

April 30, 1980

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Organization Expense

Organization expense is being amortized over a five-year period.

NOTE B - PRIOR PERIOD ADJUSTMENT - RESTATEMENT OF INVENTORY

During the year, the parent company restated its beginning inventory to properly reflect its inventory at the lower of cost or market, by a write down of slow moving diamond inventory. This resulted in a restatement in beginning retained earnings of \$257,822.

NOTE C - ACCOUNTING CHANGES - LEASES

During the year, the company changed its method of accounting for leased property under capitalized leases to be in conformity with Financial Accounting Standards Board Statements #13 and #17, which established new standards of accounting for capital leases. The company's retained earnings, as of May 1, 1979, has been restated by \$2,387 to give retrospective effect for the change in accounting as if statements #13 and #17 had been in effect for prior years. The change in accounting involved the capitalization of equipment obligations at discounted amounts totaling \$289,450; the amortization of the related lease assets over the lease periods which approximate the lives of the equipment; the reduction of the lease obligations by monthly lease payments, net of charges for interest expense; and the recognition of the deferred income tax effects.

The effect of the change on earnings for the year ended April 30, 1980 is immaterial.

NOTE D - NOTES PAYABLE - BANKS

Notes payable - banks, at April 30, 1980, are comprised of the following:

Line of credit agreement	\$ 288,818
Demand note payable	250,000
	\$1,238,818

In 1979, the line of credit agreement was entered into with a bank. The agreement provides for borrowings up to \$2,000,000 with certain restrictions, at an interest rate of the greater of 3-1/2% over the bank's prime interest rate or 1/2% over the latest three-week moving average commercial paper rate. Interest is paid monthly.

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NOTE D - NOTES PAYABLE - BANKS - Continued

The demand note payable was entered into with a bank in 1979 at an interest rate of 1% over the bank's prime interest rate. Interest is payable quarterly. The note has been subsequently paid.

The company has long-term debt with a bank consisting of the following:

Note payable to bank	\$395,000
Less current maturities	150,000
	\$245,000
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The note payable to bank is payable in monthly installments of \$12,500 with a final payment of \$106,500 due on April 1, 1982. Interest is on the same terms as the above line of credit.

The loans are collateralized by substantially all of the assets of the company and its subsidiaries.

NOTE E - LEASE COMMITMENTS

The company occupies certain manufacturing and office facilities under an operating lease which expires on March 1, 1981. Monthly rental payments are \$1,900. The rental commitment for the fiscal year ending April 30, 1981 is \$20,900. Rental expense for this operating lease for 1980 was \$22,800.

As explained in note C to the consolidated financial statements, the company adopted Financial Accounting Standards Board Statements #13 and #17 and restated its consolidated retained earnings at May 1, 1979 to give effect to the change in accounting method. As required by Statements #13 and #17, all of the company's leases meeting the criteria for capital leases have been capitalized. The company's capital leases are for production equipment. Monthly rentals under these leases are approximately \$5,000. The leases may be terminated after forty-two months if the related equipment becomes obsolete or surplus to the company's requirements. However, due to the nature of the equipment, management feels that the leases will run full term. Total commitments under these leases are approximately the following:

Fiscal years ending April 30, 1981 through 1985	\$300,085
Fiscal years subsequent to April 30, 1985	49,680
Less amount representing interest	349,765
	96,009
Present value of minimum lease payments	\$253,756
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