

Megadiamond Industries, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 1980

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	102,000
	<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.