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safety deposit box*

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SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement is made at the last date set forth below between H. Tracy Hall, 1711 N. Lambert Lane, Provo, Utah 84604 (Hall), and SII Megadiamond, Inc., a corporation of the State of Delaware, 275 West 2230 North, Provo, Utah 84604 (Megadiamond), a wholly owned subsidiary of Smith International, Inc., a corporation of the State of Delaware, 17871 Von Karman Avenue, Irvine, California 92713.

WHEREAS, Hall and Megadiamond are parties to a Patent Sales Agreement dated December 2, 1970, between Hall and Megadiamond Corporation, a prior name for Megadiamond;

WHEREAS, Hall and Megadiamond have disagreed on interpretation of the Patent Sales Agreement;

WHEREAS, Hall has claimed that additional royalties are payable to him by Megadiamond under the Patent Sales Agreement, both in the past and in the future, and Megadiamond has claimed that no additional royalties are payable;

WHEREAS, Megadiamond has claimed that excess payments have been made erroneously to Hall by Megadiamond, and Hall has claimed that all payments made were actually due;

WHEREAS, Hall has demanded arbitration under the Patent Sales Agreement; Arbitration No. 77 133 0141 87 between Hall and Megadiamond has been instituted under auspices of the American Arbitration Association, with an arbitration hearing presently set to commence December 6, 1988; and Megadiamond has counterclaimed for return of excess payments erroneously made to Hall;

WHEREAS, it is believed to be in the best interests of both Hall and Megadiamond to resolve their disputes amicably; and

WHEREAS, Hall and Megadiamond wish to compromise and settle all disputes between them with respect to the Patent Sales Agreement and any other disputes or causes of action, known or unknown, between them, to discharge the Patent Sales Agreement and to discontinue the Arbitration;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Megadiamond agrees to pay to Hall, or his heirs, \$300,000 as follows: \$2,500 upon signing this Settlement and Release Agreement, and \$2,500 at the first day of each month following signing of this Settlement and Release Agreement, commencing December 1, 1988, and continuing each month until the entire \$300,000 is paid by Megadiamond.

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Megadiamond will, concurrently with signing of this Settlement and Release Agreement, deliver to Hall a Note, in the form attached hereto, requiring Megadiamond to make the monthly payments to Hall or his heirs.

Hall and Megadiamond agree to submit to the American Arbitration Association as soon as this Settlement and Release Agreement is signed, a Stipulated Arbitration Award in the form attached hereto, to be accepted by the arbitration panel in a form suitable for entry of judgment by a court of competent jurisdiction; provided, however, that in the event the Stipulated Arbitration Award is not approved by the arbitration panel, the parties shall modify the Stipulated Arbitration Award to the extent required to be approved by the arbitration panel without departing from the terms of this Settlement and Release Agreement.

Hall and Megadiamond agree that this Settlement and Release Agreement is a compromise of their dispute and a discharge of all prior and present contracts, rights, claims, disputes and causes of action of whatever nature, whether known or unknown, between Hall and Megadiamond or Smith International, Inc., including the Patent Sales Agreement, and all claims and counterclaims in the Arbitration; provided, however, that this Settlement and Release Agreement shall not affect any rights, duties or obligations arising under or because of a Merger Agreement and Plan of Merger, dated January 1, 1985, between Smith International, Inc., SII Megadiamond, Inc., and Megadiamond Industries, Inc.

This Settlement and Release Agreement shall be a full settlement of said dispute. Such settlement shall act as a release of future claims by Hall, Megadiamond, Smith International Inc., and their heirs, assigns, and stockholders against any party, that may arise from the above-mentioned dispute whether such claims are currently known, unknown, foreseen, or unforeseen. The parties understand and acknowledge the significance and consequence of such specific waiver of unknown or unforeseen claims and hereby assume full responsibility for any injuries, damages, losses, or liability that they may hereafter incur from the above-mentioned dispute.

Megadiamond and Smith International, Inc., agree not to make any use of H. Tracy Hall's name for promotion or advertising without prior written consent from Hall, but may make factual statements of an educational or historical nature, regardless of whether that name appears in a document that might be considered promotional or advertising. For example, it may be stated in Megadiamond publications that Dr. Hall was the inventor of the technique for making synthetic diamond, inventor of the belt, tetrahedral and cubic presses, a Professor at BYU, or a founder of Megadiamond.

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STIPULATED ARBITRATION AWARD

In the Matter of the Arbitration between
H. Tracy Hall
and
SII Megadiamond, Inc.

American Arbitration Association
Case No. 77 133 0141 87

The parties to the above identified Arbitration, H. Tracy Hall, 1711 N. Lambert Lane, Provo, Utah 84604, and SII Megadiamond, Inc., 275 West 2230 North, Provo, Utah 84604, having signed a Settlement and Release Agreement in compromise and full discharge of matters in dispute between them, hereby consent to entry of this Stipulated Arbitration Award.

SII Megadiamond, Inc., shall pay to H. Tracy Hall a total of \$300,000 payable in equal monthly installments of \$2,500, commencing with a payment of \$2,500 upon signing of the Settlement Agreement, and continuing on the first day of each month thereafter commencing on December 1, 1988, and continuing through October 1, 1998, in accordance with terms of a Note in the form attached hereto as Exhibit A.

Both parties agree that this Stipulated Arbitration Award voids and replaces the previous Stipulated Arbitration Award issued and executed as of November 15, 1988.

Each party shall bear its own costs.

Agreed:

H. Tracy Hall 12/13/88
H. Tracy Hall

Sii Megadiamond, Inc.

By Gene Myers 12/13/88
Gene Myers, President

Approved:

Craig J. Madson
Craig J. Madson

Scott M. Matheson
Scott M. Matheson

Hardin A. Whitney
Hardin A. Whitney
Arbitrators.

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INSTALLMENT NOTE

\$200,942.08

SII Megadiamond, Inc.
275 West 2230 North
Provo, Utah 84640

For value received SII Megadiamond, Inc., a corporation of the State of Delaware, promises to pay to H. Tracy Hall the principal sum of Two Hundred Thousand Nine Hundred Forty-Two and 8/100 Dollars (\$200,942.08) in lawful money of the United States of America interest thereon from the date hereof at the rate of Eight and 58/100 Percent (8.58 %) per annum, in installments as set forth in the attached Installment Payment Schedule, attached hereto as Appendix I, beginning with a first installment of Two Thousand Five Hundred Dollars (\$2,500.00) upon signing of this Note, a second installment of Two Thousand Five Hundred Dollars (\$2,500.00) on December 1, 1988, and succeeding installments of Two Thousand Five Hundred Dollars (\$2,500.00) on the same date of each month thereafter until the entire sum has been paid in full.

Interest due shall be calculated for payments received before the tenth day of any month as if received on the first day of the month. Interest due on payments received after the tenth day of any month shall be calculated to the day of receipt of the payment.

All payments shall be applied first to any accrued interest and the balance to principal. The outstanding balance of this Note may be prepaid at any time, providing the total payment of principal and interest paid on this Note is \$300,000, including principal, earned and unearned interest.

If suit is instituted to collect this Note, or any portion thereof, SII Megadiamond, Inc., promises to pay such reasonable attorneys fees incurred by the holder hereof as the court may award.

Sii Megadiamond, Inc.

Date: 12/13/88

By: 

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Authorization Agreement

This Authorization Agreement is made at the last date set forth below between H. Tracy Hall, 1711 N. Lambert Lane, Provo, Utah 84604 (Hall), and SII Megadiamond, Inc., a corporation of the State of Delaware, 275 West 2230 North, Provo, Utah 84604 (Megadiamond), a wholly owned subsidiary of Smith International, Inc., a corporation of the State of Delaware, 17871 Von Karman Avenue, Irvine, California 92713.

WHEREAS, Hall and Megadiamond have been involved in an arbitration captioned:

77 133 0141 87
H. Tracy Hall
-and-
SII Megadiamond
Salt Lake City, Utah

WHEREAS, Hall and Megadiamond desire to void and replace the Settlement and Release Agreement issued and executed as of November 15, 1988;

WHEREAS, Hall and Megadiamond desire to void and replace the Stipulated Arbitration Award issued and executed as of November 15, 1988;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Hall and Megadiamond agree to reinstate the authority of the arbitrators, Craig J. Madson, Scott M. Matheson, and Hardin A. Whitney, to review and sign the new Stipulated Arbitration Agreement dated December 13, 1988.

Agreed:

H. Tracy Hall 12/13/88

H. Tracy Hall

SII Megadiamond, Inc

By

Gene Myers 12/13/88
Gene Myers, President