

Sii SMITH TOOL
Division of Smith International, Inc.

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Doug Rock
President

February 26, 1987

Ida Ross Hall
1711 N. Lambert Lane
Provo, Utah 84601

Subject: Smith International, Inc.
Agreement and Plan of Merger
(Megadiamond Industries, Inc.)

Dear Ida:

In accordance with the subject agreement and our letter to you dated February 11, we are pleased to enclose a check for \$ 936.59 as your share of the past-due milestone payment of \$33,291, including interest. This payment is being made under Section 3.2(ii)(f) of the Merger Agreement and relates to the year 1985. The 1986 amounts due under Section 3.2(ii)(f) are payable by March 31, 1987. As previously communicated, we expected the first major milestones under Section 3.2(ii)(a)(2) to be met in mid-1987, if the positive field testing results continue.

Any questions regarding the enclosed payment should be referred to Randy Stadel of Sii Megadiamond. Thank you for your cooperation and patience.

Very truly yours,

Sii SMITH TOOL



Doug Rock
President

DR/lm

Enclosure