TO Debbie Lopez, Acct. Officer

San Diego Br. #028

FROM **Sumitomo Bank of California**
L. A. B. L. D. Br. #016 OFFICE

DATE 2-23-96 | SUBJECT Dolphin Industries, Inc.

MESSAGE: Debbie:
Enclosing the approval for SBA 7-A for the memtioned customer, also the conditions set by SCAD. We have covered all items listed. Any Questions, please call me.

Eleanor E. Castillo
A. V. P. Acct. Officer
Ext. 5756

SIGNATURE

REPLY

Thank you Eleanor.
Does Dolphin have any signed contracts yet? Do we have a schedule for the contracts/ construction in progress?

SIGNATURE Deborah Lopez, AO DATE 2-26-96

T 28 (11/92) PERSON RECEIVING SPEED LETTER - KEEP THIS PART FOR YOUR FILE

Dolphin Industries, Inc.

I. PURPOSE:

Provide SBA 7-A Term Loan in the amount of: $750,000
This will finance the purchase of equipment, provide working capital and allow funds to repair new facility leased @ 1313 W. 24th Street, National City, Calif. 91950.
The location is within the Enterprise Zone.

II. TERMS AND CONDITIONS:

Loan Amount:	$750,000
Interest Rate:	Wall Street Journal Prime Rate + 2.75%
Loan Fee:	Subject to all out of pocket expenses incurred by SBC
Guaranty Fee:	SBA blended rate effective change 10-95. SBA fee $18,672 based on 75% Guaranty of $562,500.
Repayment:	One Hundred twenty (120) payments of $6,250 Plus Interest monthly.
Maturity:	Ten Years (10 yrs.) from Date of Note.
Guarantor:	Prentis Davis (100% stockholder) SBA
Collateral:	1). UCC-1 Filing covering business A/R's, Inventory, equipment & fixtures. 2). Assignment of Life Insurance Policy in the amount of $750,000.
Conditions:	1). SBA Guaranty 2). Borrower to maintain business DDA with SBC. 3). Assignment of life insurance policy in the amount of $750M. 4). Borrower to submit quarterly company prepared financial statements within 30 days of quarter end. 5). Borrower to submit FYE (Annual) CPA "reviewed" financial statement within 90 days of year end. 6). Borrower to maintain minimum debt coverage ratio @ FYE 1996 at 2: 1. 7) Guarantor, Prentis Davis to annually provide personal financial statement and year end tax returns within 15 days of filing. 8). Borrower to provide hazard, liability and business interruption insurance by company acceptable to Bank. 9). BLD to issue Cashiers Check payable to Port of San Diego in the amount of $100M. 10). BLD to issue Cashiers Check to IRS in the amount of $158M. (Equipment listing provided by borrower) 11). Waiver requested on 10 year lease from Port of San Diego to annual renewals. Port District tenants all have one year leases.

III. COMMENTS TO APPLICATION:

A Preliminary SCAD approval #1155-95 on 09-01-95 has expired and the total loan amount has been reduced from $1MM to $750M. The State Guaranty loan requested for $250M has been eliminated as the State Agency declined the request due to insufficient time in business.
Dolphin Industries, Inc. is a California Corporation founded by Prentis Davis in July 1994. The Company offers expert ship building and repair service and structural steel fabrication. Mr. Davis earned a B.S. degree in Marine Engineering and has more than 30 years experience in all

III. COMMENTS TO APPLICATION- Cont'd.

aspects of marine and mechanical engineering. He has held positions of Senior Port Engineer, Engineering Manager, Director of Engineering, President and Chief Executive Officer with various companies within the shipbuilding industry at local, national and international levels. His expertise in all areas of marine engineering includes directing major dry dockings, hull and machinery repairs, aggressive preventative maintenance programs and all associated tasks. Mr. Davis has additional experience in finance, accounting, government liaison, contract bidding, invoice settling and proposal writing. Mr. Warren G. Vandenhoff is the EVP of company with over 20 years experience in the management of marine operations as well engineering, shipboard and upper management ashore. His responsibilities include development and implementation methods and policies for competitive edge achievement in Marine/Industrial Repair Industry and negotiate contracts with sub-contractors, monitors all phases of commercial and government contracts while work is in progress. Mr. Robert Fravel, VP and GM has a background in Public Relations, Communications, Instructor Training, Industrial Engineering, Construction Inspection, Construction Architecture and Estimating and Business Writing, all three are very experienced in all areas of management, shipbuilding and repairs.

Dolphin Industries, Inc., received the SBA 8-A certification in 1994 which allows the company to be included in all Federal Government job bids related to shipbuilding. The 8-A program aids small disadvantaged businesses, and is a much sought after certification within the industry. Dolphin Industries is currently the only 8-A certified ship repair company in the nation.

This loan will assist borrower in acquiring machinery and equipment (already in his possession) to the IRS, complete leasehold improvements (includes Port of San Diego payment $100M), and meet the company's working capital needs.

Since the prior preliminary SCAD approval (10-95) borrower has moved to new 85,000 sq. ft. facility. The present 1 year lease from the Port of San Diego "The Tidelands Use and Occupancy Permit" is all that they can issue. It was implied to borrower that occupancy can occur for repeated terms, however, they must be one year at a time. Bank and SBA's requirement that lease be drawn for term of loan is not possible. The required "move in" deposit by Port of San Diego is being waived until this credit request is approved by Bank and SBA.

Since 8-A Certification approval by SBA and SCAD approval borrower has encountered many obstacles due to growth coupled with cash flow shortages and moving into new location that a judgment was filed by a trade creditor 1-96, South Bay San Blasting. A structured settlement was filed with the San Diego Judicial District Court 2-1-96. A letter of intent for this loan request is in file from the office of Tony Vigil of San Diego SBA Office.

The equipment being purchased from IRS is from a company that filed Bankruptcy 8-94. Mr. Davis originally purchased the company A-E Enterprises, 10-89 from Mr. Arthur Tillery. The ship building business experienced rapid growth, however, they were not well capitalized and Mr. Davis met with many people to raise capital, end result is that he was duped by an attorney associated with a group of venture capitalists, whereas, he lost stock ownership of the company in 1992. Mr. Davis was not involved in any wrong doing and has assisted IRS and FBI in their investigation of said company principals.

Mr. Davis provided copy of bids and negotiations as of 8-95 which are outlined below:

1. Ship Repairs	$ 500,000
2. Southbay Outfall-sub contractors to Morrison Knudson	3,500,000
3. U. S. Coast Guard	1,200,000
4. U. S. John Young	700,000
TOTAL	$ 5,900,000

Dolphin Industries, Inc.

IV. REPAYMENT ANALYSIS:

Primary source of repayment is from projected operating cash flows of the company estimated as of 12-31-96 to be $917,156 (before taxes)
Secondary source is the liquidation of business assets and recourse to SBA and Prentis Davis's outside net worth.

V. CASH FLOW ANALYSIS:

The following cash flow analysis is based on current contracts in progress and contracts in negotiation provided by the borrower.

Projections Ending 12-31-96 (accumulative)

Sales	$ 9,600,000	(100%)
COGS	5,760,000	(60%)
G/P	3,840,000	(40%)
G & A Expenses	$2,922,844	(30%)
Net Profit (B4 Taxes)	917,156	(10%)
Plus:		
Depreciation	59,150	
Less:		
Debt Service SBA	126,536	(01%)
Cash Flow	$ 849,770	

Note: debt service for SBA loan of $750M @ 11.5% amortized over 10 years. Based on projections debt coverage @ 7.7X (B-4 taxes)
In response to projections Mr. Davis states that in 1995 Dolphin Industries, Inc., was awarded 0.25% of the Navy's ship building and repair contracts. With the new facilities, the dry dock and equipment the Company is prepared to pursue larger contracts with plans to increase the Navy contracts to 1.5% of their repair business. Further stating that with the status of U.S. government 8-A contractor, they will succeed.
The Company FYE tax return for 9-95 on extension with copy of request provided.

IV. GUARANTOR:

Prentis Davis, personal financial statement dated 1-25-96 on SBA form is held and shows:

ASSETS		LIABILITIES	
Cash	$ 1,500	Auto loan	$ 5,310
Retirement	120,000	R.E. Mort.	183,000
Stocks & Bonds	1,500	Total Liab.	$ 188,310
Residence	300,000	Net Worth	$ 289,690
Auto	5,000	Total Liab. &	
Personal	50,000	Net Worth	$ 478,000
Total Assets	$ 478,000		

Note: Residence purchased 11-95 with 80% LTV. Income analysis for past 3 years consists mainly of ordinary income from wages. The AGI was $192M, $147M and $59.5M for '92, '93, and '94 respectively.
IRS #4506 confirmed presented tax returns as presented, Corporate tax return FYE 9-95 has not been filed and copy of extension provided.
TRW report dated 12-20-95 reflects 3 derog items which are: Marine Midland Bk paid charge off $100 reported 2-90; American Express collection account $1,626 reported 12-94, Mr. Davis has provided letter from TRW to eliminate from credit report as he is disputing item; and Diners Club account paid off 60

Dolphin Industries, Inc.

IV. GUARANTOR- Cont'd.

days late reported 4-94, Mr. Davis states this was due to the billing going to the old residence in Hawaii. Credit history dates to 8-71, all other is satisfactory.

VI. RECOMMENDATION:

STRENGTHS

1. Mr. Davis provides 30 + years experience.
2. B.S degree in Marine Engineering.
3. Approved SBA 8-A contractor.
4. Limited competition with the closing of yard in Long Beach, Calif.
5. Designated Small Disadvantage Business.
6. Possible creation of 400+ jobs in the Enterprise Zone which is of great value to the City of San Diego, Calif.
7. Encouraged by SBA to submit package as quickly as possible. This SBA package is very politically motivated by Mr. Davis and the City of San Diego politicians.
8. Confirmed Dolphin Industries, Inc., not encumbered by liens or UCC-1 filings, current D & B report dated 12-95 reporting another company in the R. V. Industry which has several liens against it and does not belong to our borrower.

WEAKNESSES:

1. Limited secondary support from Mr. Davis.
2. Start-up operation (15 mos), however, based on Mr. Davis's extensive 30 year + experience mitigates the short time in business
3. Debt service based on projections.

VIII: SPECIAL CONDITIONS:

Subject to SBA approval under 7-A program.