



**Manufacturers of
Superhard Products**

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Provo, Utah 84604
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April 12, 1990

Ida Rose Hall
1711 North Lambert Lane
Provo, Utah 84601

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

Dear Mrs. Hall:

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 1989.

1. 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.

2. 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.

3. 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. However, efforts to date in non-laboratory tests have been unsuccessful.

4. Outside Sales (\$5,000,000) Milestone. Section 3.2 (ii) (d)

Amount: \$925,000

Status: 1989 outside sales were \$2,737,000. For 1990 we will maintain the grit line, expand our tooling line and begin outside marketing for shearbit cutters, thrust bearings and enhanced inserts.

5. Total Sales (\$10,000,000) Milestone. Section 3.2 (ii) (e) (2)

Amount: \$1,850,000

Status: Complete. 1987 total sales were \$11,563,157.89. Checks were distributed the last week of February 1988.

6. Sales, Deliveries and Transfers from Megadiamond to Smith International, Inc. Entities. Section 3.2 (ii) (f) (g)

Amount: 4.625% of annual sales; not to exceed aggregate amount of \$5,500,000.

Status: No payment is due for 1989. This milestone will be payable on an annual basis when the aggregate amount payable for sales to Smith International exceeds the aggregate amount paid to the former shareholders for the accomplishment of Milestones 1 through 5 inclusive.

Questions regarding specifics of any milestone should be directed to me. Thank you for your support.

Sincerely yours,

Sii MEGADIAMOND, INC.



Wallace S. Harkness
General Manager

WSH/haa