Megadiamond Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 1980

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
	=======

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
	349,765
Less amount representing interest	96,009
Present value of minimum lease payments	$253,756
	=======