

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 contract, and libel and slander. 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 unfair competition, breach of contract, and libel and slander. The company has not yet specified the dollar amount sought for damages.

In addition, a former director and officer of predecessor corporations, a minority stockholder, 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, breach of contract, breach of fiduciary duty, conspiracy and libel and slander. Damages being sought include \$1,000,000. The company has not yet specified the dollar amount sought for damages.

An additional suit was filed by the company against the former director and officer and a predecessor corporation for misappropriation of corporate opportunities, diversion of customers and breach of contract. Damages being sought are not specified 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 violation of his fiduciary duty 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 as of April 30, 1980 are comprised of the following:

Total amount due stockholder	\$300,752
Less current portion	30,000
	<u>\$270,752</u>

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NOTE G - RELATED PARTY TRANSACTIONS - Continued

The agreement with the stockholder is verbal. Repayment terms are based on a percentage of a certain product line sales. The amount due is non-interest bearing.

NOTE H - AMOUNT DUE FORMER STOCKHOLDER

Amount due former stockholder is for the repurchase of 3,948 shares of the company's common stock. The amount includes approximately \$7,000 of interest which has been accrued at the rate of 11-3/4% since the date of the repurchase.

NOTE I - PROFIT SHARING PLAN

A profit sharing plan was established for one of the subsidiaries effective October 1, 1977. Contributions to the profit sharing plan by employees may not exceed 10% of their annual salary. Annual employer contributions are discretionary, but may not exceed 15% of earnings before income taxes and profit sharing contribution. The company's contributions charged to operations for the year ended April 30, 1980 was \$95,000.

NOTE J - INCOME TAXES

As of April 30, 1980, the company has available net operating loss carry-forwards of approximately \$611,000 which expire as follows:

April 30,	
1983	\$253,000
1984	256,000
1985	<u>102,000</u>
	<u>\$611,000</u>
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In addition during the year, the company has written off, for financial statement purposes, \$257,852 of inventory as a prior period adjustment (note B). If and when the benefit of this adjustment is realized for tax purposes, the resulting reduction of income taxes will be accounted for as an extraordinary credit in the statement of earnings.

NOTE K - SUBSEQUENT EVENTS

On June 27, 1980, the company entered into a loan and security agreement with a bank providing for additional loans aggregating not more than \$2,500,000 at comparable interest rates as provided in the line of credit agreement (note D). The line of credit agreement and note payable to bank existing at April 30, 1980 is with this bank.