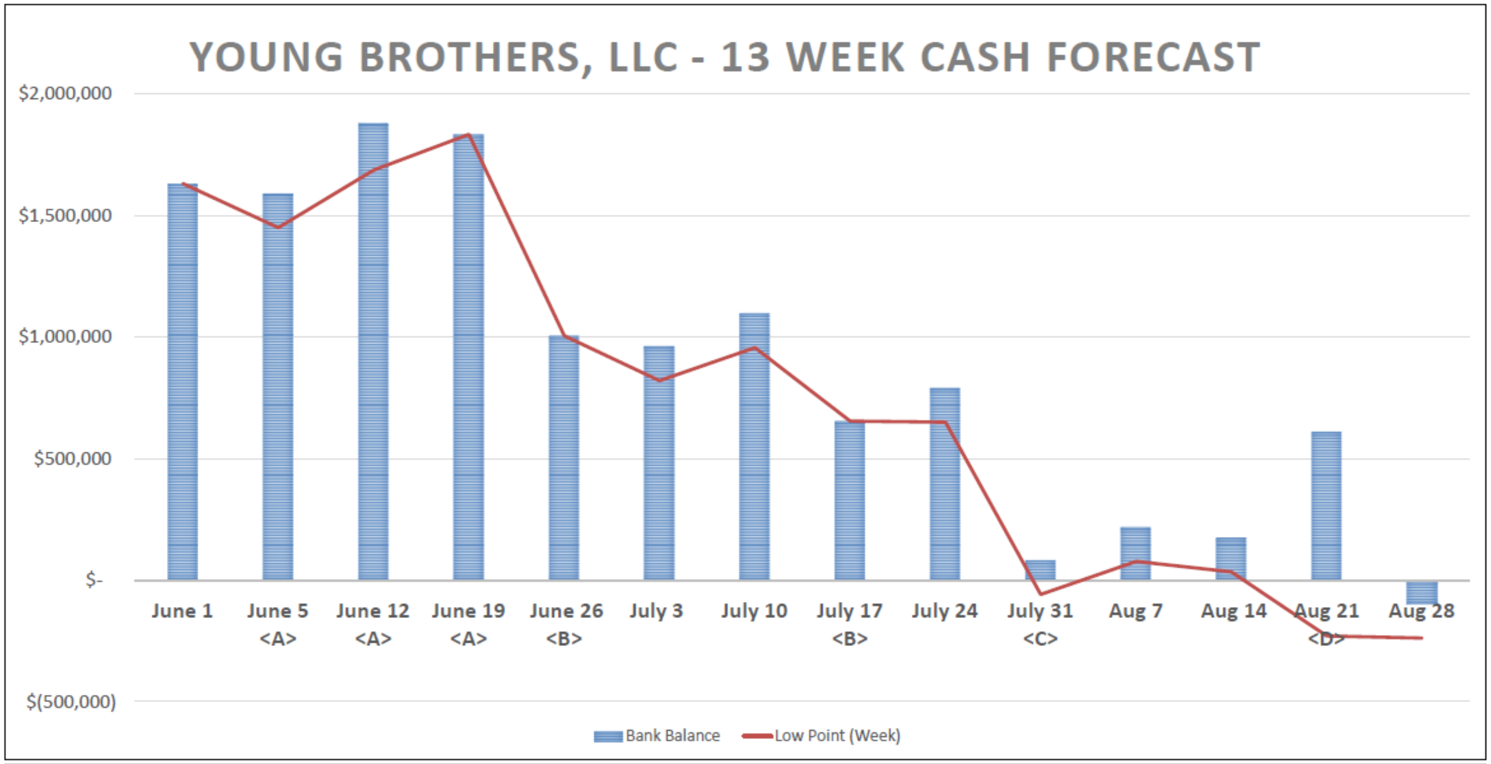
[1] See May 26, 2020 Letter from YB to the Commission regarding *Notice Regarding Young Brothers, LLC's ("Young Brothers" or the "Company") Liquidity Crisis and Potential Suspension of Operations.*

[2] See Docket No. 2019-0117, May 5, 2020 Letter from YB to the Commission regarding *YB Response to COVID-19 Financial and Procedural Update Request*. ("YB's May 5th Letter")

[3] See Attachment to YB's May 26th Letter.

[4] YB is wholly owned by Foss Maritime Company, LLC ("Foss Maritime" or "FMC"), formerly known as Foss Marine Holdings, Inc. Foss Maritime is, in turn, a wholly-owned subsidiary of Saltchuk Marine Services, LLC ("Saltchuk Marine"), which owns several companies involved in marine services. Saltchuk Marine is a wholly-owned subsidiary of Saltchuk Resources, Inc. ("Saltchuk"), which owns a variety of businesses that operate in shipping, marine services, air cargo, and energy distribution.

[5] Please note that certain financial information reflected in this letter are based on assumptions and/or projections that may change from time to time. Therefore, YB reserves the right to supplement or update this financial information to the extent necessary.



<A> No Accounts Payable runs the week of June 5, June 12 and June 19

<B> HGET Remittance Due 20th of each month plus big AP run on 4th week of June.

<C> Prepayment of Gallagher Benefits

<D> Includes $700,000 related to the completed sale of the Hokulani

*** *Forecast includes $0 CAPITAL and savings of approximately $1.9M/mos of payments to the state and excludes any I/C payments to Foss or Saltchuk*

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In light of these developing facts and circumstances as they relate to YB's financial condition, YB has begun exploring potential sources of interim financing that may be available to help YB meet its immediate operating expense obligations. At present, the Company is in the early stages of soliciting indicative proposals for third party bank financing and other potential debt financing arrangements.

2) YB's most recent financial information and assessment of the impact of any changes in access to financing

Young Brothers is still in the process of assessing the impacts that any changes in its access to financing may have on its financial condition. Young Brothers will supplement this letter with the results of its assessment as soon as possible.

3) Identification of the measures to address its financial condition and contingency plans

YB notes that it has already implemented a number of cost saving measures to streamline its operations and reduce operating costs, including temporarily reduced sailing schedules for Maui and Hawaii counties as approved by Order No. 37128, reduced gate hours for non-barge days in all major ports, a hiring freeze and salary cuts for YB's senior leadership, and suspending non-essential travel, eliminating discretionary expenses and deferring non-essential maintenance and related activities.

In YB's May 26th Letter, YB indicated its intent to initiate a number of regulatory actions that would assist YB in weathering the COVID-19 related financial impacts. These regulatory actions include, without limitation:

- **COVID-19 Related Tracking Mechanisms:** Young Brothers will seek approval of a regulatory tracking mechanism to track and defer COVID-19 related costs and a regulatory tracking mechanism to track and accumulate COVID-19 related lost revenues in a separate regulatory asset account. Approval of such COVID-19 related regulatory tracking mechanisms would provide YB with some level of certainty regarding its ability to recover those losses in the future. Such certainty would also help YB's ability to secure financing going forward. Approval of such regulatory tracking mechanisms are not, however, expected to relieve the Company's immediate cash flow needs. As such, this approach will be pursued as a complimentary mechanism along with the other contingency measures discussed herein.

- **Emergency or Temporary Rate Relief:** As may be necessary, Young Brothers will seek approval of emergency or temporary rate relief to provide YB with the ability to

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generate additional revenues to meet its operating expense obligations while weathering COVID-19 related reductions to cargo volumes.

- **Partial Suspension of LCL/Mix Cargo:** Young Brothers will seek approval of a suspension of LCL/Mix cargo to certain ports. Approval of such a tariff transmittal to suspend LCL/mix to certain ports would allow YB to partially suspend a very costly and labor-intensive line of service and to prioritize its skilled workforce and associated equipment for optimal revenue-generation (e.g., focusing on providing services that are compensatory rather than non-compensatory).

CARES Act Funding and Contingency Plans

In YB's May 26th Letter, YB indicated that it is seeking $25 million in CARES Act funding from the Governor of the State of Hawaii ("State") and the State Legislature to sustain operations through December 2020. Depending on the level of immediate funding that YB is able to receive from the CARES Act or other funding sources, some combination of the regulatory measures discussed above, and potentially some form of financing (if YB is able to secure it), will be necessary to ensure that YB is able to remain a going concern and continue operating in the near term. Securing YB's financial viability in the long-term in the face of a prolonged period of reduced cargo volumes will require non-temporary avenues for increased cost reduction and/or revenue generation (e.g., emergency/temporary rate relief). Ultimately, YB views its request for CARES Act funding not as a bailout or a permanent fix, but rather, as the first step in a series of many that will be necessary to set YB on the path to financial sustainability.

Following YB's public announcement that it is seeking $25 million in CARES Act funding, YB indicated that it would lay out YB's financial strategy to continue operating under the following scenarios: (1) immediate receipt of significant CARES Act funding; (2) delayed receipt of CARES Act funding; and (3) no CARES Act funding available. YB's current strategies under these scenarios are discussed in more detail below.

Scenario 1 - $25 million in CARES Act funding is provided to YB immediately

If YB immediately receives the $25 million in CARES Act funding, as requested, YB expects that this amount would be sufficient to allow YB to meet its current operating expense obligations through the end of 2020. It is important to note that YB's temporarily reduced sailing schedule would need to remain in effect throughout 2020 in order for this amount to be sufficient to meet YB's current operating expense obligations through the end of 2020. If CARES Act funds were made immediately available, YB would still seek emergency/temporary rate relief, but the timing and extent of such rate relief may vary depending on the timing and amount of the CARES Act funds provided to YB. YB would also not need to seek immediate forms of financing for as long as the CARES Act funds are able to sustain YB's operations. YB emphasizes that it expects

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that the full funding request of $25 million would sustain YB's operations through the end of 2020 at currently projected cargo volumes and if approval for the current adjusted sailing schedule were extended through the end of 2020.[6] In order to secure YB's long-term financial viability and ensure that YB remains a going concern beyond 2020, YB would still need to, among other things, seek permanent rate relief, regulatory flexibility, long-term financing opportunities, the implementation of the COVID-19 related regulatory tracking mechanisms (discussed above), and at least a partial suspension of LCL/mix to certain ports.

In YB's May 26th news release, YB indicated that it would pursue a phased approach to the proposed partial suspension of LCL/mix to certain ports. The preliminary phased approach, as stated in YB's May 26th News Release, is outlined below:

Phase 1 Contingency Plan – Effective June 8 (if approved)
• Accept: All straight load container shipments, automobiles (dealers and personal vehicles), and roll-on/roll-off equipment.
• Accept: All container and less than container load (LCL) livestock shipments from all islands
• Eliminate: Dry and refrigerated LCL/Mixed cargo option to and from the ports of Kahului, Kawaihae, Nāwiliwili, and Hilo
• Accept: Dry and refrigerated LCL/Mix cargo option to and from the islands of Lāna‘i and Moloka‘i only
• Continue: A 4-tug fleet and modified sailing schedule approved by PUC on May 5th
Phase 2 Contingency Plan – PENDING
• Further reduction in sailing frequency to all neighbor island ports.
• Modified tug and barge availability
• Eliminate: All dry and refrigerated LCL/Mix cargo options to and from all ports
• Eliminate: LCL shipments of livestock

As mentioned above, to secure YB's long-term financial viability, YB would still seek the partial suspension of LCL/mix to certain ports. However, the immediate receipt of CARE Act funding would delay the need for the immediate implementation of such a suspension and would allow for a more thorough review of YB's proposed changes.

Scenario 2 – $25 million in CARES Act funding is delayed

In the event that there is delayed receipt of CARES Act funding, then YB would be required to take drastic steps (e.g., Phase 2 Contingency Plan noted above may need to be immediately implemented) to stretch its funds in order to sustain operations until CARES Act funds are available to YB. YB would prioritize efforts to secure emergency/temporary rate relief and other regulatory approvals/flexibility sooner rather than later, as well as near term financing options

[6] See May 28, 2020 Letter from YB to the Commission regarding *Request for Extension of Adjusted Sailing Schedule.*

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until the receipt of CARES Act funds, or some other source of funding, is made immediately available to YB.

YB would also explore the sale of certain assets as a potential source of generating cash in the near term.[7] YB would seek to sell its least critical assets first subsequent to receiving Commission approval; similar as it did with the recently approved sale of the tug *Hokulani*.[8] As YB's operations continue without a source of funding to cover its losses, its financial situation would worsen. This would likely lead to a loss in negotiating power with potential buyers and would force YB to consider the sale of increasingly critical assets. The Company notes that the sale of existing assets could potentially increase operational risks or require further service reductions.

YB would also take all necessary and prudent steps, to the extent possible, to stretch its available cash by working with its vendors and other entities to which YB has financial obligations to renegotiate rates, ask for permanent forgiveness of amounts owed, and/or defer payments wherever possible, noting the Company's current dire financial situation and the temporary nature of such steps. This is obviously a drastic measure that could harm YB's credit profile and its ability to secure vendor services and financing in the future; therefore, these steps would be approached with caution.

Again, YB emphasizes that, even if it were to eventually receive $25 million in CARES Act funding, it expects that these funds would only be able to sustain YB's operations through the end of 2020 at currently projected cargo volumes and if approval for the current sailing schedule were ultimately extended at least through the end of 2020. In order to secure YB's long-term financial viability, YB would still need to seek, among other things, permanent rate relief, regulatory flexibility, long-term financing opportunities, the implementation of the COVID-19 related regulatory tracking mechanisms, and at least the partial suspension of LCL/mix to certain ports. The delayed receipt of CARES Act funding would increase the urgency with which YB would seek the implementation of such a suspension.

Scenario 3 – CARES Act funding is denied in full

In the event that no CARES funds are made available to YB, the Company would need to take more drastic steps (e.g., Phase 2 Contingency Plan noted above will likely need to be immediately implemented and other service reductions would need to occur much sooner than they would in Scenario 2), and similarly prioritize efforts to secure emergency/temporary rate relief and near term financing options until some other source of funding is available to YB.

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[7] Asset sales would be subject to Commission approval pursuant to Section 271G-14 of the Hawaii Revised Statutes and Section 16-601-105 of the Hawaii Administrative Rules.

[8] <u>See</u> Docket No. 2019-0344, Order No. 37151.

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Again, YB would explore the sale of assets as a potential source of generating cash in the near-term, starting with its least critical assets and exploring the sale of increasingly critical assets as necessary to generate cash. YB reiterates that, as its financial situation worsens, YB loses its negotiating power with potential buyers.

YB would also take every step possible to stretch its available cash by working with its vendors and other entities to which YB has financial obligations to renegotiate rates, ask for permanent forgiveness of amounts owed, and/or defer payments where ever possible, noting the company's current dire financial situation and the temporary nature of such steps. YB would also prioritize the implementation of a partial suspension of LCL/mix to certain ports, seeking an effective date of June 8, 2020.

In order to secure YB's long-term financial viability, YB would still need to seek, among other things, permanent rate relief, regulatory flexibility, long term financing opportunities, the implementation of the COVID-19 related regulatory tracking mechanisms, and at least the partial suspension of LCL/mix to certain ports.

If you have any questions, please contact the undersigned.

Sincerely,

Jay Ana
President,
Young Brothers, LLC

c: Department of Commerce and Consumer Affairs, Division of Consumer Advocacy