



A Smith International, Inc. Company

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March 31, 1989

Ida Rose Hall
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Re: In re Smith International, Inc: Agreement and Plan of
Merger (Megadiamond Industries, Inc.)

To Whom it May Concern:

This is to comply with Section 13.5 of the Merger Agreement; i.e., to provide a certificate to the Former Shareholders of Megadiamond informing them of the status of milestones at the end of each calendar year. This letter will serve as the certificate for 1988.

A. Enhanced insert milestone. Section 3.2 (ii)(a)(2)

Amount: \$1,850,000 (adjusted to \$1,470,900 for certain indemnity items detailed in the Smith International, Inc. letter to you dated February 11, 1987).

Status: Complete. Checks were issued May 30, 1987.

B. Hardfacing material milestone. Section 3.2 (ii)(b)(1)(2)

Amount: \$925,000

Status: Efforts to date have been unsuccessful, and pursuit of this project is no longer practical.

C. Bearing material milestone. Section 3.2 (ii)(c)(1)(2)

Amount: \$1,850,000

Status: Past problems have related to material wear. A new material has been developed which solves these problems in the thrust wear and cone bore laboratory tests. This new material will be field tested in rock bits during 1989.