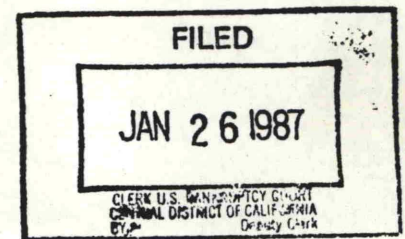


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Attorneys for Debtor and  
Debtor in Possession



UNITED STATES BANKRUPTCY COURT  
CENTRAL DISTRICT OF CALIFORNIA

In re )  
SMITH INTERNATIONAL, INC., )  
a Delaware corporation, )  
d/b/a DATADRIL, DRILCO, )  
DRILCO INDUSTRIAL, DRILCO )  
OILFIELDS, DRILLING TOOLS )  
AND SERVICES LEHMANN, McEVOY )  
MINING EQUIPMENT COMPANIES, )  
MINING TOOLS, SERVCO, SMITH )  
DRILLING SYSTEMS, SMITH )  
ENERGY SERVICES SMITH GRUNER, )  
SMITH TOOL, TUNGSTEN CARBIDE )  
MANUFACTURING and WILLIS, )  
Debtor. )

Case No. LA 86-03947-JD  
Chapter 11

ORDER AUTHORIZING ASSUMPTION OF  
EXECUTORY CONTRACT WITH FORMER  
SHAREHOLDERS OF MEGADIAMOND  
INDUSTRIES INC., AND PATENT  
LICENSE AGREEMENT WITH GENERAL  
ELECTRIC COMPANY

Date: January 26, 1987  
Time: 1:30 P.M.  
Place: Courtroom "E"

The debtor's "Motion to Assume (1) Executory Contract  
with Former Shareholders of Megadiamond Industries, Inc.; and  
(2) Patent License Agreement with General Electric Company" (the  
"Motion") came on for hearing and was heard before the Honorable  
James R. Dooley, United States Bankruptcy Judge, in his courtroom  
at Los Angeles, California, on January 26, 1987. Smith Inter-  
national, Inc., debtor and debtor in possession ("Smith"), was  
represented at the hearing by Richard T. Peters and Perry L.



1 Landsberg of Sidley & Austin; the Official Committee of  
2 Unsecured Creditors was represented by Bernard Shapiro and ~~Paul~~  
3 ~~S. Arenzen~~ of Gendel, Raskoff, Shapiro & Quittner; the Official  
4 Committee of Equity Security Holders was represented by ~~Jeffrey~~  
5 ~~I. Werbalowsky~~ of Levene & Eisenberg; ~~Peter Anderson~~ represented  
6 ~~the Office of the United States Trustee;~~ and Hughes Tool Company  
7 was represented by ~~Larry Shreve~~ of Andrews & Kurth. The Court  
8 noted any additional appearances in the record of these pro-  
9 ceedings.

10 The Court read and considered the Motion together with  
11 the notice of hearing, declaration and memorandum of points and  
12 authorities filed in support thereof; and having heard and  
13 considered also the statements, argument and representations of  
14 counsel presented at the hearing; and having found that notice  
15 of the hearing on the Motion has been duly given as required by  
16 law; that no objection to the Motion has been filed or presented  
17 orally; that Smith, in the reasonable exercise of its business  
18 judgment, has determined that the Agreement and Plan of Merger  
19 (Exhibit "A" to the Motion; the "Merger Agreement") and the  
20 executory Patent License Agreement (Exhibit "B" to the Motion)  
21 should be assumed by Smith, as debtor in possession, at the  
22 present time; cause having been shown to limit notice as prayed  
23 in the Motion; and good cause appearing therefor, it is hereby

24 ORDERED that the Motion is granted as prayed; and it  
25 is

26 ORDERED that Smith is authorized to assume the Merger  
27 Agreement and the Patent License Agreement, respectively, upon  
28 the terms and conditions set forth in the Motion; and it is



1           ORDERED that pursuant to section 365(b)(1) of the  
2 Bankruptcy Code, as a condition to assumption of the Merger  
3 Agreement, Smith shall do the following:

4           a. Promptly following the tenth day after entry  
5 of this Order, and provided that this Order has not been stayed  
6 under applicable law, Smith will pay to the Megadiamond share-  
7 holders, in accordance with the terms of the Motion, the sum of  
8 \$32,340;

9           b. Smith will compensate the Megadiamond share-  
10 holders for any loss resulting from Smith's default by paying  
11 the Megadiamond shareholders interest on such past due amount at  
12 the rate of 12% per annum from April 1, 1986 through the date  
13 that such payment is actually made; and

14           c. Smith's present and prospective financial  
15 condition shall constitute adequate assurance of future perfor-  
16 mance of Smith's obligations under the Merger Agreement, as  
17 required by section 365(b)(1)(C) of the Code; and it is

18           ORDERED that pursuant to section 365(b)(1) of the  
19 Bankruptcy Code, as a condition to assumption of the Patent  
20 License Agreement, Smith shall do the following:

21           a. Promptly following the tenth day after entry  
22 of this Order, and provided that this Order is not stayed under  
23 applicable law, Smith will (i) provide General Electric Company  
24 ("General Electric") with all reports and accountings required  
25 under the terms of the Patent License Agreement, and (ii) pay  
26 General Electric, in cash, the amount of all pre-petition and  
27 post-petition royalties due under the Patent License Agreement;  
28 and

1                   b. Smith shall compensate General Electric for  
2 any loss resulting from Smith's defaults by paying General  
3 Electric interest on any past due royalties at the rate, and  
4 according to the terms, specified in paragraph 5.9 of the Patent  
5 License Agreement; and

6                   c. Smith's present and prospective financial  
7 condition shall constitute adequate assurance of future per-  
8 formance of Smith's obligations under the Patent License Agree-  
9 ment, as required by section 365(b)(1)(C) of the Code; and it is  
10 further

11                   ORDERED that notice of the Motion and the hearing  
12 thereon, as given by Smith, is appropriate under the particular  
13 circumstance of this case.

14                   DATED: January 26, 1987

15                   **JAMES R. DOOLEY**

16                   \_\_\_\_\_  
17 James R. Dooley  
United States Bankruptcy Judge

18 Presented by:

19                   Sidley & Austin

20                   By Richard T. Peters 1/26/87  
21                   Richard T. Peters  
22                   Attorneys for Debtor and  
Debtor in Possession

23                   Approved:

24                   Gendel, Raskoff, Shapiro & Quittner

25  
26                   By \_\_\_\_\_  
27                   Bernard Shapiro  
Paul S. Aronzon  
28                   Attorneys for Official Creditors'  
Committee