

275 West 2230 North
Provo, Utah 84604
Phone: (801) 377-3474

March 16, 1988

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 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 1987.

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

Amount: \$1,850,000 (adjusted to \$1,470,900 for certain indemnity items spelled out 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: Our efforts to date have not been successful due to the temperature limitation of the material. 1988 will be dedicated toward attaining a more thermally stable diamond.

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

Amount: \$1,850,000

Status: So far the results in material an journal design have been unsuccessful due to excessive wear; however, recent material test results are encouraging and give cause for optimism. The next critical results for evaluation are due in July of this year.



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A Smith International, Inc. Company

D. Outside sales (\$5,000,000) milestone. Section 3.2 (ii)(d).

Amount: \$925,000

Status: 1987 outside sales were about \$2,000,000. For 1988, we have targeted the PCD tooling and compact markets for product expansion. In addition, we are evaluating several exciting new products. Completion of this milestone is not probable for 1988, but the groundwork will be laid for success in 1989.

E. Total sales (\$10,000,000) milestone. Section 3.2 (ii)(e) (2).

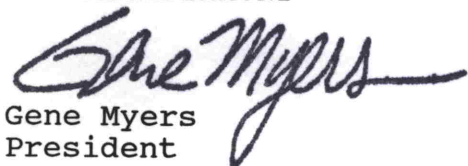
Amount: \$1,850,000

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

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

Sincerely yours,

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Gene Myers
President