

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 1980

NOTE F - LITIGATION

In March 1979, the company filed suit against certain former employees and a former stockholder, alleging unfair competition, breach of trust and fiduciary and confidential relationship, breach of contract, and unjust enrichment. The company has not yet specified the dollar amount sought for damages.

The defendants in this suit have filed counterclaims against the company, its predecessor corporations, and several officers and stockholders, alleging antitrust violations, unfair competition, interference with customer and employee relations and defamation. The defendants seek punitive damages in the amount of \$1,000,000 on each counterclaim other than the antitrust counterclaim for which they seek treble compensatory damages as permitted by law.

In addition, a former director and officer of predecessor corporations (currently a minority shareholder) has filed suit against the company, its predecessor corporations, and several of its officers and stockholders alleging that the former stockholder was fraudulently induced to exchange stock in connection with the incorporation of one of the company's predecessor corporations which allegedly violated Federal and state security laws and constituted common law fraud, unjust enrichment, breach of contract, defamation, conspiracy and breach of fiduciary duty. Damages being sought include \$3,000,000 consequential and \$5,000,000 punitive damages for each claim except for the breach of contract claim for which \$1,000,000 punitive damages is being sought.

An additional suit was filed by the company against the former director and officer and a competitor company for misappropriation of corporate opportunities, diversion of customers and breach of contract. Damages of an unspecified amount are sought and the imposition of a constructive trust on all proceeds derived from the alleged misappropriation of corporate opportunities. The complaint focuses on the period during which the defendant was an officer of predecessor corporations and alleges a relation of his was establishing a competitor to the company. The case is currently in the Federal court.

The company's counsel advises that it is not possible to forecast the ultimate outcome of these suits due to the early stage of the cases.

NOTE G - RELATED PARTY TRANSACTIONS

Amounts due stockholder at April 30, 1980 is comprised of the following:

Total amount due stockholder	\$300,759
Less current portion	30,000
	<u>\$270,759</u>
	=====