

Megadiamond file

Ida-Rose

MEGADIAMOND INDUSTRIES, INC.
275 West 2230 North
Provo, Utah 84601

To the Former Shareholders of
DBT Corporation and Megadiamond
Corporation:

Special meetings of the Shareholders of DBT Corporation ("DBT") and Megadiamond Corporation ("Mega") were held on October 30, 1978, at which certain transactions were approved by the required vote of the shareholders of each company, including a merger of Mega into Megadiamond Industries, Inc., a Delaware corporation ("MI") and a subsequent merger of DBT into MI. These mergers have been consummated and the former shareholders of DBT and Mega are now shareholders of MI.

At your convenience, you are invited to mail or deliver your certificates representing shares in DBT or Mega to MI at 275 West 2230 North, Provo, Utah 84601, and new certificates in MI will be issued to you. Under the terms of the mergers, each share of stock in DBT and in Mega has been converted into one share of stock in MI, par value of \$1.00 per share.

As was true with the shares of stock in DBT and Mega, the shares of stock in MI are not registered under the Securities Act of 1933, as amended (the "1933 Act") such that they are not transferable except as permitted under the various exemptions contained in the 1933 Act. Each stock certificate will bear a restrictive legend indicating that the shares may not be disposed of without registration or an opinion of counsel for MI that registration is not required.

MEGADIAMOND INDUSTRIES, INC.

November 15, 1978

DBT Co.

275 WEST 2230 NORTH
PROVO, UTAH 84601

September 18, 1978

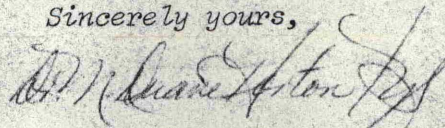
To the Stockholders
of DBT Corporation

A special shareholders meeting of DBT Corporation will be held October 2, 1978 at 1:00 pm in the offices at 275 West 2230 North, Provo, to consider a resolution approving the following:

1. Authorization of additional stock to Art Frigo in exchange for his Super-Cut stock,
2. A merger between DBT Corporation and its affiliate Super-Cut, and
3. The merging of DBT Corporation and Megadiamond Industries.

During the next few weeks, additional information will be sent to the stockholders and if there are any questions, please feel free to contact David R. Hall at (801) 377-4944.

Sincerely yours,



Dr. M. Duane Horton
Chairman

DRH:ybs

NOTICE OF SPECIAL STOCKHOLDERS'
MEETING OF
MEGADIAMOND INDUSTRIES, INC.

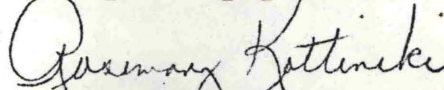
TO THE STOCKHOLDERS OF MEGADIAMOND INDUSTRIES, INC.:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Megadiamond Industries, Inc. will be held on Monday, February 25, 1980, at 9:00 o'clock a.m. in Room 250 at the Hotel Utah, South Temple and Main Streets, Salt Lake City, Utah for the following purpose:

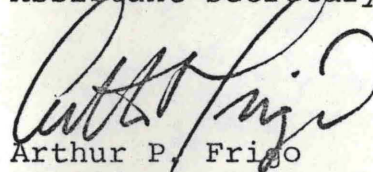
1. To remove for cause Bill J. Pope and John M. Hardy from the Board of Directors of Megadiamond Industries, Inc.
2. To permit Bill J. Pope and John M. Hardy the opportunity to attend the special meeting of stockholders and present their explanation and justification for the conduct which forms the basis of the request to remove them from the Board. Specifically, Mr. Pope is requested to attend the meeting and explain to the stockholders why his present attempts to dissolve the Company; his position as President of U.S. Synthetic, a competitor, and the facts surrounding the Board's decision of January 7, 1980 to institute litigation against him do not constitute sufficient cause for his removal. Similarly, Mr. John M. Hardy is requested to attend the meeting and explain to the stockholders why his position as an officer and stockholder in U.S. Synthetic does not constitute sufficient cause for his removal.

Accompanying this Notice are letters from Mr. Albert E. Jolis and Mr. Richard C. Stratford, both present members of the Board of Directors of Megadiamond Industries, Inc., requesting the Board of Directors, through the corporation's Assistant Secretary, to call a special meeting of the stockholders of Megadiamond Industries, Inc. Proxies are not solicited for this meeting.

Very truly yours,



Rosemary Kotlinski
Assistant Secretary



Arthur P. Frigo
President
Chief Executive Officer

ALBERT E. JOLIS

589 FIFTH AVENUE

NEW YORK, N. Y. 10017

(212) 759-8383

January 29, 1980

Mr. Arthur P. Frigo, President
Megadiamond Industries, Inc.
3418 N. Knox Avenue
Chicago, Illinois 60641

Dear Mr. Frigo:

As a director of Megadiamond Industries, Inc., I hereby request that you direct the Company's Assistant Secretary to call a special meeting of stockholders for the purpose of removing Mr. Bill J. Pope and Mr. John M. Hardy from the Board of Directors of Megadiamond Industries, Inc.

It is with deep regret that I make this request. However, in my position as a director, I feel that the Company's stockholders must be in a position to examine certain facts in order to permit them to make an independent judgment as to whether or not to remove Messrs. Pope and Hardy.

Specifically, Mr. Pope has filed suit against the Company by which action he presently seeks to dissolve it. I am also aware that it is impossible to conduct meetings of the Company's Board of Directors while Mr. Pope and Mr. Hardy are currently officers of a competitor, U.S. Synthetic, with which the Company is currently engaged in litigation. Finally, the stockholders should be made aware of the circumstances surrounding the Board's decision reached on January 7, 1980 to commence suit against Mr. Pope.

I also request that Mr. Pope and Mr. Hardy be provided the opportunity during the meeting to explain why, in their opinion, they should not be removed and to offer any statement to the stockholders justifying their conduct.

Very truly yours,

Albert E. Jolis

AEJ:cp

January 25, 1980

Mr. Arthur P. Frigo
President
Megadiamond Industries, Inc.
3418 N. Knox Avenue
Chicago, Illinois 60641

Dear Mr. Frigo:

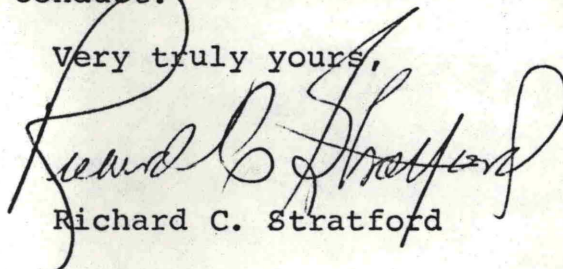
As a director of Megadiamond Industries, Inc., I hereby request that you direct the Company's Assistant Secretary to call a special meeting of stockholders for the purpose of removing Mr. Bill J. Pope and Mr. John M. Hardy from the Board of Directors of Megadiamond Industries, Inc.

It is with deep regret that I make this request. However, my position as a director compels me to bring to the attention of the Company's stockholders certain facts in order to permit them to make an independent judgment as to whether or not to remove Messrs. Pope and Hardy.

Specifically, Mr. Pope has filed suit against the company by which action he presently seeks to dissolve it. I am also aware that it is impossible to conduct meetings of the Company's Board of Directors while Mr. Pope and Mr. Hardy are currently officers of a competitor, U. S. Synthetic, with which the Company is currently engaged in litigation. Finally, the stockholders should be made aware of the circumstances surrounding the Board's decision reached on January 7, 1980 to commence suit against Mr. Pope.

I also request that Mr. Pope and Mr. Hardy be provided the opportunity during the meeting to explain why, in their opinion, they should not be removed and to offer any statement to the stockholders justifying their conduct.

Very truly yours,



Richard C. Stratford

RESOLUTION OF THE SHAREHOLDERS
OF MEGADIAMOND INDUSTRIES, INC.

WHEREAS, the Shareholders have determined that it is in the best interests of the Corporation and its Shareholders to merge with and into SII Megadiamond, Inc. ("SMI"), a Delaware corporation and wholly owned subsidiary of Smith International, Inc. ("Smith") (the "Smith Merger"), pursuant to that certain Agreement and Plan of Merger dated January 18, 1985, by and among Smith, SMI, the Corporation and certain shareholders of the Corporation (the "Plan of Merger"); and

WHEREAS, the Shareholders must approve the Plan of Merger and ratify certain actions previously taken by the officers of the Corporation, and authorize certain additional actions necessary in order to consummate the foregoing transactions;

NOW, THEREFORE, BE IT HEREBY RESOLVED AS FOLLOWS:

1. Resolved, that it is in the best interests of the Corporation to merge with and into SMI pursuant to the Plan of Merger, that the Plan of Merger be, and it is hereby, approved and adopted and that the President, Treasurer, Secretary and any Assistant Secretary of the Corporation be, and they hereby are, authorized and directed to execute the Plan of Merger and take such other further actions as, in the opinion of such officers, may be necessary or appropriate to consummate the

transactions contemplated thereby, including but not limited to, the amendment or modification of that certain agreement originally entered into between the Corporation and Compagnie Generale des Matieres Nucleaires effective December 10, 1981.

2. Resolved, that the actions of the officers of the Corporation previously taken in connection with the Plan of Merger, and the consummation of the transactions contemplated thereby, are hereby ratified, confirmed and approved.

02851
LJL

INFORMATION ABOUT MEGADIAMOND CORPORATION
AND MEGADIAMOND INDUSTRIES, INC.

This document has been prepared for the purpose of providing information about Megadiamond Corporation ("Mega") and Megadiamond Industries, Inc. ("MI") in advance of the Special Meeting of Shareholders of Mega and the Special Meeting of Shareholders of DBT Corporation ("DBT") to be held on October 30, 1978. Because of the relatively small number of shareholders of Mega and DBT, each of those shareholders is invited in advance of those meetings to visit the facilities of Mega at 275 West 2230 North, Provo, Utah, and to visit with officers and members of the Board of Directors of Mega with respect to the business and financial affairs of each of the companies described in this document.

Mega was organized under the laws of the State of Utah on April 6, 1966.

It is engaged in the business of developing and manufacturing products containing sintered polycrystalline diamonds. These products are used in industrial cutting and grinding tools, for wire dies and other industrial purposes.

Mega is involved in an extensive research and development program geared to improving existing products and developing new products involving sintered polycrystalline diamonds. Additional research and development and testing are essential to develop Mega's newest products for commercial purposes. Mega does have certain patents under which it has paid and will be required to pay to H. Tracy Hall the amount of 2% of the net sales of all sintered diamond products manufactured and sold by Mega.

Mega does not have patent protection on most of its critical processes and must rely heavily on trade secret protection. All current employees of Mega have signed agreements requiring them to keep Mega's trade secrets confidential. M. Duane Horton and Bill J. Pope have also signed secrecy and confidentiality agreements.

U.S. Synthetic, a Utah corporation, has been organized by two former employees of Mega for the purpose of manufacturing synthetic diamonds. These former employees are aware of Mega's business information, manufacturing processes, and technology. Management of Mega is currently investigating the appropriate position which it should take in relationship to U. S. Synthetic.

There are numerous patents owned by third parties relating to the manufacture of sintered polycrystalline diamond products. Some patents, when interpreted in their broadest scope, potentially expose Mega to a claim that the diamond-matrix composition forming the sintered products or the method of producing the sintered products infringe one or more third party patents. Mega is not aware of any actual or threatened claim of infringement against its products.

The raw materials used by Mega are generally available from commercial sources in the United States. One significant exception is pyrophyllite, which is currently available through limited sources, mostly foreign. Historically, the acquisition of pyrophyllite by Mega has been uncomplicated. However, should economic or political circumstances make pyrophyllite difficult to obtain, Mega's business could be adversely affected. Mega has no written contracts with any of its suppliers.

Mega has only one office which is located in Provo, Utah. The office is leased from Margaret M. Pope, Vera C. Stratford, and M. Duane Horton (collectively referred to as "BRD" in the lease) under a lease agreement which will continue until March 1, 1981. Mega owns approximately three acres of unimproved land immediately adjoining the building and land which it leases from BRD.

Mega owns most of the equipment which it uses in the development and manufacture of its products. Mega also rents to a limited extent certain equipment owned by DBT Co., a joint venture comprised of DBT Corporation and Dion Co.

As of August 31, 1978, Mega had six full time employees and eight part time employees (two in each category are shared with DBT), none of whom are covered by a collective bargaining agreement.

The members of the Board of Directors of Mega are L. Brent Horton, Albert E. Jolis, and Richard C. Stratford. Bill J. Pope resigned as a member of the Board of Directors and as President of Mega on October 10, 1978, after the

meeting of the Board of Directors at which the transactions described in this document were unanimously approved. Merrill Bateman previously resigned as a member of the Board on September 7, 1978. L. Brent Horton has been appointed the president of Mega to replace Dr. Pope. There have been major disagreements among the principal owners of Mega which have never been resolved. These areas of disagreement have included fundamental matters of corporate objectives and management philosophy.

Mega and DBT have their offices and manufacturing facilities in the same building. DBT subleases approximately 50% of the floor space of the building leased by Mega from BRD. DBT also shares on a rental basis the use of certain equipment owned by Mega. Certain employees are used by both Mega and DBT. DBT sells to Mega quantities of diamond grit needed by Mega in the finishing process for its products. All of these transactions between Mega and DBT require financial adjustments between them, and general estimates have often been the bases for these adjustments.

Certain technology is used in common by Mega and DBT. The verbal understanding and actual practice between the companies gives Mega the exclusive right to use the techniques for sintering of polycrystalline materials (for example, the sintering of diamond powder into unitary shapes and sizes) and gives DBT the exclusive right to use such technology for the development and synthesis of crystalline products (such as the synthesis of diamond grit from graphite).

Attached to this document are balance sheets and income statements of Mega as of August 31, 1978. The statements have been prepared on a consistent basis with prior periods. They are, however, unaudited and do not reflect contingencies of any nature whatever and may otherwise depart in certain respects from generally accepted accounting principles.

On about May 5, 1973, Mega and Diamond Distributors, Inc., a New York corporation ("DDI") entered into an agreement pursuant to which they jointly formed MI for the purpose of marketing sintered polycrystalline diamond products manufactured by Mega. Pursuant to the agreement between Mega and DDI, MI was given the exclusive worldwide license to market the sintered polycrystalline diamond products manufactured by Mega. Mega and DDI each acquired one-half of the voting common stock of MI and each acquired one class of its preferred stock. Between 1973 and 1977, DDI contributed large amounts of money to MI for the purpose of enabling MI to establish a viable market for Mega's products.

MI did not achieve the marketing success which was anticipated at the time of its organization and serious problems arose in 1976 and 1977 in identifying sources of financial support necessary for the continued operation of MI. In the fall of 1977, Mega acquired all of the issued and outstanding shares of stock of MI owned by DDI in exchange for 33,790 shares of common stock of Mega. DDI continues to own said number of shares, which is 16% of the total issued and outstanding shares of stock of Mega.

MI has continued to be the exclusive worldwide marketing agent of Mega's products. It has a small office located at 589 5th Avenue, New York, New York. DDI previously provided this office, together with receptionist and secretarial services, without cost to MI, but DDI is no longer obligated to do so.

"UNAUDITED"

Megadiamond Corporation

STATEMENT OF FINANCIAL POSITION

August 31, 1978

	<u>Assets</u>		
	<u>August 31, 1978</u>		<u>August 31, 1977</u>
Current Assets:			
Cash		\$ (4014)	\$ 11,706
Accounts Receivable - MI	\$131,047		
- Other	6,086	137,133	111,495
Int. Rec'ble & Prepaid Exp.		3,800	1,602
Inventory -Work in Process	\$ 18,416		\$ 11,529
-Raw Materials	13,162	31,578	6,782
Advances to MI		67,500	18,311
			7,500
Total Current Assets		<u>\$235,997</u>	<u>\$150,614</u>
Fixed Assets:			
Land		\$ 6,240	\$ 6,240
Machines & Equipment	\$113,829		\$117,493
Less: Reserve for Deprec.	(65,038)	48,791	(64,434)
			53,059
Auto	\$ 9,772		\$ 9,772
Less: Reserve for Deprec.	(4,688)	5,084	(3,350)
			6,422
Office Furniture & Equip.	\$ 8,145		\$ 7,884
Less: Reserve for Deprec.	(3,442)	4,703	(28,867)
			4,998
Notes Receivable			46,221
Patents		32,382	31,185
Total Fixed Assets		<u>\$ 97,200</u>	<u>\$148,125</u>
Total Assets		<u>\$333,197</u>	<u>\$298,739</u>
	<u>Liabilities & Stockholders Equity</u>		
Current Liabilities:			
Salaries Payable - Officers		\$ 1,401	\$ 1,041
Interest Payable		1,633	692
Property Taxes Payable		968	921
Royalties Payable - RC			58
Royalties Payable - HTH		843	469
Taxes Payable		(196)	--
Notes Payable		56,290	6,290
Total Current Liabilities		<u>\$ 60,579</u>	<u>\$ 9,471</u>
Stockholder Equity:			
Capital Stock - Common		\$ 53,220	\$ 53,220
Paid in Surplus		236,834	236,834
Retained Earnings	\$(24,962)		\$(20,626)
Net Income	7,526	(17,436)	19,840
			(786)
Total Stockholders Equity		<u>\$272,618</u>	<u>\$289,268</u>
Total Liabilities & stockholders Equity		<u>\$333,197</u>	<u>\$298,739</u>

"UNAUDITED"

Megadiamond Corporation

STATEMENT OF EARNINGS

For the Period Ending August 31, 1978

	<u>Year to Date</u>		<u>August 1978</u>	
	<u>Dollars</u>	<u>Per Cent</u>	<u>Dollars</u>	<u>Per Cent</u>
Revenues:				
Sales - MI	\$19,721	34	\$ 6,876	38
Fixed Cost Reimbursement -MI	30,510	53	10,170	57
Other Income	(5,016)	(9)	(5,378)	(30)
Royalty Income	12,641	22	6,367	35
Interest Income	<u>19</u>		<u>1</u>	-
Total Revenues	\$57,875	100	18,036	100
Less: Cost of Goods Sold	<u>(35,999)</u>	<u>62</u>	<u>(12,933)</u>	<u>72</u>
Gross Margin	<u>\$21,876</u>	<u>38</u>	<u>\$ 5,103</u>	<u>28</u>
Administrative Expenses:				
Officers Salaries	\$ 5,000	9	\$ 1,250	7
Office Salaries	3,096	5	1,144	6
Payroll Surcharge	1,595	3	87	-
Depreciation	475	1	157	1
Interest	1,235	2	455	3
Travel	232	-	40	-
Telephone	898	2	481	3
Real Property Taxes	60	-	20	-
Office	646	1	146	1
Insurance	292	1	139	1
Postage-Office	(53)	-	(55)	-
Other	52	-	15	-
Rent	1,140	2	380	2
Personal Property Tax	39	-	13	-
Corporation Tax	1,249	2	--	-
Less: Allocated Expense to DBT	<u>(1,606)</u>	<u>(3)</u>	<u>(452)</u>	<u>(3)</u>
Total Administrative Expenses	\$14,350	25	\$ 3,820	21
Net Income Before Tax	<u>\$ 7,526</u>	<u>13</u>	<u>\$ 1,283</u>	<u>7</u>

"UNAUDITED"

Megadiamond Industries, Inc.

BALANCE SHEET

August 31, 1978

Assets

Current Assets:

Cash		\$ 3,037
Accounts Receivable	\$41,395	
Less: Reserve for Bad Debts	<u>(249)</u>	41,146
Merchandise Inventory		277,941
Prepaid Expenses		<u>1,000</u>
Total Current Assets		<u>\$323,124</u>

Fixed Assets:

Automobile	\$ 5,731	
Less: Reserve for Depreciation	<u>(2,352)</u>	\$ 3,379
Furniture & Fixtures	\$ 6,478	
Less: Reserve for Depreciation	<u>(2,780)</u>	<u>3,698</u>
Total Fixed Assets		<u>\$ 7,077</u>

Other Assets:

License & Trademarks	\$20,000	
Less: Amortization	<u>(10,667)</u>	\$ <u>9,333</u>
Total Assets		<u>\$339,534</u>

NOTE: Although the MI inventory is not presently considered obsolete, the market for it is very limited and it is being sold at such a slow rate that a discount of up to \$200,000 may be required to bring the inventory valuation into compliance with generally accepted accounting principles. This discount is not reflected on these unaudited financial statements.

"UNAUDITED"

Megadiamond Industries, Inc.

BALANCE SHEET

August 31, 1978

Liabilities & Stockholders Equity

Current Liabilities:

Accounts Payable	\$ 131,031
Due DDI	284,585
Accrued Expenses & Taxes	<u>1,653</u>

Total Current Liabilities	\$417,269
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Other Liabilities:

Loans Payable - MC	\$ 67,500
Loans Payable - DDI	<u>67,500</u>

Total Other Liabilities	\$135,000
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Stockholders Equity:

Common Stock - Par Value \$10	
2104 shares authorized issued and outstanding:	
2000 voting shares in treasury:	\$ 20,000
52 non-voting shares	520
Preferred stock - Class A - No par value	
1026 shares authorized	
1000 shares issued and outstanding	10,000
26 shares held in treasury	260
Preferred stock - Class B - No par value	
1026 shares authorized	
1000 shares issued and outstanding	10,000
26 shares held in treasury	260
Additional paid in capital	983,960
Deficit May 1, 1978	\$(1,215,375)
Net Loss to August 31, 1978	<u>(13,110)</u>
	(1,228,485)

Sub-Total	\$ (203,485)
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Less: Cost of shares in treasury	<u>(9,250)</u>	<u>(212,735)</u>
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Total Liabilities and Stockholders Equity	<u>\$339,534</u>
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NOTE: Although the MI inventory is not presently considered obsolete, the market for it is very limited and it is being sold at such a slow rate that a discount of up to \$200,000 may be required to bring the inventory valuation into compliance with generally accepted accounting principles. This discount is not reflected on these unaudited financial statements.

"UNAUDITED"

Megadiamond Industries, Inc.

STATEMENT OF EARNINGS

For Four Months Ended August 31, 1978

	<u>Year to Date</u>	<u>August 1978</u>
<u>Income:</u>		
Sales	\$ 90,608	\$ 30,696
Less: Royalties	<u>(15,682)</u>	<u>(4,594)</u>
Net Sales	\$74,926	\$26,102
<u>Cost of Goods Sold:</u>		
Beginning Inventory	\$281,347	\$279,591
Purchases	<u>66,298</u>	<u>17,933</u>
Total Goods Available	\$347,645	\$297,524
Less: Ending Inventory	<u>(277,941)</u>	<u>(277,941)</u>
	69,704	19,583
Gross Income or (Loss)	\$ 5,222	\$ 6,519
<u>Expenses:</u>		
<u>Selling Expenses:</u>		
Salaries	\$ 8,140	\$ 1,265
Travel & Entertainment	1,967	488
Postage & Shipping	54	2
Employee Benefits		<u>(814)</u>
Total Selling Expenses	<u>\$ 10,161</u>	<u>\$ 941</u>
<u>General & Admin Expenses:</u>		
Management Fees	\$ 5,000	\$ 1,250
Telegraph & Telephone	444	57
Office Expense	612	188
Professional	110	
Bad Debts	129	
Depreciation	804	201
Amortization	672	167
Corporate Taxes	<u>400</u>	
Total General & Admin Expenses	<u>\$ 8,171</u>	<u>\$ 1,863</u>
Total Expenses	18,332	2,804
Net Income or (Loss)	<u>\$(13,110)</u>	<u>\$ 3,715</u>