

Responses to Working Group Questions

1. Why is depreciation included in the breakdown of ongoing operating expenses rather than treated as a capital expense?

From both a regulatory or financial accounting perspective, costs are either “expensed” or “capitalized.” Costs that are “expensed” are recognized on the income statement of a financial statement. In comparison, costs that are “capitalized” are recognized as assets on the balance sheet of a financial statement. There is no “capital expense” reflected in a financial statement. Depreciation is an accounting method of allocating the cost of a fixed asset over its useful life to account for the decrease in the asset’s value due to use, wear and tear, or obsolescence. For example, a tug may cost \$20 million and is expected to be used for 30 years. The \$20 million is recorded as a fixed asset on the balance sheet. The annual depreciation for the tug is approximately \$670,000 (\$20 million/30 years) using the straight-line method of depreciation. The approximately \$670,000 is recorded as an operating expense on YB’s income statement since the tugs are used in the provision of YB’s intrastate transport of cargo between the seven ports in the State of Hawaii.

2. SIT slide #7-Appears to show that a significant portion of goods destined for Hilo are shipped via Honolulu rather than going directly from the mainland to Hilo, resulting additional costs/burdens being placed on intra-island shipping. Appears to imply an inefficiency that somehow increases intra-island shipping costs even though handling of interstate goods is shown on slide #9 as being profitable.

To clarify, on slide #7 (entitled: Stop-in-Transit/Storage-in-Transit’s (“SIT”) Impact on YB), the blue bars represent intrastate cargo that is properly characterized as originating in Honolulu destined for Hilo and is shipped via YB. The yellow bars represent cargo that has reached Hilo via SIT (i.e. the containers originate with an interstate carrier on the West Coast, stop in Honolulu where cargo destined for Honolulu can be off-loaded and the resultant space can be refilled with cargo that also originated from the U.S. Mainland and is also destined for Hilo). Slide #7 shows a single company that over the course of time, have opted to ship a greater portion of total cargo going direct to Hilo via SIT movements through West Coast carriers than through YB. Slide #7 could be applied to other companies. It is unclear at this point whether such SIT shipments are through legal or illegal SIT, but such shipment process does impact intrastate revenues. See Exhibit A for slide #7.

The blue bars shown on slide #9, represent interstate cargo that ships via YB through proper interstate movements (e.g. via a Connecting Carrier Agreement), not intrastate cargo that ships via a West Coast carrier through SIT. It is true that interstate shipments tend to be more efficient than intrastate shipments – this is primarily due to the containerized nature of interstate cargo versus the efficiency of loading intrastate cargo, which often involves loading less efficient LCL cargo (which are often cargo types of all sizes and shapes). However, slide #9 shows revenue and does not directly address profitability.

Thus, the use of SIT only directly reduces the amount of intrastate cargo that could be moved via YB. It does not directly affect the amount of interstate cargo that is moved by YB.

3. Freight Revenue/Quantity slide #9 -Shows profitability in all categories except LCL. Can YB show what is the SIT portion for volume and revenues in the LCL statistics?

As stated above, slide #9 shows revenue and does not directly address profitability. Unfortunately, the true extent of lost SIT volume particularly in LCL cargo and revenue is unknown to YB. As noted by YB previously, this is a gap area where additional information and/or research may be needed for SIT matters (whether such SIT shipments are through legal or illegal SIT).

4. Perhaps, for slide 9, Freight Revenue vs Quantity Shipped, the revenue per cubic foot of space for all the categories listed could be shared. Is % Quantity in Unit Weight?

The intent of the chart is to show YB's Total Freight Revenue, as a percentage, between intrastate and interstate services, and divided among the four categories for comparison purposes. The same comparison is shown for YB's Total Quantity, as measured by piece count.

The Container/Trailer category provides the best example. The Container/Trailer category comprises 64.54% of YB's total freight revenue. The Container/Trailer freight revenue consists of 54.3% intrastate revenue, and 45.7% interstate revenue. Similarly, the Container/Trailer category comprises 21.23% of YB's total quantity (piece count). The Container/Trailer quantity consists of 48.4% intrastate quantity, and 51.6% interstate quantity. The same process is applied to the other categories to provide a comparison for each category.

The chart provided is a comparison of freight revenue and quantity (piece count), as such, providing the additional measure of revenue per cubic foot would misalign the chart with its intent. In addition, revenue per cubic foot would not be an applicable unit of measure because Autos, ROROs, and Container/Trailers come in different shapes and sizes and would yield an unreliable result.

The % Quantity is measured by piece count.

See Exhibit B for an updated chart that reflects Freight Revenue vs Tonnage for the same period provided in the presentation.

5. What category does livestock fall under: container/trailer, LCL or RORO?

Livestock may fall under either container/trailer, LCL, or RORO commodities. For context, we have provided a chart at Exhibit C showing the total revenue generated by industry over the last 5 years. The Agriculture industry has generated almost 2% of YB's total revenues in that time period, of which the Livestock sector has generated 0.18% of total revenues. See Exhibit D for examples of each type of commodity that can be shipped by YB:

Exhibit A

Stop-in-Transit/Storage-in-Transit's ("SIT") Impact on YB

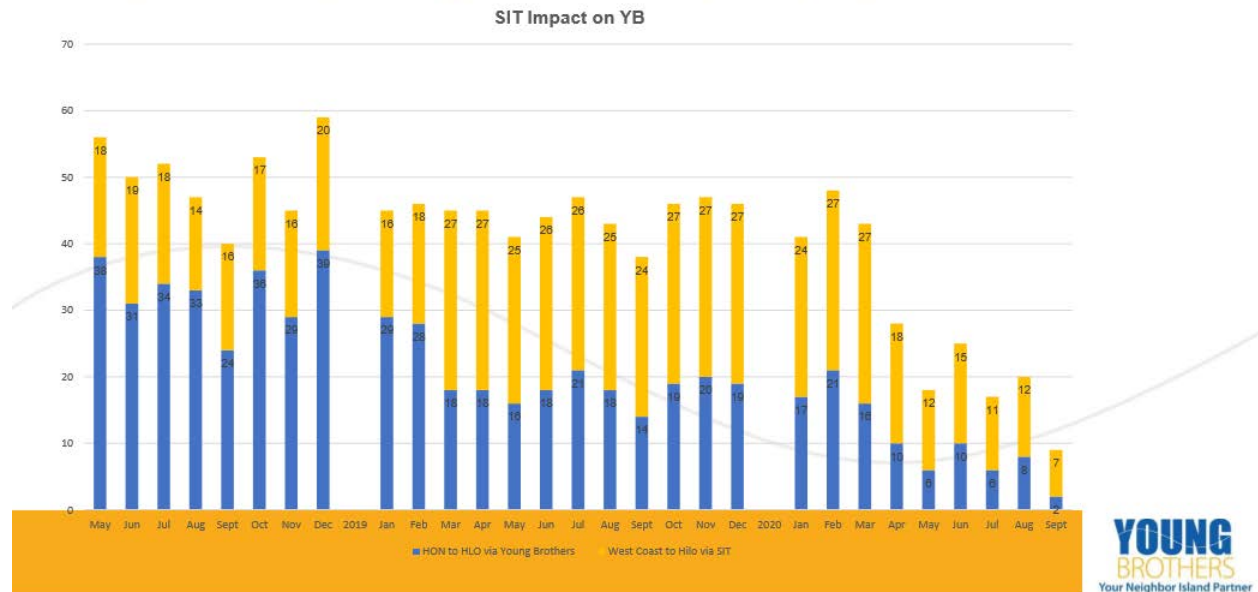


Exhibit B

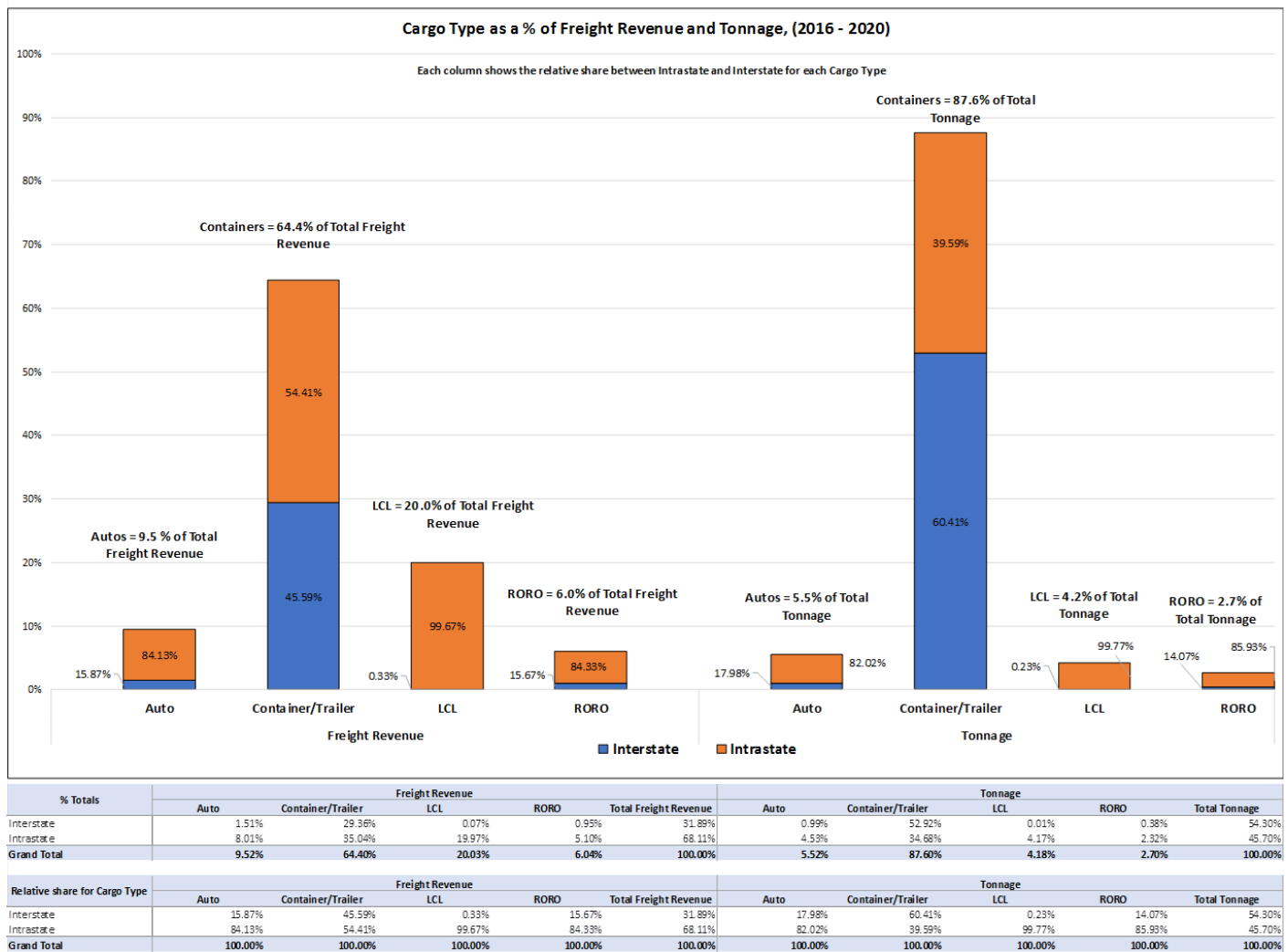


Exhibit C

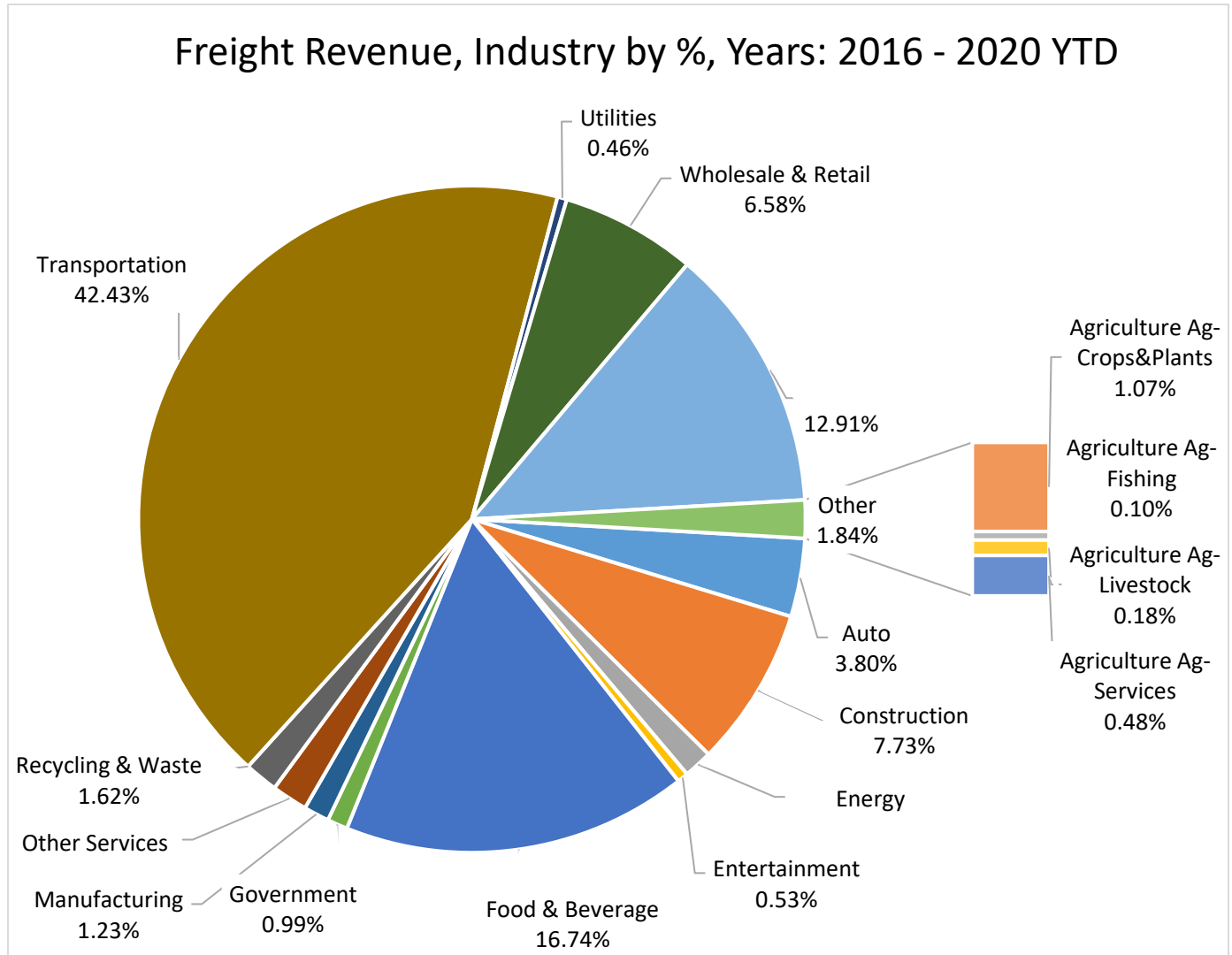


Exhibit D

Cowtainer (Container or RORO if shipped on chassis)



Box Stall (LCL)



Trailer (RORO)



Pig Pen (LCL)



Livestock Shipping Trailer (RORO)

