

April 5, 2005

Mr. Tim Durham
Mr. Jim Cochran
Fair Holdings, Inc.
111 Monument Circle, Suite 4800
Indianapolis, IN 46204

Dear Tim and Jim:

The purpose of this letter is to address the status of the 2003 audit of Fair Holdings, Inc. ("FHI" or the "Company") and the proposed audit of the 2004 financial statements. We have had an opportunity to review the information provided over the past several weeks regarding the proposed changes to the structure of the various related-party loans, and our observations of these changes and the impact are discussed in the following paragraphs. In addition, we have expanded our research of various accounting and related matters in an effort to ensure that we have considered all factors related to the proper treatment of audit issues as they impact your financial statements and to anticipate additional information needed. As you will see in the following pages, we believe there are many issues which have been addressed and others that have not been adequately addressed. The following discussion will provide you with our thoughts on these items.

Current Outstanding Matters

An updated list of outstanding matters includes the following:

- Obsidian cash flow projections and related impact to the loans made to Obsidian and its subsidiaries.
- Recognition of interest income on related-party loans
- Loan impairment analysis and loss reserves
- Related-party nature of loans and the impact thereto
- Fiduciary responsibility to investment certificate holders
- Collateral value
- Goodwill impairment testing
- Response to points raised in our correspondence to you dated February 21, 2005 and March 5, 2004 in regards to the Company's loan origination, credit monitoring, loan loss reserve, income recognition and impairment policies
- Material weaknesses in internal control over accounting and reporting for loans of FHI
- Potential violations of certain laws and regulations

Each of these matters is addressed in more detail in the following pages.



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Obsidian Cash Flow Projections

The information we received shows the Obsidian's original projected overall consolidated free cash flow for 2005 at a negative \$(2,388,000) and includes pro forma changes to bring this number to \$(322,000). Included in both scenarios is the collection of \$550,000 of shareholder receivables currently held at DW Leasing.

General commentaries by company are:

Danzer: The projection includes negative cash flow of \$531,000. This may be difficult to achieve based on recent history, cash flow of the first quarter of negative \$266,000 and additional projected losses throughout the year.

United: Projection has not been updated. The original includes gross profit percentage of 11.9%. First quarter of 2005 was reported at 7.2% with an EBITDA of \$(135,000). Obviously the first quarter is the slowest for the company and not all changes were yet in place fully. However, to reach the projected cash flow would require EBITDA of over \$2,000,000 for the remainder of the year. The company did perform at this level in 2002 but has not shown this level of performance since that time. However, all indications are that United should have positive cash flow and be able to service their portion of the FHI debt to be restructured through Obsidian as part of the company's plan.

Classic: No specific comments

Coach Group: Projection shows EBITDA of \$2,250,000 for 2005 or a little more than double that achieved in 2004 which was an off year. Although recovery is expected, full recovery to pre-2004 results may be optimistic; however, we have no individual assumptions to analyze. At the projected level of EBITDA, the Coach Group still is short on cash flow and uses the assumption that collection of \$550,000 of shareholder receivables will provide the needed cash flow. Given that the receivables have been outstanding since the purchase date, this may not be realistic. Accordingly, we conclude, without further information to analyze the future operations, the Coach Group will continue to operate at a negative cash flow perspective.

U.S. Rubber: EBITDA plan is to reach \$1,600,000 or approximately double of what they produced in 2003. USRR has been on a downward trend and the projected reversal is based on higher selling prices and on \$900,000 of sales from the new Cryo line. We believe EBITDA in the range of \$1,000,000 to \$1,200,000 is more realistic based on the first quarter results, historical 2nd, 3rd and 4th quarter results and the likely hurdles to overcome in the new line of business. The estimated EBITDA of \$1,600,000 would produce an estimated \$460,000 in cash flow based on the pro forma information, which includes \$550,000 of capital expenditures. At a reduced EBITDA and with increased capital expenditures to a level of \$1,000,000 based on the company's plan, cash flow would be a negative \$400,000 to \$600,000.

Obsidian Enterprises: Projection puts cash flow deficit essentially equal to the pro forma net loss of \$1,100,000. For 2005, the loss will likely be larger than the pro forma based on a first quarter loss of \$1,200,000.

Overall the pro forma presentation blends proposed transactions with the individual company budgets for the coming year. This presentation shows a cash loss of approximately \$300,000 if all items go as planned. In addition, other economic indicators not currently factored in the

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projection may impact Obsidian's operations. These factors include current trends of increasing interest rates, as well as increasing fuel and energy costs. Because of the number of assumptions inherent in this process that must go well in order to achieve the projected level of cash flow, it is considered more likely than not that Obsidian will not be able to service its debt with FHI and would require further infusions of cash from some source.

Interest Income Recognition

FHI does not have a policy to determine factors requiring the suspension of interest income. Accordingly, interest is recognized on all loans outstanding through the year, and no reserve is established and no loans are placed on nonaccrual status. Although GAAP does not establish set criteria as to when to suspend interest recognition, it does provide various indicators that should be noted. These include deteriorating financial condition of the borrower, not making payments within terms and collateral-dependent loans. Based on review of the 2003 lending activity, we preliminarily would propose a minimum reserve of interest recognized in the amount of \$1,352,000. This amount would be subject to change based on the resolution of other factors discussed in this letter. A schedule of the specific loans and the factors considered in the preliminary analysis are attached.

Loan Impairment Analysis and Loss Reserves

FHI does not document the monitoring of credit status or any decision related to such items. Our preliminary estimate of loan loss reserves as of December 31, 2003 is approximately \$11,500,000. This amount would also be subject to change based on the resolution of other factors discussed in this letter. Such reserves relate primarily to the loans to Obsidian and its subsidiaries. The operating results of the Obsidian group raise significant doubt regarding the entities' ability to repay its debt. Subsequent events indicate the losses have continued and without the support of FHI, the Obsidian group may not have been able to continue in its current form. Because of the losses, lack of cash flow and the second position of assets held by the Coach Group, we believe a reserve is warranted. The collateral for the Coach Group loans was valued based on an appraisal that is several years old. In 2004, changes in market conditions result in the appraisal being less reliable. Such changes include a softening of the market for touring as discussed in the company's 10-K filing. In addition, a liquidation analysis is appropriate given the current financial status and operating results since 2003.

Management has represented that the allowance for loan losses at Fair Finance ("FFC") is in excess of the amount considered necessary and that the excess is adequate to cover any potential reserves required at FHI. Based on the audit procedures performed at FFC, we have concluded that the reserves recorded are adequate and reported consistently with the company's past practices, and no such excess is available to FHI. The reserve calculation from management was based on a percentage of write-offs over the last several years. GAAP does not permit loan reserves to be determined based on a percentage of historical amounts. Rather, the determination should be made by analysis of the loan portfolios individually or by group if a homogenous population. Accordingly, we cannot accept this analysis.

Related-party Matters

The nature of related-party activity provides for many challenges in both the accounting and documentation of the related transactions. The majority of these challenges relates to the generally accepted accounting principle (GAAP) definition that related-party transactions are not arm's length transactions and should not be presumed to be representative of a transaction that would be entered into by unrelated third parties. In this instance matters

such as no requirement for payment until maturity, frequent changes in loan terms, insufficient or nonstandard collateral, and no monitoring are strong indicators of transactions that are not at arm's length. Accordingly, GAAP requires additional disclosures of related-party transactions. In addition, auditing standards require auditors to be aware of the substance of particular transactions and to recognize that the financial statements should recognize the economic substance of the transactions rather than merely their legal form. This is an area very relevant given the nature and materiality of the related-party balances on FHI's financial statements. GAAP also requires that related-party transactions be recorded based not solely on the legal structure of the transaction but also on the substance. The substance versus form issue is also in question given the nature of the terms, financial performance and amounts advanced to related companies.

The significance of the related-party balances of FHI as of December 31, 2002, 2003, 2004, and 2005 (as projected by management) are shown in the following table:

	2002	2003	2004	2005 (projected)
Related-party loans as a percentage of total consolidated assets	22%	35%	45%	32%
Related-party interest income as a percentage of total interest income	4%	20%	25%	22%
Related-party interest income as a percentage consolidated net income	61%	1,879%	376%	338%

The material nature of the income related to these loans makes the accounting for income recognition and the substance over form matters extremely significant. In addition, the size of the related-party loans in relation to the total assets also is significant. Addressing the substance over form issue and developing an opinion on whether the loans and related interest income are accounted for and reported in accordance with GAAP had continued to become more difficult given the nonliquid nature of much of the collateral, the second position in a significant portion of assets, transactions that do not appear at arm's length as noted above, and the continued expansion of these advances. Such issues are further compounded by a lack of internal controls over these loans.

Collateral Value

Many of the related-party loans meet the qualification as being collateral-dependent for repayment. When assessing the future collectibility of such loans, the nature of and access to the collateral should be addressed. Several factors impact the current collateral base and need to be analyzed. These factors include the recovery value of nonliquid assets, the time and costs to recover value, if necessary, access to collateral based on FHI being behind senior lenders, future value of collateral based on potential access by other lenders. In addition to these items, realization of certain collateral could be at risk based on the current going concern uncertainty included in the audit report of Obsidian and the technical default of the debt agreements of certain of its subsidiaries. A portion of the loans of Obsidian are guaranteed by officers of Obsidian, who have also provided significant personal assets as collateral to FHI. Should the guarantees on the Obsidian debt be acted on by the lenders, the collateral to FHI could be at risk.

Fiduciary Responsibility to Investors

An audit in accordance with generally accepted auditing standards requires that the auditor review compliance with laws and regulations that may have a material impact on the financial statements. The Board of Directors of FHI should question whether there is a fiduciary responsibility of the owners, officers and directors of FHI and FFC to the holders of the FFC subordinated investment certificates. We are not in a position to render an opinion on this matter, but consider it to be a relevant question based on the lack of controls in place, nature and materiality of related-party lending practices, and the potential for material impact to the Company should this matter apply. Accordingly, we strongly encourage the Company to engage outside counsel competent in these matters to provide a legal opinion regarding such items.

Goodwill Impairment Testing

The uncertainties regarding the collection of related-party loans and the recognition of interest income on such loans impacts the collectibility of the receivable of the books of FFC from FHI. This uncertainty also then raises the question of potential impairment of the goodwill related to the acquisition of FFC. Since the acquisition in 2002, the subordinated debt of FFC has risen from approximately \$43,000,000 to \$82,000,000 at the end of 2003 and to \$110,000,000 at the end of 2004. During the same period, the receivable from FHI has grown to \$83,000,000. As a portion of the interest and principal due to FFC is not certain as to repayment, while the debt service related to the subordinated debt is certain, the value of the enterprise compared to the purchase date may have changed negatively indicating a potential impairment. A goodwill impairment test needs to be performed by management or an outside consultant after the amount of collection of the receivable from FHI has been reasonably estimated.

Response to Certain Matters from Prior Correspondence

In our prior correspondence, we have requested the Company provide documentation related to controls in place covering the lending activity. Such controls would include policies related to loan underwriting, loan monitoring and collateral review. These matters are still at issue today. The lack of procedures and policies has resulted in an inability to effectively consider creditworthiness, income recognition and financial reporting on a timely basis. In addition, a lack of internal control over lending activities calls into question "the substance over form issue" of the various loan documents, as well as the fiduciary responsibility noted above. Although advances are treated as loans based on the credit documents, the substance of these transactions could be questioned as to whether such advances are actually additional investments in these companies or distributions to the shareholders given a lack of documented procedures to evaluate the loans, lack of follow-up on noncompliance, lack of payment of interest and the absence of other factors normally found in companies engaged in the lending industry.

Material Weaknesses in Internal Control over Accounting and Reporting for Loans

Generally accepted auditing standards require communication to management matters which come to the auditors' attention that may be considered material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected

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within a timely period by employees in the normal course of performing their assigned functions. We have issued a separate letter addressing such items for your attention.

Potential Violations of Laws and Regulations

As noted above, an audit in accordance with generally accepted auditing standards requires that the auditor review compliance with laws and regulations that may have a material impact on the financial statements. In that regard we previously requested an opinion letter from counsel regarding the Company's compliance with Ohio securities laws. We have received a copy of the opinion letter of Riley Bennett and Egloff which opines as to the Company's compliance with the exemption criteria for debt offerings. In addition to this opinion, the Company should also obtain the opinion of counsel on compliance with other facets of Ohio securities law or, at a minimum, consult with counsel as to whether there may be areas of the law that could create a potential issue based on the lending practices at FHI and the significant lending to related parties. The Company should also consult with counsel regarding any potential issues with the loans made to Obsidian. A specific issue to be addressed is FHI's position with all its creditors and the subordinated debenture holders of FFC should Obsidian not be able to repay its loans and be considered technically insolvent at the date of the loans.

Conclusion

The events subsequent to 2003, the significance of the related-party transactions, the material weaknesses in the loan process and potential legal matters have led us to a point where we are not in a position to issue an unqualified audit report on Fair Holdings and Subsidiary as of and for the year ended December 31, 2003. The increasing magnitude of these items in 2004 and through the current date would place us in a similar position were we to be engaged to audit the 2004 financial statements.

We have and will continue to work with the Company to address these items in the most diligent manner possible. However, we are not in a position to provide any guarantee regarding the type of opinion we would reach, if any, or the time frame to which we would be in position to render our opinion on the financial statements of FHI and Subsidiary. We believe the Company is at a crucial stage and continuing actions need to be taken to address the financial and other risks outstanding to protect FHI and Subsidiary as a long-term operating entity.

Sincerely,

BGBC Partners, PC

BGBC Partners, PC

Fair Holdings
Interest income recognition
December 31, 2003

Interest amounts to be reserved based on
loans in a cash recovery method

OEI related loans	750,000
Najem related	5,000
DCI related	<u>597,000</u>
Total interest adj	1,352,000

FHI
OEI Related Loans

	Danzer	DCIL	DW Leasing	OEI	OEI (USRR)	OL	Totals
Balance at 12/31/03	2,689,049	1,151,934	519,264	6,473,009	823,775	2,447,050	14,104,082
Less interest non-accrual	(95,177)	-	-	(530,485)	(123,767)	-	(749,429)
Remaining balance	2,593,872	1,151,934	519,264	5,942,525	700,008	2,447,050	13,354,654
Collateral							
Real estate (less 20% cost to sell)	1,120,000						1,120,000
Equipment (33% of FMV or Historical)	401,610						401,610
Inventory at 50%	621,000						621,000
AR at 80%	160,000						160,000
Net after collateral	291,262	1,151,934	519,264	5,942,525	700,008	2,447,050	11,052,044
Interest Charged	95,177	121,520	47,270	530,485	123,767	361,726	
Payments received	(2,133)	(103,723)	(44,601)	(511,555)	(94,300)	(319,880)	

Summary of info

Loans on non-accrual status for lack of payment, payment not in terms or uncertainty as to recovery
These items should be on a cash recovery method

Danzer - lack of ability to pay - no current payment
OEI - Uncertainty as to recovery - non-consistent payments
OEI - USRR pass through - only payment was 02 interest previously recognized

Proposed entry
Interest income allowance 750,000
Interest receivable allowance (750,000)

To reduce interest recognized on non-performing loans

Bad debt expense
Loan Reserves

FHI
Najem related loans

	Najem	Najem Enterprises	Total
Balance at 12/31/03	148,990.24	124,369.17	273,359.41
Less interest non- accrual	-	(5,002.00)	(5,002.00)
Remaining balance	148,990.24	119,367.17	268,357.41
Collateral - CELL	148,990.24	119,367.17	268,357.41
Less subsequent change	(148,990.00)	(119,367.00)	(268,357.00)
Net after collateral	148,990.00	119,367.00	268,357.00
Interest Charged	10,490.82	5,002.08	15,492.90
Payments received	(7,400.58)	(632.91)	(8,033.49)

Summary of info

Loans on non-accrual status for lack of payment, payment not in terms or uncertainty as to recovery
These items should be on a cash recovery method

Najem Enterprises

Proposed entry

Interest income allowance	5,000.00	
Interest receivable allowance		5,000.00

To reduce interest recognized on non-performing loans

DCI
Loans receivable and flow through

	TSD	Cochran	Champion	USRR	Speedster	Oster	Whitesell	Plopper	Snow	Alig	Laikin	Sallee	Totals
Balance at 12/31/03	7,977,618	706,043	3,446,038	778,750	2,549,624	233,082	161,663	250,000	211,540	104,236	4,553,722	824,861	21,797,177
Less interest non-accrual		(44,781)	(245,603)	(105,583)	(158,870)	-	-	-	-	-	-	(42,276)	(597,114)
Remaining balance	7,977,618	661,262	3,200,435	673,167	2,390,754	233,082	161,663	250,000	211,540	104,236	4,553,722	782,585	21,200,063
Collateral													
Stock and other items	7,977,618	661,262				233,082	161,663	250,000	211,540	104,236	4,553,722	782,585	13,491,861
Mortgage			165,890		124,740								1,443,847
Equipment (33% of FMV or Historical)			511,000		578,793								290,730
Inventory at 50%			106,400		8,500								1,089,793
AR at 80%													114,900
	0	0	2,417,045	673,167	1,878,721	0	0	0	0	0	0	0	4,768,933
Interest Charged	507,703	44,781	245,603	105,583	158,870	11,972	9,315	-	-	14,219	130,436	42,276	1,270,759
Payments received	(7,766,726)	-	(383,643)	(35,875)	(50,050)	(10,000)	-	-	-	(16,337)	-	(35,715)	(8,298,346)

Summary of info

Loans on non-accrual status for lack of payment, payment not in terms or uncertainty as to recovery
These items should be on a cash recovery method

Cochran	No payments - second mortgage
Champion	Uncertainty as to collection - payments are from trailers sold
USRR	Uncertainty as to collection - declining financial performance
Speedster	Uncertainty as to collection - start up operation
Sallee	Repayment upon sale of real estate or refi - other repayments relate to specific advance

Proposed entry
Interest income allowance 597,000
Interest receivable allowance 597,000

To reduce interest recognized on non-performing loans