PROBLEM LOAN QUARTERLY STATUS REPORT

TODAY'S DATE: October 5, 2004

BORROWER: XXX **TYPES BUSINESS:** manufacturer

OFFICER: ZZ **ORIGINAL DATE OF CLASSIFICATION**: 12/10/2001

FACILITY TYPE	COMMITTED OUTSTANDING	RISK GRADE	ACCRUAL STATUS	RESERVE	C/O ALLOCATION	PAST DUE
(1) Term Loan	$450,000/$272,431	6	nonaccrual			-0-
(2)						
(3)						

TERMS OF REPAYMENT	COLLATERAL DESCRIPTION	SOURCE AND DATE OF VALUATION	VALUE
$7,357 (Approx) monthly P&I,	Commercial Real Estate	12/31/03	$3,400,000
	Equipment	7/31/04	$2,032,868
	Inventory	7/31/04	$1,228,382
	A/R	7/31/04	$1,207,843
	Personal RE	4/30/2003	$ 300,000

TOTAL DEBT SECURED BY ABOVE COLLATERAL:

Senior Debt	HNB	$4,115,000
Sub Debt	SBG	$ 272,431

TOTAL COLLATERAL VALUE:
See chart below

RELATED LOANS AT THIS BANK: N/A

FINANCIAL REVIEW:

XYZ reduced the risk rating to 6 in December 2001 and placed the company on non-accrual in August 2002 after the previous senior lender, BAN put XYZ on standby payments. This happened when the company began to experience cash flow problems. In coordination with a forbearance agreement between BANK and the company, XYZ was taken off of standby. The company signed a forbearance agreement with XYZ Capital on February 12, 2002 in exchange for removing the company from default to help them raise outside capital from private investors. XXX has remained current on the payments, including a negotiated $1,000 additional per month payment to catch the company up with past due payments. The company caught up on the missed payments totaling $17,677 through the additional $1,000 payments in April 2003. The company is now current on its payments due to XYZ Capital. All of the payments (except for $6,000 for legal fees) have been applied to the principal balance since the company is on non-accrual, leaving the current principal balance at $169,384 as of September 30, 2004. (The accrual basis that they are obligated to is $272,431).

BANK B agreed to a $5.1 million financing takeout of BANK's $3.7 million loan and providing additional working capital for the manufacturer of exhaust systems for cars and boats. We agreed to re-subordinate our $300,000 XYZ loan behind BANK B in exchange for taking a second lien on a the personal property (vacation home) owned by Mr. and Mrs. ABC at Marblehead. In short, with the BANK B refinancing, the company will no longer be in a work-out situation with its senior lender and will have sufficient access to capital to fuel expected growth. In addition, XXX has paid XYZ as agreed consistently for the past two consecutive years.

The refinancing with BANK B, puts the company in a better position, and with the additional collateral secured by XYZ, XYZ Capital is in a better risk position with the company. XXX put together a projected 2004 budget. Management continues to place emphasis on growing sales. The company grew more than 20% in 2003, finishing the year with $12 million in sales, slightly ahead of the $11.6 million projections. They project an increase in sales of 40% to $17MM, primarily in auto sales. They have been experiencing growth potential primarily with their catalog sales with GM dealers. While sales opportunities continue, the company still struggles with managing gross profit margins and thus bottom line numbers and cash flow.

BANK B has placed covenants in the loan agreements with XXX that address this issue. Using an EBITDA calculation, XXX must show a 1.2x Fixed Charge Coverage Ratio based on a rolling four quarter average. As of 6/30/04 the senior lender has confirmed the company is in compliance.

Cash flow remains a concern as the gross margin has not improved. In fact, at 7/31/04 gross profit is nearly 10% below plan at 23.74% versus a target of 33.36% and cash flow is negative at $218k for the year. A full analysis of the company will be completed upon receipt of the 9/30/04 financials.

Operations **Rating 5**

Historical Cash Flow

Detailed FAS 95 Stmt of Cash Flows (Indirect)				
Statement Date	12/31/2001	12/31/2002	12/31/2003	3/31/2004
Months Covered	12	12	12	3
Stmt Type	Annual	Annual	Annual	Quarterly
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	-1,384,725	-342,960	225,544	-195,039
Reconciling Items				
Depreciation/Amortization	493,417	438,081	418,485	108,891
Non-Cash Income Restate of Depr for Prior Yrs	-	-	-328,175	-
Gain(Loss) on Asset Sale				-
Chg in Accts/Notes Rec-Trade	-11,661	-125,898	-359,304	-244,146
Chg in Inventory	421,089	-595,074	250,136	-14,103
Chg in Prepaids/Deferreds - CP	-98,657	99,177	-15,867	23,402
Chg in Accounts Payable-Trade	266,042	92,517	114,473	293,330
Chg in Accrued Expenses	179,508	278,329	-184,821	40,408
All other adjustments	143,257	58,950	97,813	33,955
Total Adjustments	1,392,995	246,082	-7,260	241,737
NET CASH PROVIDED BY OPERATIONS	8,270	-96,878	218,284	46,698
CASH FLOWS FROM INVESTING ACTIVITIES:	-300,869	-223,331	-617,466	-331,963
CASH FLOWS FROM FINANCING ACTIVITIES:				
Chg in ST Loans Payable-Bank	-	723,384	160,254	-65,081
Chg in CPLTD-Bank	1,699,965	-1,076,892	-536,524	-1,312,667
Chg in Long Term Debt	-1,534,970	446,252	488,287	1,400,300
Net Chg in Borrowings	164,995	92,744	112,017	22,552
Chg in Non-Op Non-Cur Liabs	-	-	-	-1
Unexplained Adj to Retained Earnings	-	-	-1	10,892
Chg In Common Stock	-	-	-	-500
Chg In Paid In Capital	-	221,635	101,750	80,168
Non-Cash Income Restate of Depr for Prior Yrs	-	-	328,175	-
NET CASH PROV BY FINANCING	164,995	314,379	541,941	113,111
CHANGE IN CASH & EQUIV.	-127,604	-5,830	142,759	-172,154
Add:				
Cash	170,556	42,952	37,122	179,881
CASH AND EQUIVALENTS AT EOP	42,952	37,122	179,881	7,727

Note: Our copies of the 6/30/2004 statements appear to have been lost in the mail. BANK B has received them and provided us with assurance the company is still in compliance with all covenants. We are continuing to work with the company to improve the flow of information.

Financial Condition **Rating 5**

The company's balance sheet has improved with the refinance as the CPLTD was reduced when the loans were removed from default rating. The current ratio, while still less than 1.0x, is improving. At 7/31/04, the current ratio was approximately .88x, up from .74x at 3/31/04 and 0.58x at 11/30/03 and 0.50x at 11/30/02. The borrower's cash situation continues to be low at (218,210) at 7/31/04 compared to $7,727 at 3/31/04. Over the past two years, the company has also improved its balance sheet by getting investors to inject capital through shareholder convertible debt notes. Thus while the net worth appears to be negative (see below), this subordinated debt provides equity like cushion. This is an important note particular to BANK B's net worth covenant. The covenant adds back subordinated debt.

The inventory ratios have also improved over the past 12-18 months. At 9/30/03, the loan reviewers noted that the borrower had twice the amount of inventory as accounts receivable. At 11/30/03, the ratio improved to 1:1, which is similar to what RMA reports as the industry average. As of the end of July the ratio was 1.02x. Inventory turnover has improved from 3.89x at 11/30/02 to 6.31x at

11/30/03. The improvements can be attributed to the borrower's purchase of a new Material Requirements Planning (MRP) software for manufacturing.

December 31, 2003			**July 31, 2004**
Assets	**Value**		**Value**
Cash & Equiv	$ 179,881		$ (218,209)
Accts Rec	912,609		1,207,843
Inventory	1,057,186		1,228,382
Prepaids	40,512		16,067
Plant & Equip	1,063,178		1,348,837
Other	374,599		635,522
Total Assets	**$ 3,627,965**		**$ 4,218,442**
Liability	**Value**		**Value**
Line of Credit	$ 883,638		$ 984,703
CPLTD	1,312,667		
Accounts Payable	1,109,617		1,083,481
Accrued Expenses	336,005		479,719
Other	154,749		
Long Term Debt	1,091,988		2,888,346
Total Liability	**4,888,664**		**5,436,249**

Collateral **Rating** **4**

As of 7/31/2004

Collateral	**Market Value**	**Discount**	**Liquidation Value**
Building	3,400,000	80%	2,720,000
Equipment (book value)	1,348,837	25%	337,209
Inventory	1,228,382	35%	429,934
A/R	1,207,843	80%	966,274
Collateral Value			4,453,417
Senior Debt (HNB)			4,115,000
Busi. Collater after Sr.			338,417
Additional Collateral (SBG)			
Marblehead Property	400,000	75%	300,000
Sr. Mortgage Holder (as of 4/2003)			223,500
			76,500
ShoreBridge Principal			272,431
Total Avail. Collateral (SBG)			414,917
Collateral Coverage			**1.52**

RATIONALE FOR CLASSIFICATION CONCERN:
Although the company is current and in compliance with all its covenants, gross margins have not improved and in fact, show some signs of deterioration. It is too early to tell if this is a cyclical condition or more systemic. Until margins improve, cash flow to service debt will be strained. Therefore, the company remains on non-accrual with a risk rating of 6.

ACTIVITY SINCE LAST REPORT:

Since the last Asset Quality Review in July, we have amended our loan covenants to match those of the new senior lender. The new loan officer has met with the controller once and plans to have an in-depth meeting during the fourth quarter to analyze the inventory and gross margin risks.

ACTION PLAN:
We will watch the margin situation carefully.

ESTIMATED LOSS EXPOSURE (INCLUDE DISCUSSION OF LIKELY CASE AND WORST CASE SCENARIOS)
At this time no loss is anticipated. Our non-accrual exposure is $169,384 with collateral coverage of 2.45x. In a liquidation scenario, XYZ should be able to fully recover the non-accrual outstanding.

Account Officer Date

Approved by Date