IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
HSF HOLDING, INC., *et al.*,[1]	Case No. 09-11901 (PJW)
Debtors.	Jointly Administered
	Voting Deadline: _____, 2009 at 4:00 p.m. EST **Objection Deadline: _____, 2009 at 4:00 p.m. EST** **Confirmation Hearing: _____, 2009 at _:___ _.m. EST**

DISCLOSURE STATEMENT REGARDING DEBTORS' JOINT PLAN OF LIQUIDATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

Dated: June 30, 2009

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[1] The Debtors are the following entities (last four digits of EIN in parentheses): (i) HSF Holding, Inc., a Delaware corporation (9413) and (ii) Hawaii Superferry, Inc., a Hawaii corporation (2152). The mailing address for both Debtors is Pier 19 Ferry Terminal, Honolulu, HI 96817.

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I. INTRODUCTION.

On May 30, 2009 (the "Commencement Date"), HSF Holding, Inc. and Hawaii Superferry, Inc. (collectively, the "Debtors") filed voluntary petitions for relief under title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"). The Debtors continue to operate their business and manage their property as Debtors in Possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

On June 11, 2009, the Office of the United States Trustee appointed an official committee of unsecured creditors (the "Committee"). No trustee or examiner has been appointed in these Chapter 11 Cases.

The Debtors have filed the Debtors' Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code (the "Plan"). The Plan provides for the liquidation and conversion of all of the Debtors' remaining assets to cash and the distribution of the net proceeds therefrom to creditors holding Allowed Claims, in accordance with the relative priorities set forth in the Bankruptcy Code. The Plan contemplates the appointment of a Plan Administrator, *inter alia*, to implement the terms of the Plan and make distributions in accordance therewith. Reference is made in the Plan to this disclosure statement (the "Disclosure Statement") for a discussion of the Debtors' history, business, capital structure, historical financial information, and for a summary and analysis of the Plan.

All creditors entitled to vote on the Plan should review this Disclosure Statement before voting to accept or reject the Plan. Documents referenced in the Plan and/or the Disclosure Statement are also available for review.

This Disclosure Statement is provided pursuant to section 1125 of the Bankruptcy Code to all the known creditors of the Debtors. The purpose of this Disclosure Statement is to provide sufficient information to enable creditors who are entitled to vote to make an informed decision about whether to vote to accept the Plan. This Disclosure Statement describes, among other things:

- how to vote on the Plan;
- the former business of the Debtors and the reasons for commencing these Chapter 11 Cases;
- significant events that have occurred in these Chapter 11 Cases;
- the Plan, how distributions under the Plan will be made and the manner in which Disputed Claims will be resolved;
- the procedure and requirements for confirming the Plan; and
- certain federal tax considerations.

Most words or phrases used in this Disclosure Statement shall have their usual and customary meaning. Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to such terms in the Plan. A copy of the Plan is attached hereto as **Exhibit A**.

FOR A COMPLETE UNDERSTANDING OF THE PLAN, YOU SHOULD READ THE DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY.

II. A BRIEF OVERVIEW OF CHAPTER 11.

Chapter 11 is the principal reorganization chapter under the Bankruptcy Code. Pursuant to chapter 11, a debtor is authorized to reorganize its financial affairs for its own benefit and that of its creditors. Unless otherwise ordered by the court, the Bankruptcy Code allows a debtor to remain in operation and to work out its financial difficulties. In a chapter 11 case, the debtor continues to manage its affairs as a debtor in possession and as a fiduciary to the creditors of the estate. In these Chapter 11 Cases, the Debtors have pursued the abandonment or liquidation, as appropriate, of their remaining assets in their capacity as Debtors in Possession for the purpose of winding up their affairs.

The commencement of a chapter 11 case creates an estate comprised of all of the legal and equitable interests that the debtor has in property as of the date the bankruptcy petition is filed. The filing of a petition also triggers the "automatic stay" provisions of the Bankruptcy Code. Section 362 of the Bankruptcy Code provides for a stay or an injunction against any attempt to collect a prepetition debt, claim or obligation from the debtor, or to otherwise interfere with its property or financial affairs. Unless the court orders otherwise, the automatic stay remains in full force and effect until a chapter 11 plan is confirmed.

The Bankruptcy Code authorizes the creation of an official creditor committee to protect the interests of creditors. The fees and expenses of counsel and other professionals employed by such official committee are generally borne by the debtor's estate. In these Chapter 11 Cases, the Committee has been formed to represent the collective interests of unsecured creditors.

A chapter 11 debtor emerges from bankruptcy by successfully confirming a plan of reorganization or liquidation. A chapter 11 plan may either be consensual or non-consensual, and provide, among other things, for the treatment of the claims of creditors and interests of equity holders. The plan confirmation process, and the conditions for confirming either a consensual or non-consensual plan are more fully described below.

The formulation of a plan is the primary purpose in each chapter 11 case. The plan is the vehicle for setting forth the means by which the debtor will satisfy parties who hold claims against or equity interests in the debtor. Although it is sometimes referred to as a plan of reorganization, a plan may also provide for the orderly liquidation of a debtor's assets. The Plan here is a liquidating chapter 11 plan.

After a plan is filed, the holders of claims or interests in a debtor whose claims or interests are proposed to be impaired (i.e., adversely changed from the perspective of the holder) are permitted to vote to accept or reject the plan. Section 1125 of the Bankruptcy Code requires

that prior to soliciting acceptances of the proposed plan, the debtor must prepare a disclosure statement which contains adequate information about the debtor, its assets and liabilities, and the plan, to enable a hypothetical, reasonable investor to make an informed judgment about the proposed plan. The Debtors submit that this Disclosure Statement satisfies the requirements of section 1125 of the Bankruptcy Code.

Chapter 11 does not require that each holder of a claim against the debtor vote in favor of the proposed chapter 11 plan in order for the court to confirm the plan. The Bankruptcy Code defines acceptance of the plan by holders of a class of claims against the debtor as acceptance by at least two-thirds in dollar amount and more than one-half of the number of the holders of allowed claims in that class that actually vote. Holders of Claims in these Chapter 11 Cases who fail to vote will not have their Claims counted in determining the outcome of the vote.

Classes of claims that are not "impaired" under a plan are presumed to have accepted the plan and, therefore, are not entitled to vote. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims of that class are modified. Acceptances of the Plan in these Chapter 11 Cases are being solicited only from holders of Claims in impaired Classes that are not otherwise deemed to have rejected the Plan.

Even if all of the classes of claims accept a plan, the court may determine that the plan should not be confirmed if the plan does not meet the requirements of section 1129 of the Bankruptcy Code. This section requires, among other provisions, that a plan be in the "best interests" of creditors and "feasible" in order that it may be confirmed. The "best interests" test generally requires that the value of the consideration to be distributed to the holders of claims under a plan may not be less than what they would receive if the assets of the debtor were to be liquidated under a hypothetical liquidation pursuant to chapter 7 of the Bankruptcy Code (in which the debtor's estate is liquidated by a trustee under the statutory scheme set forth in chapter 7, not by a debtor in possession or a trustee under a plan). The court must also find that there is a reasonable probability that the debtor will be able to perform the obligations set forth in the plan, and that the debtor will be able to continue operations after confirmation without the need for further financial reorganization in order to fulfill the "feasibility" requirement under section 1129 of the Bankruptcy Code. The Debtors believe that the Plan satisfies both of these requirements, as more fully discussed below.

Even though a creditor may choose not to vote or may choose to vote against a plan, the creditor will be bound by the terms and treatment set forth in the plan, if such plan is accepted by the required majorities in each class of claims entitled to vote on the Plan, or is otherwise confirmed by the court.

The proponent of a plan may seek confirmation of the plan under the so-called "cramdown" provisions of the Bankruptcy Code, in the event the requisite approval of impaired classes is not obtained. Pursuant to section 1129(b) of the Bankruptcy Code, a proponent may "cramdown" a plan against a non-accepting class of claims or equity interests, if the plan complies with all of the requirements of section 1129(a) (except section 1129(a)(8), which requires acceptance by all impaired classes), and the proponent establishes, among other things, that the plan is accepted by at least one impaired class of creditors, that the plan is fair and equitable, and that the plan does not unfairly discriminate. In these Chapter 11 Cases, the

Debtors intend to request that the Court confirm the Plan under the "cramdown" provisions of section 1129(b) of the Bankruptcy Code, in view of the fact that certain classes are considered rejecting ones for Plan voting purposes.

III. VOTING AND CONFIRMATION OF THE PLAN.

A. Voting and Ballots

If one or more of your Claims is in a Class entitled to vote on the Plan, the Voting Agent (defined below) has enclosed one or more Ballots with return envelopes (WITHOUT POSTAGE ATTACHED) for voting to accept or reject the Plan. The Debtors urge you to accept the Plan by completing, signing and returning the enclosed Ballot(s) in the return envelope(s) (WITH POSTAGE AFFIXED BY YOU), to the Voting Agent identified immediately below (the "Voting Agent"):

IF BY REGULAR MAIL:

Donlin Recano & Company, Inc.
Re: HSF Holding, Inc., *et al*.
Attn: Voting Department
P.O. Box 2034, Murray Hill Station
New York, NY 10156-0701

IF BY HAND DELIVERY OR OVERNIGHT COURIER:

Donlin Recano & Company, Inc.
Re: HSF Holding, Inc., *et al*.
Attn: Voting Department
419 Park Avenue South, Suite 1206
New York, NY 10016

Every Ballot must be sent so that it is RECEIVED BY THE VOTING AGENT WITH AN ORIGINAL SIGNATURE (NOT A PHOTOCOPIED OR FACSIMILE SIGNATURE) NO LATER THAN 4:00 P.M., PREVAILING EASTERN TIME, ON _____, 2009 (the "Voting Deadline").

Detailed voting instructions are printed on and/or accompany each Ballot. Ballots must be received by the Voting Agent on or before the Voting Deadline, and any Ballot received after the Voting Deadline shall not be counted. Any unsigned Ballot or any Ballot that has no original signature, including any Ballot received by facsimile or other electronic means, or a Ballot with only a photocopy of a signature shall not be counted. Any Ballot that is not clearly marked as voting for or against the Plan, or marked as both voting for and against the Plan, shall not be counted. Any Ballot that is properly completed and timely received shall not be counted if such Ballot was sent in error to, or by, the voting party, because the voting party did not have a Claim that was entitled to be voted in the relevant voting Class as of the Voting Record Date.

Each holder of a Claim that is voting more than one Claim in a voting Class must vote all of its Claims within a particular voting Class either to accept or to reject the Plan, and may not split its vote in the same voting Class, and thus, a Ballot (or Ballots in the same voting Class) that partially rejects and partially accepts the Plan will not be counted. Whenever a holder of a Claim in a voting Class casts more than one Ballot voting the same Claim prior to the Voting Deadline, the last Ballot physically received by the Voting Agent prior to the Voting Deadline (or the first mail collection on the Voting Deadline, as the case may be) shall be deemed to reflect the voter's intent, and thus shall supersede and replace any prior cast Ballot(s), and any prior cast Ballot(s) shall not be counted.

The Debtors intend to file in the very near future their Motion for Order (A) Approving Disclosure Statement; (B) Fixing Voting Record Date; (C) Approving Solicitation And Voting Procedures With Respect To Debtors' Joint Plan of Liquidation Under Chapter 11 of the Bankruptcy Code; (D) Approving Form Of Solicitation Package And Notices; And (E) Scheduling Certain Dates In Connection Therewith (the "Disclosure Statement Motion"). The Disclosure Statement Motion will seek the entry of an order (the "Disclosure Statement Order") which establishes, among other things: (a) the deadlines, procedures and instructions for voting to accept or reject the Plan; (b) the applicable standards for tabulating Ballots; (c) the deadline for filing objections to Confirmation of the Plan; and (d) the date and time of the Confirmation Hearing (also set forth below).

B. **Confirmation Hearing**

The Bankruptcy Court will hold the Confirmation Hearing commencing at _____ (Eastern Time), on _____ at the United States Bankruptcy Court for the District of Delaware, 824 North Market Street, 6th Floor, Courtroom No. 2, Wilmington, Delaware 19801, before the Honorable Peter J. Walsh, United States Bankruptcy Judge. The Confirmation Hearing may be adjourned from time to time without further notice. At the Confirmation Hearing, the Bankruptcy Court will (i) determine whether the requisite vote has been obtained for each Class entitled to vote under the Plan, (ii) hear and determine objections, if any, to the Plan and to confirmation of the Plan that have not been previously disposed of, (iii) determine whether the Plan meets the confirmation requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

Any objection to confirmation of the Plan must be in writing and filed with the Bankruptcy Court and served in a manner so as to be received on or before _____, 2009 at 4:00 p.m. Eastern Time by:

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IV. **RECOMMENDATION.**

The Debtors strongly recommend that you vote in favor of the Plan. Your vote on the Plan is important. Non-acceptance of the Plan may result in protracted delays, a chapter 7 liquidation, or confirmation of an alternative chapter 11 plan. These alternatives may not provide for distribution of as much value to holders of Allowed Claims as does the Plan. The Debtors believe that unsecured creditors will receive a greater distribution under the Plan than they would in a chapter 7 liquidation, as more fully discussed below.

V. IMPORTANT CONSIDERATIONS AND RISK FACTORS.

A. Read this Disclosure Statement and the Plan Carefully

ALL CREDITORS ARE URGED TO CAREFULLY READ THIS DISCLOSURE STATEMENT, WITH ALL ATTACHMENTS AND ENCLOSURES IN THEIR ENTIRETY, IN ORDER TO FORMULATE AN INFORMED OPINION AS TO THE MANNER IN WHICH THE PLAN AFFECTS THEIR CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS, AND TO DETERMINE WHETHER TO VOTE TO ACCEPT THE PLAN.

YOU SHOULD ALSO READ THE PLAN CAREFULLY AND IN ITS ENTIRETY. THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF THE PLAN FOR YOUR CONVENIENCE, BUT THE TERMS OF THE PLAN ITSELF SUPERSEDE AND CONTROL.

B. The Debtors Have No Duty to Update

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE BY THE DEBTORS, AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT AFTER THAT DATE DOES NOT IMPLY THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THAT DATE. THE DEBTORS HAVE NO DUTY TO UPDATE THIS DISCLOSURE STATEMENT.

C. No Representations Outside the Disclosure Statement are Authorized

NO REPRESENTATIONS CONCERNING OR RELATED TO THE DEBTORS, THE CHAPTER 11 CASES, OR THE PLAN, ARE AUTHORIZED BY THE BANKRUPTCY COURT OR THE BANKRUPTCY CODE, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE, OR REJECTION, OF THE PLAN THAT ARE OTHER THAN AS CONTAINED IN, OR INCLUDED WITH, THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.

D. All Information was Provided by the Debtors, and was Relied Upon by Professionals

ALL COUNSEL AND OTHER PROFESSIONALS FOR THE DEBTORS HAVE RELIED UPON INFORMATION PROVIDED BY THE DEBTORS IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE STATEMENT. ALTHOUGH COUNSEL FOR THE DEBTORS HAS PERFORMED CERTAIN LIMITED DUE DILIGENCE IN CONNECTION WITH THE PREPARATION OF THIS DISCLOSURE STATEMENT, COUNSEL HAS NOT VERIFIED INDEPENDENTLY THE INFORMATION CONTAINED HEREIN.

E. **Projections and Other Forward Looking Statements are Not Assured, and Actual Results May Vary**

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS, BY NATURE, FORWARD LOOKING, AND CONTAINS ESTIMATES AND ASSUMPTIONS WHICH MAY ULTIMATELY PROVE TO BE INCORRECT, AND CONTAINS PROJECTIONS WHICH MAY BE MATERIALLY DIFFERENT FROM ACTUAL FUTURE RESULTS. THERE ARE UNCERTAINTIES ASSOCIATED WITH ANY PROJECTIONS AND ESTIMATES, AND ALL SUCH PROJECTIONS AND ESTIMATES SHOULD NOT BE CONSIDERED ASSURANCES OR GUARANTEES OF THE AMOUNT OF FUNDS THAT MIGHT BECOME AVAILABLE FOR DISTRIBUTION, OR THE AMOUNT OF CLAIMS OR EQUITY INTERESTS IN THE VARIOUS CLASSES THAT MIGHT BE ALLOWED.

SPECIFICALLY, THE ALLOWED AMOUNT OF CLAIMS IN EACH CLASS COULD BE SIGNIFICANTLY MORE THAN PROJECTED, WHICH, IN TURN, COULD CAUSE DISTRIBUTIONS TO BE REDUCED SUBSTANTIALLY. IF SECURED TAX CLAIMS, OTHER SECURED CLAIMS, ADMINISTRATIVE EXPENSE CLAIMS, PRIORITY TAX CLAIMS, OTHER PRIORITY CLAIMS AND/OR CONVENIENCE CLAIMS EXCEED PROJECTIONS, FEWER ESTATE ASSETS OR NONE AT ALL MAY BE AVAILABLE FOR DISTRIBUTION TO THE HOLDERS OF HAWAII SUPERFERRY GENERAL UNSECURED CLAIMS.

F. **This Disclosure Statement was Not Approved by the Securities and Exchange Commission**

ALTHOUGH A COPY OF THE DISCLOSURE STATEMENT HAS BEEN SERVED ON THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC"), THIS DISCLOSURE STATEMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. NEITHER THE SEC, NOR ANY STATE REGULATORY AUTHORITY, HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT, THE EXHIBITS HERETO, OR THE STATEMENTS CONTAINED HEREIN, AND ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

G. **No Legal or Tax Advice is Provided to You by this Disclosure Statement**

THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH HOLDER OF A CLAIM OR EQUITY INTEREST SHOULD CONSULT HIS, HER, OR ITS OWN LEGAL COUNSEL AND ACCOUNTANT AS TO LEGAL, TAX AND OTHER MATTERS CONCERNING HIS, HER, OR ITS CLAIM OR EQUITY INTEREST.

THIS DISCLOSURE STATEMENT IS NOT LEGAL ADVICE TO YOU. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN OR OBJECT TO CONFIRMATION OF SUCH PLAN.

H. **No Admissions Made**

NOTHING CONTAINED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY (INCLUDING, WITHOUT LIMITATION, THE DEBTORS), OR BE ADMISSIBLE IN ANY PROCEEDING OR MATTER INVOLVING THE DEBTORS OR ANY OTHER PARTY (INCLUDING, WITHOUT LIMITATION, UNDER FEDERAL RULE OF EVIDENCE 408, AND SIMILAR STATE RULES), OR DEEMED EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR ON HOLDERS OF CLAIMS OR EQUITY INTERESTS.

I. **No Waiver of Right to Object or Right to Recover Transfers and Estate Assets**

ANY VOTE FOR OR AGAINST THE PLAN SHALL NOT CONSTITUTE A WAIVER OR RELEASE OF ANY CLAIMS OR RIGHTS OF THE DEBTORS (OR ANY PARTY IN INTEREST, AS THE CASE MAY BE) TO OBJECT TO THAT CREDITOR'S CLAIM, OR RECOVER ANY PREFERENTIAL, FRAUDULENT, OR OTHER VOIDABLE TRANSFER OR ESTATE ASSETS FROM SUCH CREDITOR, REGARDLESS OF WHETHER ANY CLAIMS OF THE DEBTORS OR THEIR RESPECTIVE ESTATES ARE SPECIFICALLY OR GENERALLY IDENTIFIED HEREIN.

J. **Certain Risk Factors**

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE RISK FACTORS DISCUSSED BELOW PRIOR TO VOTING ON THE PLAN. THESE RISK FACTORS, HOWEVER, SHOULD NOT BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN OR ITS IMPLEMENTATION.

K. **Bankruptcy Law Risks and Considerations**

1. *Confirmation of the Plan is Not Assured*

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation under the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will reach the same conclusion. There can also be no assurance that modifications to the Plan will not be required for confirmation, or that such modifications would not necessitate a resolicitation of votes. Additionally, if the conditions to confirmation set forth in the Plan are not satisfied or waived, the Plan shall not, by its own terms, be confirmed by the Bankruptcy Court.

2. *The Effective Date Might Be Delayed or Never Occur*

There can be no assurance as to the timing of the Effective Date or that it will occur. If the conditions precedent to the Effective Date set forth in the Plan have not occurred or been waived by the Debtors in accordance with the Plan, the Plan may not become effective and the Confirmation Order would be vacated. In that event, no distributions would be made and the holders of Claims and Equity Interests would be restored to the status quo ante as

of the moment before confirmation, and the Debtors' obligations for Claims and the Equity Interests would remain unchanged.

3. *Projections*

This Disclosure Statement contains the Debtors' projections of Allowed Claims against the Estates. While the Debtors believe that their projections of Allowed Claims are reasonable, there can be no assurance that such projections will be realized, and the amount of Allowed Claims could be significantly more than projected and the amount of distributable assets could be less than projected, resulting in a substantial reduction in the recoveries to creditors projected herein. These projections are preliminary and subject to change. The claims administration and objection process may result in substantially different figures, which could have a material effect on distributions under the Plan.

4. *Tax Considerations*

The tax consequences of the Plan will vary based on the individual circumstances of each holder of a Claim or Equity Interest. Accordingly, each holder of a Claim or Equity Interest is strongly urged to consult with his, her or its own tax advisor regarding the federal, state, and local tax consequences of the Plan.

VI. HISTORICAL INFORMATION.

A. Company Organization and Structure

HSF Holding, Inc. ("HSF") is the parent corporation and direct owner of 100% of the voting equity in Hawaii Superferry, Inc. ("Superferry"). HSF is a Delaware corporation. Superferry is a Hawaii corporation through which the Debtors conducted their business.

Superferry was formed in 2002 to develop a Jones Act maritime franchise providing daily high-speed passenger and vehicle ferry service between the four principal Hawaiian Islands – Oahu, Maui, Hawaii and Kauai (collectively, the "Islands").

In April 2004, Superferry entered into shipbuilding contracts with Austal USA LLC, a wholly-owned subsidiary of Austal Ships ("Austal"), an Australian company that specializes in the design and construction of aluminum vessels, to build two high-speed aluminum-hulled catamarans with drive-on/drive-off vehicle capability for fast ferry service. Both vessels are high-speed aluminum catamarans capable of carrying up to 866 passengers and 282 cars or 25 trucks/buses and 60 cars, with one measuring 107-meters in length, the other 113-meters in length.

The first ship, the "*Alakai*", arrived in Honolulu Harbor from Austal's shipyard in Mobile, Alabama on June 30, 2007 and began transporting passengers and vehicles between the Islands in August, 2007.

A second, nearly identical ship herein referred to as "*Hull 616*" or the "*Huakai*", was recently constructed by Austal at its Mobile, Alabama shipyard. The Debtors accepted delivery of *Hull 616* on or about April 21, 2009.

B. **The Debtors' Capital and Equity Structure**

Pursuant to that certain Commitment to Guarantee Obligations by the United States of America, Accepted by Hawaii Superferry, Inc., dated October 28, 2005, by and among Superferry and the U.S. Department of Transportation, Maritime Administration ("MARAD"), MARAD agreed to provide guarantees for the construction and term financing of the ferries. On April 27, 2006, Superferry refinanced its initial MARAD guaranteed financing facility provided by ABN AMRO Bank, N.V. through the issuance of two series of 20-year bonds designated the United States Government Guaranteed Ship Financing Obligations, 2006 Series A, in the principal amount of $68,717,064 (the "2006 Series A Bonds") and the United States Government Guaranteed Ship Financing Obligations, 2006 Series B, in the principal amount of $71,013,936 (the "2006 Series B Bonds" and collectively with the 2006 Series A Bonds, the "2006 Bonds").

The 2006 Series A Bonds accrue interest at 5.73% per annum and are set to mature on May 30, 2027. A principal and interest payment of approximately $2.9 million was due and owing under the 2006 Series A Bonds on May 30, 2009. The 2006 Series B Bonds accrue interest at 5.80% per annum and are set to mature on the 20th anniversary of the delivery of *Hull 616* to the Debtors (*to wit*, April 21, 2029). As of the Commencement Date, the principal amount outstanding on the 2006 Bonds was approximately $135,774,872. The 2006 Bonds are secured by preferred ship mortgages recorded against the ferries in favor of MARAD.

Additionally, pursuant to that certain Subordinated Loan Agreement, dated April 9, 2004, by and among Superferry and Austal, Austal agreed to provide Superferry with a $10,351,643 term loan to fund construction of the *Alakai* and a $10,290,523 term loan to fund construction of *Hull 616* (collectively, the "Austal Term Loans"). The Austal Term Loans accrue interest at 10% per annum, and each term loan is set to mature on the fifth anniversary of the delivery date of the related ferry, subject to certain terms and conditions associated with the 2006 Bonds. As of the Commencement Date, the principal amount outstanding on the Austal Term Loans was approximately $22,958,902.19 in the aggregate. The Austal Term Loans are secured by ship mortgages recorded against the ferries in favor of Austal, but which are fully subordinate to the ship mortgages granted to MARAD. Further, due to limited available liquidity at the time of delivery of the *Huakai*, Austal agreed to defer $1,622,109 of the final payment due at delivery. This obligation is evidenced by a note executed by Debtors bearing interest at 8% per annum and secured by a first priority priority lien on a spare main engine.

Moreover, on September 7, 2005, Superferry entered into an Operating Agreement (the "Harbors Operating Agreement") with the Harbors Division of the State of Hawaii Department of Transportation ("DOT"). The Harbors Operating Agreement provides for the use by Superferry of specific pier areas at the Honolulu, Nawiliwili, Kahului, and Kawaihae Harbors and the use of certain equipment to be provided by DOT, funded by approximately $40 million of State appropriations, consisting primarily of vehicle ramps and the barges on which the ramps would be placed to allow vehicle access between the ferry and the pier. The term of the Operating Agreement was 22 years from commencement of service of the *Alakai*. In addition to the published dockage fees, Superferry was required under the terms of the Harbors Operating Agreement to pay fees to DOT based on the number of passengers and vehicles and a percentage of gross receipts, subject to a minimum annual guaranteed amount. As a result of the Second Circuit Court (Maui)'s October 9, 2007 ruling that the Harbors Operating Agreement is

void as it relates to the Kahului Harbor (discussed below) and the Hawaii Supreme Court's March 16, 2009 decision holding that a state law allowing the Debtors to operate without completing an environmental impact study was unconstitutional (discussed below), the Debtors submit that no amounts are due and owing DOT pursuant to the Harbors Operating Agreement. The Debtors' alleged obligations under the Harbors Operating Agreement are secured by a third ship mortgage on each of the vessels and a $833,000 letter of credit in favor of DOT. The third mortgages are fully subordinate to the mortgages granted in favor of MARAD and Austal.

Furthermore, on August 17, 2007, HSF executed a senior secured note (the "Note") in favor of Guggenheim Corporate Funding, LLC ("Guggenheim") in the amount of $47,750,000 (the "Note Amount"). Approximately $12,750,000 of the Note Amount was placed in an escrow by HSF to pay cash interest due on the Note. As of the Commencement Date, there was an approximate $7,500,000 (the "Escrow Funds") balance remaining in the escrow account. The principal amount due under the Note as of the Commencement Date was $51,752,288.12. Interest on the Note accrues at 12% per annum, 7% of which is paid in cash and 5% paid in kind. The Note matures on August 17, 2015. The Note is secured by a pledge of HSF's voting equity in Superferry. The cash interest portion of the interest payments is funded through 2011 by the aforementioned escrow account. On November 11, 2008, Guggenheim provided written notice to HSF that a default under the terms of the Note had ripened and reserved all of its rights with respect to such default. Guggenheim did not accelerate the Note. As of the Commencement Date, the default remained outstanding.

On June 5, 2009, the Debtors filed the Joint Motion of the Debtors and Guggenheim Corporate Funding, LLC For Relief From Stay Under Section 362 of the Bankruptcy Code to Authorize and Direct Release of Escrow Funds (Docket No. 44) (the "Guggenheim Motion"). The Guggenheim Motion seeks the entry of an order granting relief from stay under section 362 of the Bankruptcy Code to authorize and direct the release of the Escrow Funds to Guggenheim. The Guggenheim Motion is currently scheduled to be heard by the Bankruptcy Court on July 20, 2009.

As of the Commencement Date, the Debtors had approximately $1,084,218.38 million in unrestricted cash. In addition, the Debtors had several escrow accounts in connection with pre-petition transactions, as follows:

Party Escrow Account Maintained For	Amount in Escrow Account as of Commencement Date	Nature of Escrow Account
Guggenheim	$7,500,000	Funds set aside in connection with Note
State of Hawaii	$833,000	Payments pursuant to the Harbors Operating Agreement
Chase Paymentech	$136,000[2]	Customer credit card payments
U.S. Maritime Administration	$215,000	Funds set aside to pay Austal in connection with construction of ferries

Prior to the Commencement Date, HSF issued three classes of preferred stock on three separate occasions. The three classes of preferred stock include: (i) Series A Convertible Preferred Stock ("Series A Preferred"); (ii) Series B Convertible Preferred Stock ("Series B Preferred") and (iii) Series C Convertible Preferred Stock ("Series C Preferred") (collectively, the "Preferred Stock"). Series C Preferred is the most senior of the three tranches of Preferred Stock. The total capital contributed to HSF with respect to the Preferred Stock issuance was $92,900,000. Of this amount, approximately $85,200,000 was invested by J.F. Lehman & Co. and its affiliates (hereafter, "JFL"), a private equity firm specializing in executing control investments in maritime, aerospace and defense companies.

The Series A Preferred and Series B Preferred were issued to various venture capital investors and the proceeds of such investments were used to fund, among other things, market studies concerning the viability of starting a high-speed ferry service in the Hawaiian archipelago. Among the investors in the Series B Preferred was JFL, who made an approximate $1,400,000 equity investment on or about April 13, 2005. JFL did not invest in the Series A Preferred.

On October 25, 2005 and March 31, 2006, JFL made equity investments in HSF of $78,800,000 and $5,000,000, respectively. In return for its investment, it received Series C Preferred securities. The funds from the Series C Preferred offering were used to pay a portion of the construction of the ferries and to significantly expand the Debtors' infrastructure and fund operations in preparation for the launch of service as well as to fund the start-up operations of the ferry service.

[2] After the Petition Date, $100,000 from this account was released for the benefit of the Debtors.

As a result of the Series C Preferred offering, JFL obtained a majority equity stake in HSF, which currently equates to approximately 69% of the outstanding equity on a fully-diluted basis (including warrants and options). Guggenheim holds warrants that, if exercised, would result in them acquiring approximately 7% of the outstanding equity on a fully-diluted basis in HSF, with the remaining 24% of HSF equity on a fully-diluted basis held by approximately 80 other investors.

As of the date hereof, JFL holds seven of the ten seats on each of the Debtors' boards of directors, including that of Thomas Fargo, who serves as President and CEO of HSF, and is a managing director at JFL. Below is a list of the members of the Debtors' boards of directors:

Directors affiliated with JFL:

1. John F. Lehman – Chairman and Founding Partner of JFL
2. Tig H. Krekel – Vice Chairman of JFL
3. Louis N. Mintz – Partner at JFL
4. C. Alexander Harman – Partner at JFL
5. George A. Sawyer – Operating Executive Board of JFL
6. John W. Shirley – Operating Executive Board of JFL
7. Thomas B. Fargo – Operating Executive Board and Managing Director at JFL, President and CEO & director of HSF

Directors not affiliated with JFL:

8. Jeff Arce
9. David Cole
10. Warren Haruki

C. **The Agreement and Fee Agreement**

JFL, HSF and Superferry are party to that certain Consultancy Agreement (the "Agreement") dated September 19, 2005. Pursuant to the Agreement, JFL agreed to provide strategic, organizational, business, management, technical and financial advisory services to Superferry. In consideration for such services, JFL received $2.5 million on the closing of the Series C Preferred offering. Additionally, JFL received a $500,000 annual consulting fee until August 2007, when the *Alakai* began transporting passengers between the Islands, and thereafter a $1 million annual consulting fee pursuant to the terms of the Agreement. No consulting fee to JFL has been paid since November 2008 when HSF defaulted under the terms of the Note with Guggenheim.

Additionally, JFL and HSF are party to that Consultancy Fee Support Agreement (the "Fee Agreement") dated October 28, 2005. Pursuant to the Fee Agreement, HSF agreed that, if at any time Superferry is prohibited by its debt financing agreements or otherwise from making any payment due to JFL under the Agreement, HSF shall pay the amount due thereunder.

D. **Pre-Petition Sale of Assets**

Prior to the Petition Date, the Debtors engaged in the sale of certain assets which, in their business judgment, they had determined were not necessary to the orderly liquidation of their business. Specifically, the Debtors sold office furniture, fixtures and equipment (the "FF&E") related to the non-residential real property formerly leased by the Debtors and located at Building 1 Waterfront Plaza, Suite 300, 500 Ala Moanan Boulevard, Honolulu, Hawaii (the "Premises"). The sale of the FF&E occurred before the Debtors vacated the Premises at the end of April, 2009. Additionally, the Debtors held two auctions for the sale of certain port equipment, improvements, vehicles and office furniture. The first auction was held on Maui on May 16, 2009, while the second auction was held on Honolulu on May 23, 2009. The total proceeds realized from the pre-petition liquidation efforts set forth above were in the approximate amount of $637,549.81 (gross).

E. **Events Leading to Chapter 11**

A number of events significantly impacted the Debtors' operations and directly led to the decision to file these Chapter 11 Cases.

1. *Adverse Court Rulings*

On March 16, 2009, the Supreme Court of Hawaii issued a significant decision holding that a state law allowing the Debtors to operate without completing an environmental impact study was unconstitutional. The Debtors were immediately forced to cease operations in the Hawaiian Islands as a result of this adverse judicial decision.

By way of background, on February 23, 2005, DOT concluded that the harbor improvements related to the Debtors' ferry operations were exempt from an environmental review pursuant to Chapter 343 of the Hawaii Revised Statutes ("Chapter 343").

On March 21, 2005, special interest plaintiffs filed a lawsuit in the Second Circuit Court (Maui) challenging DOT's decision. The special interest plaintiffs maintained that a Chapter 343 study was required because of alleged concerns regarding the operation of the ferry service among the Islands, including potential collisions with whales, and the transfer of alien plant and animal species among the Islands. The Second Circuit ruled on July 12, 2007 that DOT had complied with the letter of the law and that an environmental study was not required. Thereafter, in August, 2007, the *Alakai* began transporting passengers and vehicles between the Islands. The special interest plaintiffs appealed the matter to the Hawaii Supreme Court, which, in its August 31, 2007 decision, held that DOT erred in holding that the DOT improvements were exempt from the requirements of Chapter 343. On October 9, 2007, the Second Circuit Court, on remand, enjoined the Debtors' operations until DOT completed an environmental assessment. The Second Circuit Court also ordered that the Harbors Operating Agreement was void as it related to Kahului Harbor because it was not preceded by the requisite environmental assessment.

Thereafter, the Governor of the State of Hawaii called the Legislature into session through executive proclamation. After much debate and extensive testimony, the Legislature passed "A Bill for an Act Relating to Transportation" known as Act 2. Act 2 amended the law to

permit operation of a large capacity ferry vessel company while an environmental study was undertaken. Act 2 was signed into law in Hawaii on November 2, 2007.

On November 14, 2007, in compliance with Act 2, the Second Circuit Court lifted the injunction and allowed the Debtors to resume service while an environmental assessment was conducted. Additionally, the Second Circuit Court vacated its October 9, 2007 order as it related to the Harbors Operating Agreement. The special interest plaintiffs appealed the Second Circuit Court's decision to lift the injunction, arguing that Act 2 violated the Hawaii state constitution.

The Supreme Court of Hawaii ruled in favor of the special interest plaintiffs, finding on March 16, 2009 that Act 2 was an unconstitutional special law in violation of Article XI, Section 5 of the Hawaii state constitution claiming that it was crafted specifically to benefit the Debtors and allowed the Debtors to operate before an environmental study was completed, as required under state law. As a result of this decision, Superferry was forced to permanently cease operations and relocate the *Alakai* to Mobile, Alabama.

On May 13, 2009, the Supreme Court of Hawaii denied the State of Hawaii's motion for reconsideration of the March 16, 2009 order.

2. *Other External Factors*

In addition to the adverse ruling by the Hawaii Supreme Court, other factors significantly impacted the Debtors' operations and directly led to the Debtors' decision to file for Chapter 11 protection.

First, the challenging economic conditions during 2008 and the first quarter of 2009 resulted in lower than expected revenues. The weak economy resulted in a decline in tourism to the state of Hawaii and thus, a reduced demand by tourists for ferry service between the Islands. Additionally, the negative economic conditions resulted in Hawaii residents, who made up the largest component of the Debtors' ridership and who often rely, directly or indirectly, on Hawaii's tourism industry as the source of their livelihood, traveling less between the Islands.

Second, an unprecedented spike in fuel prices occurred during the summer of 2008, peaking at over $4.30/gallon and resulting in significantly increased operating expenses. The unprecedented fuel prices strained the Debtors' financial situation since fuel is one of the Debtors' largest vessel operating expenses. The Debtors were not able to fully pass this large cost increase on to their customers in order to remain competitive with various airlines who offered inter-Island flights. At the same time, the Debtors were forced to lower their prices due to an ongoing price war between two of the local airlines.

Finally, the Debtors' lost certain customers, and associated revenue, as a result of several interruptions to its service. First, the August 31, 2007 and October 9, 2007 decisions of the Second Circuit Court to halt the Debtors' operations until DOT completed an environmental assessment further eroded the public's confidence in the Debtors' reliability, which directly impacted ridership. Thereafter, following the lifting of the injunction by the Second Circuit Court on November 14, 2007, the Debtors experienced delays in their ability to resume service as a result of structural damage to the State's harbor facilities in Kahului, Maui. The Debtors

were not able to resume ferry service until December 13, 2007. The Debtors' inability to promptly commence services following the passage of Act 2 caused a significant doubt in the public of the Debtors' service. Then, during a regular dry-docking of the *Alakai* in February 2008, the vessel sustained damage at the fault of the maintenance company performing the services. Although the service provider paid for the damages, the Debtors suffered a loss of revenue and damage to their perceived reliability by the public since they were unable to provide ferry service during that time. From April 2008, when the Debtors' re-launched the *Alakai* into service, until the Hawaii Supreme Court's March 16, 2009 order, the Debtors demonstrated outstanding reliability. However, by then, the damage to the Debtors' reputation had already been inflicted.

VII. THE CHAPTER 11 CASES.

A. First Day Motions

On the Commencement Date, the Debtors filed a number of motions seeking entry of so-called "first day" orders intended to facilitate the Debtors' transition into chapter 11 by approving certain regular business conduct for which approval of the Bankruptcy Court is required. The first day hearings were held on June 3, 2009.

The first day orders entered by the Bankruptcy Court consist of the following:

- procedural consolidation of the Chapter 11 Cases for reasons of convenience and efficiency, but not substantive consolidation of the Debtors (Docket No. 23);
- continuation of the Debtors' cash management system, bank accounts and business forms, in lieu of closing existing accounts and establishing an entirely new post-petition cash management system (Docket No. 25);
- interim approval of procedures regarding continued utility services (Docket No. 26);
- payment of certain pre-petition taxes and fees (Docket No. 29);
- payment of employee's accrued prepetition wages and salaries and employee benefit claims (Docket No. 28);
- payment of prepetition insurance premiums (Docket No. 27); and
- retention of Donlin, Recano & Company, Inc. as claims, noticing and balloting agent (Docket No. 24).

B. **Next Day Orders**

Also on the Commencement Date, the Debtors filed a number of motions seeking entry of so-called "next day" orders that, while critical to the business, did not have the same urgency or required greater notice than the "first day" orders. The following motions are scheduled to be heard on July 1, 2009:

- Final Hearing on Motion for Interim and Final Order (1) Determining that Utility Companies have been Provided with Adequate Assurance of Payment; (II) Prohibiting Utility Companies from Altering, Refusing or Discontinuing Service on Account of Prepetition Invoices; and (III) Approving Adequate Assurance Procedures (Docket No. 5);

- Motion for Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals (Docket No. 12);

- Motion of the Debtors for Authority to Employ and Compensate Certain Professionals in the Ordinary Course of Business (Docket No. 13);

- Application for Entry of an Order Authorizing the Employment and Retention of Pepper Hamilton LLP as Counsel to the Debtors (Docket No. 21);

- Application for Order Authorizing Employment and Retention of CRG Partners Group LLC as Debtors' Financial Advisor Nunc Pro Tunc to the Petition Date (Docket No. 22);

- Motion Of Debtors Pursuant To 11 U.S.C. Section 365(a), To Reject An Unexpired Lease Of Non-Residential Real Property Nunc Pro Tunc To The Petition Date (Docket No. 37);

- Application to Employ And Retain Goodsill Anderson Quinn & Stifel LLP As Special Counsel To The Debtors Nunc Pro Tunc To The Petition Date (Docket No. 42);

- Application to Employ Debtors Application, for Approval of Employment of Blank Rome LLP, as Special Counsel to the Debtors Nunc Pro Tunc to Petition Date (Docket No. 56);

- Motion to Approve of the Debtors and Debtors in Possession For an Order Approving Abandonment of Debtors Interest in Two High Speed Ferries (Docket No. 57); and

- Motion For An Order Authorizing the Debtors to Reject Executory Contracts Nunc Pro Tunc To June 11, 2009 (Docket No. 58).

In addition to the motions noted above, the Motion of the State of Hawaii for Order Transferring Venue of These Cases to United States District Court for the District of Hawaii (Docket No. 77), filed by the State of Hawaii, is also scheduled to be heard by the Bankruptcy Court at the July 1, 2009 hearing. The Debtors oppose this Motion. Furthermore, although the Joint Motion Of The Debtors And Guggenheim Corporate Funding, LLC For Relief From Stay Under Section 362 Of The Bankruptcy Code To Authorize And Direct Release Of Escrow Funds (Docket No. 44) was originally scheduled to be heard by the Bankruptcy Court on July 1, 2009, the Debtors, Guggenheim and the Committee have agreed to adjourn this matter to July 20, 2009.

C. **The Debtors' Professionals**

In connection with the Chapter 11 Cases, the Debtors have filed retention applications for certain professionals to represent and assist them in the administration of the Chapter 11 Cases. Specifically, as noted above, the Debtors have sought to retain (i) Pepper Hamilton, LLP as counsel to the Debtors; (ii) CRG Partners Group LLC as financial advisor to the Debtors; (iii) Goodsill Anderson Quinn & Stifel LLP as special counsel for the Debtors in connection with general corporate matters, environmental litigation, and other legal matters for the Debtors locally in the State of Hawaii; and (iv) Blank Rome LLP as special maritime counsel.

D. **The Committee**

At a formation meeting held on June 11, 2009, the Office of the U.S. Trustee appointed the Committee pursuant to section 1102 of the Bankruptcy Code. The Committee is comprised of MTU, Entrix, Inc. and Larry Christiansen. The Committee has sought to retain Kelley Drye & Warren LLP as lead counsel and Draper & Goldberg, PLLC as Delaware counsel. As of the date hereof, the Committee has not filed applications with the Bankruptcy Court seeking approval of such professional retentions.

E. **Claims Administration**

1. *Filing of Schedules*

On June 16, 2009, the Bankruptcy Court entered the Order Extending Debtors' Time to File Schedules and Statements of Financial Affairs (Docket No. 63) granting the Debtors through and including July 14, 2009 to file their Schedules.

2. *Meeting of Creditors*

The Office of the U.S. Trustee will conduct a meeting of the Debtors' creditors in accordance with section 341 of the Bankruptcy Code on July 1, 2009 at 10:00 am.

3. *Bar Date for Prepetition Claims*

As of the date hereof, the Bankruptcy Court has not established a deadline for filing proofs of claims in these Chapter 11 Cases.

F. Causes of Action Arising Under Chapter 5 of the Bankruptcy Code

The Debtors are investigating transfers that may be avoided as preferential, fraudulent or otherwise under sections 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code or applicable state law such as the Uniform Fraudulent Transfer Act (collectively, "Avoidance Actions"). The transfers being considered include transfers made to insiders, transfers (if any) for which the Debtors may not have received reasonably equivalent value and transfers (if any) made while the Debtors were insolvent or by which the Debtors became insolvent as a result of the transfer. The work is ongoing and the Debtors hereby reserve any and all rights that they may have to file Avoidance Actions against any recipients or other beneficiaries of the transfers being investigated.

G. Other Litigation Claims of the Debtors

The Debtors are investigating any other litigation claims against third parties at this time. The right to bring such claims is expressly preserved under the Plan, and any right which the Plain Administrator subsequently becomes aware may be enforced for the benefit of creditors of the Debtors' bankruptcy estates, and consistent with the terms of the Plan.

H. Exclusivity

The Bankruptcy Code provides for a 120-day period within which only the Debtors may file a plan in these Chapter 11 Cases. That period expires on September 27, 2009, and it is the Debtors' intention to solicit acceptances and seek confirmation of the Plan on or before that date. The Debtors reserve the right to seek an extension of that deadline if necessary or appropriate.

I. Leases and Executory Contracts

The Bankruptcy Code provides that the Debtors may assume or reject unexpired leases and executory contracts. As noted above, the Debtors have filed the Motion Of Debtors Pursuant To 11 U.S.C. Section 365(a), To Reject An Unexpired Lease Of Non-Residential Real Property Nunc Pro Tunc To The Petition Date (Docket No. 37), which seeks the entry of an order authorizing the Debtors to reject, as of the Commencement Date, a non-residential real property lease for property located at Building 1 Waterfront Plaza, Suite 300, 500 Ala Moanan Boulevard, Honolulu, Hawaii. (The Debtors vacated such property in late April 2009.)

Additionally, as noted above, the Debtors have filed the Motion For An Order Authorizing the Debtors to Reject Executory Contracts Nunc Pro Tunc To June 11, 2009 (Docket No. 58), which seeks entry of an order authorizing the Debtors to reject certain executory contracts *nunc pro tunc* to June 11, 2009, the date the motion was filed.

Both motions are scheduled to be heard by the Bankruptcy Court on July 1, 2009.

VIII. SUMMARY OF THE PLAN.

A. General

SET FORTH IN THIS ARTICLE IS A SUMMARY OF CERTAIN OF THE MATTERS CONTEMPLATED TO OCCUR EITHER PURSUANT TO OR IN CONNECTION WITH CONFIRMATION OF THE PLAN. THIS SUMMARY HIGHLIGHTS THE SUBSTANTIVE PROVISIONS OF THE PLAN AND IS NOT, NOR IS IT INTENDED TO BE, A COMPLETE DESCRIPTION OR A SUBSTITUTE FOR A FULL AND CAREFUL READING OF THE PLAN, A COPY OF WHICH IS ANNEXED HERETO AS **EXHIBIT A**. STATEMENTS REGARDING PROJECTED AMOUNTS OF CLAIMS OR DISTRIBUTIONS (OR THE VALUE OF SUCH DISTRIBUTIONS) ARE ESTIMATES BY THE DEBTORS BASED ON CURRENT INFORMATION AND ARE NOT A REPRESENTATION AS TO THE ACCURACY OF THESE AMOUNTS. FOR AN EXPLANATION OF THE BASIS FOR, LIMITATIONS OF, AND UNCERTAINTIES RELATING TO, THESE CALCULATIONS, SEE THE SECTION ENTITLED "CERTAIN RISK FACTORS TO BE CONSIDERED," BELOW.

B. Plan Overview

As described above, the principal goal of a Chapter 11 bankruptcy case is to reorganize or liquidate a debtor's business for the benefit of itself and its creditors and interest holders. The plan of reorganization or liquidation is the blueprint by which these goals are accomplished. It provides the rules and procedures pursuant to which a debtor's creditors and interest holders may be paid and lists the steps a debtor will take to either reorganize or wind up its business.

The Plan provides for the liquidation and conversion of all of the Debtors' remaining assets to cash, or the abandonment of assets, as the case may be, and the distribution of the net proceeds therefrom to creditors holding Allowed Claims, in accordance with the relative priorities set forth in the Bankruptcy Code. The Plan contemplates the appointment of a Plan Administrator, *inter alia*, to implement the terms of the Plan and make distributions in accordance therewith.

C. Treatment of Claims and Equity Interests

The Plan classifies Claims and Equity Interests into three unclassified categories and 10 Classes and provides different treatment for the different categories or Classes of Claims and Equity Interests. A Claim or Equity Interest is placed in a particular unclassified category or Class only to the extent that the Claim or Equity Interest falls within the description of that category or Class. A Claim is also placed in a particular category or Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that category or Class and such Claim has not been paid, released or otherwise settled prior to the Effective Date.

The following table sets forth a brief summary of the classification and general treatment of Claims and Equity Interests under the Plan. In accordance with § 1123(a)(1) of the Bankruptcy Code, (i) Administrative Expense Claims, (ii) Professional Compensation and

Reimbursement Claims and (iii) Priority Tax Claims have not been classified and will be paid in full in Cash to the extent such Claims become Allowed Claims. All other Claims and Equity Interests have been classified.

The information set forth in the table is for convenience of reference only. Each holder of a Claim or Equity Interest should refer to Articles II, III, and IV of the Plan, and the liquidation analysis annexed as **Exhibit B** hereto (the "Liquidation Analysis"), for a full description of the classification and treatment of Claims and Equity Interests provided under the Plan. ALTHOUGH THE DEBTORS BELIEVE THAT THE ESTIMATED RECOVERIES ARE REASONABLE, NO REPRESENTATION CAN BE OR IS BEING MADE WITH RESPECT TO WHETHER THE ESTIMATED RECOVERIES SHOWN WILL BE REALIZED BY THE HOLDER OF AN ALLOWED CLAIM IN A PARTICULAR CLASS. THE ACTUAL RECOVERIES UNDER THE PLAN BY HOLDERS OF CLAIMS WILL DEPEND UPON A VARIETY OF FACTORS INCLUDING BUT NOT LIMITED TO WHETHER, AND IN WHAT AMOUNT, CONTINGENT CLAIMS AGAINST THE DEBTORS BECOME NON-CONTINGENT AND FIXED; WHETHER, AND TO WHAT EXTENT, DISPUTED CLAIMS ARE RESOLVED IN FAVOR OF THE DEBTORS; AND TO WHAT EXTENT RECOVERIES ARE OBTAINED FROM THE DEBTORS' TANGIBLE ASSETS AND CAUSES OF ACTION. FOR AN EXPLANATION OF THE BASIS FOR, LIMITATIONS OF, AND UNCERTAINTIES RELATING TO THESE CALCULATIONS SEE SECTION ENTITLED "CERTAIN RISK FACTORS TO BE CONSIDERED," BELOW.

Class	Description of Claims or Equity Interests	Status	Summary of Treatment Under the Plan
Unclassified	Administrative Expense Claims	Unimpaired	100% of the unpaid Allowed amount of Administrative Expense Claims will be paid in Cash on or as soon as reasonably practicable after the Effective Date.
Unclassified	Professional Compensation and Reimbursement Claims	Unimpaired	100% of the unpaid Allowed amount of Professional Compensation and Reimbursement Claims will be paid in Cash on the date (or as soon thereafter as reasonably practicable) that such Claims are Allowed by final order of the Bankruptcy Court.
Unclassified	Priority Tax Claims	Unimpaired	At the Debtors' option, (i) 100% of the unpaid Allowed amount of Priority Tax Claims to be paid in Cash on or as soon as reasonably practicable after the Effective Date; (ii) 100% of the unpaid Allowed amount of Priority Tax Claims, plus interest, to be paid in Cash over a period not later than 5 years from the Commencement Date; or (iii) such alternative treatment as leaves unaltered the legal, equitable and contractual rights of the holders of such Priority Tax Claims.

Class 1	Other Priority Claims	Unimpaired	100% of the unpaid Allowed amount of Other Priority Claims will be paid in Cash on or as soon as reasonably practicable after the Effective Date.
Class 2	Secured Tax Claims	Unimpaired	At the Debtors' option, (i) 100% of the unpaid Allowed amount of Secured Tax Claims to be paid in Cash on or as soon as reasonably practicable after the Effective Date; (ii) 100% of the unpaid Allowed amount of Secured Tax Claims, plus interest, to be paid in Cash over a period not later than 5 years from the Commencement Date or (iii) such alternative treatment as leaves unaltered the legal, equitable and contractual rights of the holders of such Secured Tax Claims.
Class 3	Other Secured Claims	Unimpaired	At the Debtors' option, (i) 100% of the unpaid Allowed amount of Other Secured Claims to be paid in Cash on or as soon as reasonably practicable after the Effective Date or (ii) abandonment of the relevant collateral, in whole or in part.
Class 4	Guggenheim Secured Claim	Impaired-Deemed to Reject	No distribution will be made on account of the Guggenheim Secured Claim, since Superferry stock against which it assert a lien is being cancelled and has no value.
Class 5(A)	HSF Holding General Unsecured Claims	Impaired	Pro Rata Share of the net proceeds of any Causes of Action held and realized by HSF Holding, Inc. only.
Class 5(B)	Hawaii Superferry General Unsecured Claims	Impaired	Pro Rata Share of Available Cash after full satisfaction of (or the establishment of an appropriate reserve therefor) Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Other Priority Claims, Allowed Secured Tax Claims, Allowed Other Secured Claims, and Allowed Convenience Claims
Class 6	Convenience Claims	Impaired	Cash in an amount equal to 20% percent of such Allowed Convenience Claim, without interest.
Class 7	HSF Holding Preferred Stock Equity Interests	Impaired-Deemed to Reject	Because the value of the Debtors' assets is believed to be less than the total value of their debts and liabilities, it is not anticipated that the holders of Allowed HSF Holding Preferred Stock Equity Interests will receive any distributions on account of such Equity Interests.
Class 8	Hawaii Superferry Preferred Stock Equity Interests	Impaired-Deemed to Reject	Because the value of the Debtors' assets is believed to be less than the total value of their debts and liabilities, it is not anticipated that the holders of Allowed Hawaii Superferry

			Preferred Stock Equity Interests will receive any distributions on account of such Equity Interests.
Class 9	HSF Holding Common Stock Equity Interests	Impaired-Deemed to Reject	Because the value of the Debtors' assets is believed to be less than the total value of their debts and liabilities, it is not anticipated that the holders of Allowed HSF Holding Common Stock Equity Interests will receive any distributions on account of such Equity Interests.
Class 10	Hawaii Superferry Common Stock Equity Interests	Impaired-Deemed to Reject	Because the value of the Debtors' assets is believed to be less than the total value of their debts and liabilities, it is not anticipated that the holders of Allowed Hawaii Superferry Common Stock Equity Interests will receive any distributions on account of such Equity Interests.

D. **Anticipated Distributions**

Under the Plan, holders of Allowed (i) Administrative Expense Claims, (ii) Professional Compensation and Reimbursement Claims, (iii) Priority Tax Claims, (iv) Other Priority Claims, (v) Secured Tax Claims and (vi) Other Secured Claims will receive 100% distribution on account of their Claims, provided, however, that creditors asserting Other Priority Claims on account of pre-petition deposits shall only have Allowed Other Priority Claims to the extent that such deposits fall within the scope of section 507(a)(7) of the Bankruptcy Code, and then only to extent of the $2,425 statutory cap. The Debtors estimate that the total amount of such deposits are, in the aggregate, approximately $75,100.

Upon information and belief, Guggenheim is the only holder of a Claim against HSF. With respect to the Guggenheim Secured Claim, which totaled approximately $51,752,288.12 as of the Commencement Date, the Debtors estimate that Guggenheim will not receive any distribution on account of its Guggenheim Secured Claim since the Superferry stock against which Guggenheim asserts a Lien is being cancelled under the Plan and has no value. With respect to Guggenheim's HSF Holding General Unsecured Claim, the Plan provides that Guggenheim will receive on account of its Claim a Pro Rata Share (along with any other holders of Allowed Claims against HSF Holding, although the Debtors are not aware of the existence of any such other claimants) of the net proceeds of any Causes of Action held and realized by HSF Holding, Inc. only. Since the Debtors are not aware of any such Causes of Action, the Debtors estimate that Guggenheim will not receive any distribution on account of its HSF Holding General Unsecured Claim.

As reflected on the Liquidation Analysis attached hereto as **Exhibit B**, the Debtors anticipate that $509,175 may be available as of September 30, 2009 to distribute Pro Rata to holders of Allowed Hawaii Superferry General Unsecured Claims. The Debtors estimate that the total amount of Hawaii Superferry General Unsecured Claims is approximately $25,020,114. Of this amount, approximately $21,366,792.58 was due and owing to Austal under the Austal Term Loans on the Commencement Date, while approximately $3,255,361.04 was due and owing to trade creditors as of the Commencement Date. In calculating the total amount

of Hawaii Superferry General Unsecured Claims, the Debtors have assumed that (i) the Court enters an order approving the abandonment by the Debtors' estates of their interests in the ferries; (ii) MARAD holds no unsecured deficiency Claim or waives any such Claim that it may it assert against Superferry; and (iii) no amounts are due and owing to the DOT under the Harbors Operating Agreement. Accordingly, the Debtors estimate that holders of Allowed Hawaii Superferry General Unsecured Claims will receive a Pro Rata distribution equal to approximately two percent (2%) of their Allowed Claims. Such projected distribution may prove higher or lower than this estimate, depending on, *inter alia*, the actual amount of Cash available as of September 30, 2009 (the projected Effective Date) and the universe of Hawaii Superferry General Unsecured Claims after the Claims reconciliation process has been completed.

The Plan provides that holders of Allowed Convenience Claims will receive Cash in an amount equal to 20% percent of such Allowed Convenience Claim, without interest. The Debtors estimate that the total amount of Convenience Class Claims is approximately $19,000.

Because the value of the Debtors' assets is believed to be less than the total value of their debts and liabilities, it is not anticipated that the holders of (i) HSF Holding Preferred Stock Equity Interests, (ii) Hawaii Superferry Preferred Stock Equity Interests, (iii) HSF Holding Common Stock Equity Interests and (iv) Hawaii Superferry Common Stock Equity Interests will receive any distribution on account of their Equity Interests.

E. Treatment of Executory Contracts and Unexpired Leases

Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases that exist between the Debtors and any Person or Entity shall be deemed rejected by the Debtors on the Confirmation Date and effective as of the Confirmation Date, except for any executory contract or unexpired lease (i) that has been assumed or rejected pursuant to an order of the Bankruptcy Court entered prior to the Confirmation Date, or (ii) as to which a motion for approval of the assumption or rejection of such executory contract or unexpired lease has been filed and served prior to the Confirmation Date.

Claims arising out of the rejection of an executory contract or unexpired lease must be filed with the Bankruptcy Court and served upon the Debtors by no later than 30 days after the later of (i) notice of the approval of the rejection of such executory contract or unexpired lease, and (ii) such other date as may be fixed by order of the Bankruptcy Court. All such Claims not filed within such time will be forever barred from assertion against the Debtors, their estates and their property.

F. Means for Implementation of the Plan

1. *Debtors' Continued Existence*

From and after the Effective Date, the Debtors shall continue in existence for the purpose of (i) winding up their affairs, (ii) liquidating, by conversion to Cash or other methods, any remaining assets of their bankruptcy estates, as expeditiously as reasonably possible, (iii) enforcing and prosecuting claims, interests, rights and privileges of the Debtors and their bankruptcy estates, including, without limitation, Causes of Action, (iv) resolving Disputed

Claims, (v) administering the Plan and taking such actions as are necessary to effectuate the Plan, and (vi) filing appropriate tax returns.

Upon the distribution of all remaining assets of the Debtors and Debtors in Possession pursuant to the Plan and the filing by or on behalf of the Debtors of a certification to that effect with the Bankruptcy Court, the Debtors shall be dissolved in accordance with applicable law and the Debtors shall file with the appropriate offices of the State of Delaware and the State of Hawaii (as applicable), certificates of dissolution, to the extent necessary.

2. *Funding of the Plan*

The Plan shall be funded by (i) Available Cash on the Effective Date and (ii) funds available after the Effective Date from, among other things, the liquidation of the Debtors' remaining assets, the prosecution and resolution of Causes of Action, and any release of Cash from the Disputed Hawaii Superferry General Unsecured Claims Reserve after the Effective Date.

The Liquidation Analysis attached hereto as **Exhibit B** sets forth a summary of the sources of estimated proceeds and an estimate of proceeds that may be available for distribution on account of Allowed Claims. THE AMOUNTS CONTAINED IN THE LIQUIDATION ANALYSIS REPRESENT ESTIMATES BY THE DEBTORS, BASED ON CURRENT INFORMATION ONLY AT THE TIME THIS DISCLOSURE STATEMENT WAS PREPARED. The value of assets available to carry out the Plan and for distribution to holders of Allowed Claims is subject to significant estimation assumptions. The cash on hand as of the Effective Date depends on factors that may include, but are not limited to, the actual costs of administering the Debtors' estates during the period up to the Effective Date. THE DEBTORS MAKE NO REPRESENTATION AS TO THE AMOUNT OF CASH THAT WILL ULTIMATELY BE AVAILABLE FOR DISTRIBUTION TO CREDITORS.

3. *The Plan Administrator*

On the Effective Date, the Plan Administrator shall assume control over, and responsibility for, the wind down of the Debtors and consummation of the Plan. The Plan Administrator shall act for the post-Effective Date Debtors in the same fiduciary capacity as applicable to a board of directors and officers, subject to the provisions hereof (and all bylaws, articles of incorporation and related corporate documents are deemed amended by this Plan to permit and authorize the same). Those officers and directors who served in such capacity immediately prior to the Effective Date shall be replaced by the Plan Administrator on the Effective Date. From and after the Effective Date, the Plan Administrator shall be the sole representative of, and shall act for, the Debtors. All distributions to be made under the Plan shall be made by the Plan Administrator. The duties and powers of the Plan Administrator shall include, but not be limited to, the following:

- To exercise all power and authority that may be necessary to implement the Plan, commence and prosecute all proceedings that may be commenced and take all actions that may be taken by any officer, director or shareholder of the Debtors with like

effect as if authorized, exercised and taken by unanimous action of such officers, directors and shareholders, including consummating the Plan;

- To maintain all bank accounts, make distributions and take other actions consistent with the Plan, including the maintenance of appropriate reserves, in the name of the Debtors;

- To take all steps reasonably necessary and practicable to terminate the corporate existence of the Debtors;

- To make decisions regarding the retention or engagement of professionals or other Persons by the post-Effective Date Debtors, and to pay, without court approval, all reasonable fees and expenses of the Debtors and their estates accruing from and after the Effective Date;

- To prosecute and/or settle Causes of Action where a net recovery is probable;

- To take all other actions not inconsistent with the provisions of the Plan which the Plan Administrator deems reasonably necessary or desirable in connection with the administration and consummation of the Plan; and

- To exercise such other powers as may be vested in the Plan Administrator by order of the Bankruptcy Court.

G. **Effect of Confirmation of Plan**

1. *Term of Bankruptcy Injunction or Stays*

Unless otherwise provided in the Plan, all injunctions or stays provided for in the Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the dissolution of the Debtors.

2. *Preservation of Causes of Action*

From and after the Effective Date, any and all claims and Causes of Action accruing to the Debtors and Debtors in Possession shall be preserved and retained by the Debtors, who shall have the exclusive right (including through the Plan Administrator) to enforce any such Causes of Action. The Debtors may pursue, abandon, settle or release any or all such Causes of Action, as they deem appropriate, without the need to obtain approval or any other or further relief from the Bankruptcy Court.

3. *Injunction*

Except as otherwise expressly provided in the Plan, the Confirmation Order or a separate order of the Bankruptcy Court, all Entities who have held, hold or may hold Claims against the Debtors and/or their estates, are permanently enjoined, from and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any

kind with respect to any such Claim, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtors on account of any such Claim, (c) creating, perfecting or enforcing any Lien or encumbrance of any kind against the Debtors or against the property of the Debtors, (d) asserting any right of setoff or subrogation of any kind against any obligation due from the Debtors or against the property or interests in property of the Debtors, and (e) commencing or continuing in any manner any action or other proceeding of any kind with respect to any claims and Causes of Action which are extinguished, dismissed or released pursuant to the Plan. Such injunction shall extend to successors of the Debtors and their property and interests in property.

4. *Exculpation*

Neither the Debtors, the Committee, nor any of their respective members, officers, directors, employees, advisors, professionals or agents shall have or incur any liability to any holder of a Claim or Equity Interest for any act or omission in connection with, related to, or arising out of, the Chapter 11 Cases, the negotiations regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of the Plan, the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects, the Debtors, the Committee, and each of their respective members, officers, directors, employees, advisors, professionals and agents shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

H. **Post-Confirmation Jurisdiction of the Bankruptcy Court**

After confirmation of the Plan, the Bankruptcy Court retains jurisdiction to oversee various aspects of the administration of the Debtors' estates and the Plan Administrator, as enumerated in the Plan.

IX. CONFIRMATION OF THE PLAN.

A. **Introduction**

The Bankruptcy Code requires the Bankruptcy Court to determine whether a plan of reorganization complies with the technical requirements of chapter 11 of the Bankruptcy Code. It requires further that a plan proponent's disclosures concerning such plan have been adequate and have included information concerning all payments made or promised by the debtor in connection with the plan.

To confirm the Plan, the Bankruptcy Court must find that all of these, and certain other requirements, have been met. Thus, even if the requisite vote is achieved for each Class of impaired Claims, the Bankruptcy Court must make independent findings respecting the Plan's conformity with the requirements of the Bankruptcy Code before it may confirm the Plan. Some of these statutory requirements are discussed below.

B. Conditions to Confirmation and Effective Date

The Plan may not be confirmed unless the Disclosure Statement has been approved by the Bankruptcy Court and all other requirements for confirmation under the Bankruptcy Code have been met.

The Effective Date may not occur, and thus the Plan will not become effective, unless: (a) the Bankruptcy Court shall have entered the Confirmation Order, which shall be in form and substance reasonably satisfactory to the Debtors; (b) no stay of the Confirmation Order shall then be in effect; and (c) there shall exist sufficient Available Cash to satisfy Administrative Expense Claims, Priority Tax Claims and Other Priority Claims which are Allowed.

C. Voting Procedures and Standards

Holders of Claims that are "impaired" under the Plan but not deemed to reject the Plan by virtue of receiving no distributions thereunder will receive a Ballot with this Disclosure Statement for the acceptance or rejection of the Plan. Only holders of Class 5A – HSF Holding General Unsecured Claims, Class 5B – Hawaii Superferry General Unsecured Claims and Class 6 – Convenience Claims are entitled to vote. Holders of Claims or Equity Interests whose legal, contractual or equitable rights are altered, modified or changed by the proposed treatment under the Plan or whose treatment under the Plan is not provided for in section 1124 of the Bankruptcy Code are considered "impaired."

Instructions on how to complete a Ballot and the deadline for voting on the Plan are contained in the solicitation materials accompanying this Disclosure Statement and the Plan.

IF A BALLOT IS DAMAGED OR LOST OR IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES, PLEASE CONTACT:

Evelyn J. Meltzer, Esq.
Pepper Hamilton LLP
Hercules Plaza, Suite 5100
1313 Market Street
P.O. Box 1709
Wilmington, DE 19899-1709
Telephone: (302) 777-6500
Facsimile: (302) 421-8390

A VOTE MAY BE DISREGARDED IF THE BANKRUPTCY COURT DETERMINES, AFTER NOTICE AND A HEARING, THAT SUCH ACCEPTANCE OR REJECTION WAS NOT MADE OR SOLICITED OR PROCURED IN GOOD FAITH OR IN ACCORDANCE WITH THE PROVISIONS OF THE BANKRUPTCY CODE.

Any impaired Class of Claims that fails to achieve the requisite "accepted" vote will be deemed to have rejected the Plan.

D. **Acceptance**

The Bankruptcy Code defines acceptance of a plan by an impaired class of claims as acceptance by holders of at least two-thirds in dollar amount, and more than one-half in number, of claims of that class that actually vote. Acceptance of the Plan need only be solicited from holders of Claims whose Claims are "impaired" and not deemed to have rejected the Plan. Except in the context of a "cram down" (i.e., confirmation of a plan that has not been accepted by all impaired classes), as a condition to confirmation of the Plan, the Bankruptcy Code requires that, with certain exceptions, each Class of impaired Claims accepts the Plan.

The Plan is predicated on Class 5A – HSF Holding General Unsecured Claims, Class 5B – Hawaii Superferry General Unsecured Claims and Class 6 – Convenience Claims voting to accept the Plan. In the event the requisite votes are not obtained, the Debtors have the right, assuming that at least one class of impaired Claims has accepted the Plan, to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. Section 1129(b) permits confirmation of a plan notwithstanding rejection by one or more classes of impaired claims or impaired interests if the court finds that the plan does not discriminate unfairly and is "fair and equitable" with respect to the rejecting class or classes. This procedure is commonly referred to in bankruptcy parlance as "cramdown."

If either Class 5A – HSF Holding General Unsecured Claims, Class 5B – Hawaii Superferry General Unsecured Claims or Class 6 – Convenience Claims votes to reject the Plan, the Debtors may seek a cramdown of such Classes at the Confirmation Hearing. The Debtors will, in any event, seek a cram down of the Plan on Classes deemed to reject the Plan by virtue of receiving no distributions thereunder.

E. **Confirmation and Consummation**

At the Confirmation Hearing, the Bankruptcy Court will determine whether the requirements of section 1129(a) of the Bankruptcy Code have been satisfied with respect to the Plan. Section 1129(a) of the Bankruptcy Code requires that, among other things, for a plan to be confirmed:

- The plan complies with the applicable provisions of the Bankruptcy Code.
- The proponents of the plan have complied with the applicable provisions of the Bankruptcy Code.
- The plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or to be made by the proponents under the plan for services or for costs and expenses in, or in connection with, the chapter 11 case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.
- The proponents have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the

debtor, an affiliate of the debtor participating in the plan with the debtor, or a successor to the debtor under the plan. The appointment to, or continuance in, such office of such individual, must be consistent with the interests of creditors and equity security holders and with public policy and the proponents must have disclosed the identity of any insider that the reorganized debtors will employ or retain, and the nature of any compensation for such insider.

- With respect to each class of impaired claims or interests, either each holder of a claim or interest of such class has accepted the plan, or will receive or retain under the plan on account of such claim or interest, property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor were liquidated on such date under chapter 7 of the Bankruptcy Code.

- Each class of claims or interests has either accepted the plan or is not impaired under the plan.

- Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that allowed administrative expenses and priority claims (other than tax claims) will be paid in full on the effective date and that priority tax claims will receive on account of such claims deferred cash payments, over a period not exceeding six (6) years after the date of assessment of such claim, of a value, as of the effective date, equal to the allowed amount of such claim.

- If a class of claims is impaired, at least one (1) impaired class of claims has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim in such class.

- Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan (unless, as here, such liquidation is proposed in the plan).

Subject to receiving the requisite votes in accordance with § 1129(a)(8) of the Bankruptcy Code and the "cram down" of Classes not receiving any distribution under the Plan, the Debtors believe that (i) the Plan satisfies all of the statutory requirements of Chapter 11 of the Bankruptcy Code, (ii) the Debtors have complied, or will have complied, with all of the requirements of Chapter 11, and (iii) the Plan has been proposed in good faith.

Set forth below is a more detailed summary of the relevant statutory confirmation requirements.

1. *Best Interests of Holders of Claims and Equity Interests*

The "best interests of creditors" test requires that the court find either that all members of each impaired class have accepted the plan or that each holder of an allowed claim or interest of each impaired class of claims or interests will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under Chapter 7 of the Bankruptcy Code on such date. The Liquidation Analysis annexed as **Exhibit B** hereto demonstrates that the Debtors have satisfied the "best interests of creditors" test.

To calculate what holders of Claims would receive if the Debtors were hypothetically liquidated under Chapter 7 of the Bankruptcy Code, the Bankruptcy Court must first determine the dollar amount that would be realized from the liquidation (the "Chapter 7 Liquidation Fund") of the Debtors. The Chapter 7 Liquidation Fund would consist of the net proceeds from the disposition of the Debtors' remaining assets (after satisfaction of all valid liens) augmented by the Available Cash held by the Debtors and recoveries on Causes of Actions against third parties, if any. The Chapter 7 Liquidation Fund would then be reduced by the costs of the liquidation. The costs of liquidation under Chapter 7 would include the fees and expenses of a trustee, as well as those of counsel and other professionals that might be retained by the trustee, selling expenses, any unpaid expenses incurred by the Debtors during the Chapter 11 Cases (such as fees for attorneys and financial advisors) which would be allowed in the Chapter 7 proceedings, interest expense on secured debt, and claims incurred by the Debtors during the pendency of these Chapter 11 Cases. These claims would be paid in full out of the Chapter 7 Liquidation Fund before the balance of the Chapter 7 Liquidation Fund, if any, would be made available to holders of Claims. In addition, other claims which would arise upon conversion to a Chapter 7 case would dilute the balance of the Chapter 7 Liquidation Fund available to holders of Claims. Moreover, additional claims against the Debtors' estates might arise as the result of the establishment of a new bar date for the filing of claims in the Chapter 7 cases for the Debtors. The present value of the distributions out of the Chapter 7 Liquidation Fund (after deducting the amounts described above) are then compared with the present value of the property offered to each Class of Claims and holders of Equity Interests under the Plan to determine if the Plan is in the best interests of each holder of a Claim.

The Debtors believes that a Chapter 7 liquidation of the Debtors' remaining assets would result in diminution in the value to be realized under the Plan by holders of Claims. That belief is based upon, among other factors: (a) the additional administrative expenses involved in the appointment of a trustee, attorneys, accountants, and other Chapter 7 professionals; (b) the substantial time which would elapse before creditors would receive any distribution in respect of their Claims due to a trustee's need to become familiar with the Chapter 11 Cases and the Debtors' books and records, and the trustee's duty to conduct independent investigations; (c) the additional Claims that may be asserted against the Debtors; and (d) the uncertainty of a trustee's ability to retain key personnel of the Debtors to assist in identifying the bases for claims objections and Causes of Action.

2. *Financial Feasibility*

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation should not be likely to be followed by the liquidation, or the need for further financial reorganization, of the debtors or any successor to the debtors unless such liquidation or reorganization is proposed in the plan. The Plan is a liquidating plan. Accordingly, the Plan satisfies section 1129(a)(11) of the Bankruptcy Code.

3. *Acceptance by Impaired Classes*

A class is "impaired" under a plan unless, with respect to each claim or interest in such class, the plan: (i) leaves unaltered the legal, equitable and contractual rights to which the claim or interest entitles the holder of such claim or interest; or (ii) notwithstanding any contractual provision or applicable law which entitles the holder of such claim or interest to demand or receive accelerated payment on account of a default, cures any default, reinstates the original maturity of the obligation, compensates the holder for any damages incurred as a result of reasonable reliance on such provision or law and does not otherwise alter the legal, equitable or contractual rights of such holder based upon such claim or interest. A class that is not impaired under a plan is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such class is not required. See Section VIII, above, for identification of whether a Class is deemed impaired or unimpaired under the Plan.

4. *Cramdown*

THE DEBTORS RESERVE THE RIGHT TO CRAM DOWN THE PLAN AGAINST ANY NON-ACCEPTING CLASS(ES) OF HOLDERS OF CLAIMS OR EQUITY INTERESTS.

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted the Plan. The "cramdown" provisions of the Bankruptcy Code are set forth in section 1129(b) of the Bankruptcy Code. Under the cramdown provisions, upon the request of a plan proponent the bankruptcy court will confirm a plan despite the lack of acceptance by an impaired class or classes if the bankruptcy court finds that (i) the plan does not discriminate unfairly with respect to each non-accepting impaired class, (ii) the plan is fair and equitable with respect to each non-accepting impaired class, and (iii) at least one impaired class has accepted the plan. These standards ensure that holders of junior interests, such as common stockholders, cannot retain any interest in the debtor under a plan that has been rejected by a senior class of impaired claims or interests unless such impaired claims or interests are paid in full.

As used by the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have narrow and specific meanings unique to bankruptcy law. A plan does not discriminate unfairly if claims or interests in different classes but with similar priorities and characteristics receive or retain property of similar value under a plan. By establishing separate Classes for the holders of each type of Claim and Equity Interest and by treating each holder of a Claim and Equity Interest in each Class identically, the Debtors believe that they have structured

the Plan so as to meet the "unfair discrimination" test of section 1129(b) of the Bankruptcy Code.

The Bankruptcy Code sets forth different standards for establishing that a plan is "fair and equitable" with respect to a dissenting class, depending on whether the class is comprised of secured or unsecured claims or interests. In general, section 1129(b) of the Bankruptcy Code permits confirmation notwithstanding non-acceptance by an impaired class if that class and all junior classes are treated in accordance with the "absolute priority" rule, which requires that the dissenting class be paid in full before any junior class may receive anything under the plan. In addition, case law surrounding section 1129(b) requires that no class senior to a non-accepting impaired class receives more than payment in full on its claims.

With respect to a Class of Claims that does not accept the Plan, the Debtors must demonstrate to the Bankruptcy Court that either (i) each holder of a Claim in the dissenting Class receives or retains under the Plan property of a value equal to the allowed amount of its Claim, or (ii) the holders of Claims or Equity Interests that are junior to the Claims of the holders of such Claims or Equity Interest will not receive or retain any property under the Plan. Additionally, the Debtors must demonstrate that the holders of Claims that are senior to the Claims of the dissenting Class of Claims receive no more than payment in full on their Claims under the Plan. The Plan is designed to satisfy these standards. Holders of Equity Interests are not expected to receive any distributions on account thereof, and will only receive a distribution if and to the extent that claimants holding general unsecured claims are paid in full with Postpetition Interest.

If all the applicable requirements for confirmation of the Plan are met as set forth in sections 1129(a)(1) through (13) of the Bankruptcy Code, except that one or more of Classes of impaired Claims or Equity Interests have failed to accept the Plan pursuant to section 1129(a)(8) of the Bankruptcy Code, the Debtors will request that the Bankruptcy Court confirm the Plan over the dissenting votes of such Classes in accordance with section 1129(b) of the Bankruptcy Code. The Debtors believe that the Plan satisfies the cramdown requirements of the Bankruptcy Code. The Debtors may seek confirmation of the Plan over the objection of dissenting Classes, as well as over the objection of individual holders of Claims or Equity Interests who are members of an accepting Class. In addition, the Debtors intend to seek cramdown of the Plan on Classes deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code by virtue of receiving no distributions thereunder. There can be no assurance, however, that the Bankruptcy Court will determine that the Plan meets the requirements of section 1129(b) of the Bankruptcy Code.

5. *Classification of Claims and Equity Interests*

The Debtors believe that the Plan meets the classification requirements of the Bankruptcy Code which require that a plan of reorganization place each claim or interest into a class with other claims or interests which are "substantially similar."

X. CERTAIN RISK FACTORS TO BE CONSIDERED.

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED HEREIN BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. Risk That Distributions Will Be Less Than Estimated by the Debtors

The projected distributions and recoveries set forth in this Disclosure Statement are based on the Debtors' estimates of Allowed Claims. The Debtors project that the Claims asserted against the Debtors will be resolved in, and reduced to, amounts that approximate their estimates. However, there can be no assurance that the Debtors' estimates will prove accurate. Distributions to creditors also will be affected by the amount of Available Cash the Debtors are able to realize from the liquidation of the Debtors' remaining assets and recoveries, if any, from the Causes of Action, as well as the costs of continuing to administer the Chapter 11 Cases and to pursue Causes of Action.

Moreover, the Debtors' projection of expenses of administering the estates are based upon a somewhat aggressive timetable. Certain of these costs, such as the Plan Administrator's compensation, are incurred on a periodic basis, such that administration costs are directly proportional to the duration of these Chapter 11 Cases. The Debtors do not believe that substantial time will be required to administer these estates, but there is a potential risk that a wind-up of their affairs will take longer than expected and therefore cost more.

The Debtors reserve the right to object to the amount or classification of any Claim. Thus, the estimates set forth in this Disclosure Statement cannot be relied upon by any creditor whose Claim is subject to a successful objection. Any such creditor may not receive the estimated distributions set forth herein.

B. Litigation Risks

The Debtors do not believe that there are any risks with respect to pending or threatened litigation against them that would significantly or materially negatively affect creditors' recoveries under the Plan.

C. Bankruptcy Risks

1. *Objection to Classifications*

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Debtors believe that the classification of Claims and Equity

Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court would reach the same conclusion.

2. *Risk of Non-Confirmation of the Plan*

Even if Class 5A – HSF Holding General Unsecured Claims, Class 5B – Hawaii Superferry General Unsecured Claims and Class 6 – Convenience Claims vote to accept the Plan, the Plan might not be confirmed by the Bankruptcy Court. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, that the confirmation of a plan of reorganization is not likely to be followed by the liquidation or the need for further financial reorganization unless, as here, such liquidation is proposed in the plan, and that the value of distributions to dissenting creditors and equity security holders not be less than the value of distributions such creditors and equity security holders would receive if the debtors were liquidated under Chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan satisfies all the requirements for confirmation of a liquidating plan of reorganization under the Bankruptcy Code. There can be no assurance, however, that the Bankruptcy Court would also conclude that the requirements for confirmation of the Plan have been satisfied.

XI. STATEMENT CONCERNING INCOME TAX CONSEQUENCES.

Confirmation of a plan of liquidation can have a number of tax implications upon the holders of Claims and Equity Interests against the Debtors, including, but not limited to, discharge/cancellation of indebtedness and capital gains/losses. Given the relative size of the Debtors' estates and the diverse nature of the holders of Claims and Equity Interests, the Debtors have not undertaken an analysis of the tax consequences of the Plan upon holders of Claims and Equity Interests. Accordingly, creditors and parties in interest should consult competent tax counsel and other professionals for purposes of determining the specific tax consequences of the Plan with respect to a particular holder of a Claim or Equity Interest.

THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS OR EQUITY INTERESTS MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER. MOREOVER, THE TAX CONSEQUENCES OF CERTAIN ASPECTS OF THE PLAN MAY BE UNCERTAIN DUE TO, IN SOME CASES, THE LACK OF APPLICABLE LEGAL PRECEDENT AND THE POSSIBILITY OF CHANGES IN THE LAW. NO RULING HAS BEEN APPLIED FOR OR OBTAINED FROM THE INTERNAL REVENUE SERVICE WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN REQUESTED OR OBTAINED BY THE DEBTORS WITH RESPECT THERETO.

THIS DISCUSSION DOES NOT CONSTITUTE TAX ADVICE OR A TAX OPINION CONCERNING THE MATTERS DESCRIBED. THERE CAN BE NO ASSURANCE THAT THE INTERNAL REVENUE SERVICE WILL NOT CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES DESCRIBED HEREIN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE UPHELD. ACCORDINGLY, EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL, OR OTHER TAX CONSEQUENCES OF THE PLAN.

IRS CIRCULAR 230 DISCLOSURE: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this document 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 transaction or matter that is contained in this document.

Any federal, state, or local withholding taxes or other amounts required to be withheld under applicable law shall be deducted from distributions to holders of Allowed Claims. All Persons holding Claims shall be required to provide any information necessary to effect the withholding of such taxes, and the Debtors and Plan Administrator shall be authorized to withhold distribution on account of such Claims until the requisite information is received.

If any Allowed Claim holder's distribution is returned as undeliverable, the Plan Administrator will take reasonable steps to attempt to deliver the distribution to the holder of the Allowed Claim. Any holder of an Allowed Claim that does not advise the Plan Administrator that it has not received its, his or her distribution within ninety (90) days after the date of attempted distribution will have its, his or her Claim for such undeliverable distribution discharged and will be forever barred from asserting any such Claim against the Debtors or their property. Distributions must be negotiated within ninety (90) days of the date of distribution. Any distributions which are undeliverable and unclaimed or have not been cashed within the time periods set forth above shall become available for distribution to the holders of Allowed Claims in accordance with the Plan and the holder of an unclaimed or undeliverable distribution shall not be entitled to any further distribution under the Plan.

XII. ALTERNATIVES TO LIQUIDATING PLAN.

The Debtors ceased all business operations as of March 16, 2009 as a result of the Supreme Court of Hawaii having issued a significant decision holding that a state law allowing the Debtors to operate without completing an environmental impact study was unconstitutional. Moreover, the Debtors have been unable to obtain post-petition financing that would permit them to resume operations or pursue a charter of the vessels and, accordingly, they have filed a motion seeking to abandon the vessels. Accordingly, there is no viable alternative to the Plan that would envision a continuation of the Debtors as an ongoing business.

Since there is no alternative to liquidation, the Plan embodies what the Debtors consider to be the best and most cost-effective method of completing the orderly liquidation and distribution of the Debtors' remaining assets to creditors. If the Plan is not confirmed, then these Chapter 11 Cases may be converted to cases under Chapter 7 of the Bankruptcy Code. In that event, the Debtors would cease their liquidation and distribution efforts and a trustee would be appointed to liquidate and eventually distribute the remaining assets of the estates. The Debtors believe that a liquidation under Chapter 7 would likely result in a lower return to creditors, for the reasons described above, and that the timing of any distributions would be substantially delayed.

XIII. **CONCLUSION.**

The Debtors believe that confirmation and implementation of the Plan will provide each creditor with the same or a greater recovery than he, she or it would receive if the Debtors were to liquidate and distribute their assets under Chapter 7. Thus, the Debtors recommend confirmation and implementation of the Plan as the best possible outcome for creditors. The Debtors therefore urge holders of impaired Claims that are entitled to vote to cast their Ballots in favor of the Plan and to evidence such acceptance by returning their Ballots so they will be received by the Voting Agent on or before the Voting Deadline.

Dated: June 30, 2009

HSF HOLDING, INC. and
HAWAII SUPERFERRY, INC.

By: _____
Name: Thomas Fargo
Title: President