

*If you want, make a copy but please
return to me, David*

Dear Family,

I am writing essentially a financial report of various corporate activities this time so that you will be more familiar with what is going on. Enclosed with this letter is (1) H.T.H. Inc. Balance sheet as of April 1977. (2) A table which illustrates the cost of DBT earnings to partners as a function of taxable income level. This data is essentially the reason for the change of DBT to a normal corporation instead of a partnership. The corporation was not paying out enough dividends to cover the cost to partners whose income was above \$20,000.00. (3) DBT Co. Balance sheet as of April 30 1977. (4) DBT company income statement (5) Detailed DBT company Income statement (6) Megadiamond statement of earnings 1977.

The change of DBT to a normal corporation is currently underway. You will each receive stock for your percentage share of the partnership plus a ten year note for one third of your capital in the corporation. The number of shares of stock for each in our family are listed below:

Sherlene and Dan owned .61% of DBT partnership and will receive 1080 shares of stock in new corporation. Sherlene and Dan also have 1080 shares of stock in Megadiamond corporation. Their share in the \$424,097 partnership equity is \$2,587 and in addition to 1080 shares of stock they will receive a note for \$862.33.

Charlotte Hall owned .68% of DBT and will receive 1200 shares of stock in the new corporation. Charlotte also owns 1200 shares of stock in Megadiamond. Her share of equity is \$2883.86 and in addition to the 1200 shares of stock she will receive a note for \$961.29.

David and Karen owned .68% of DBT and will receive the same as Charlotte. I also own 1200 shares of Mega.

Ida Rose L. Hall Owned 7.27 % of DBT partnership and will receive 12,900 shares of stock in the new corporation. Her share in the partnership equity was \$30,831.85 and so in addition to the 12,900 shares of stock she will receive a note for \$10,277.28. Mom owns 12,900 shares in Megadiamond.

Nancy & Doug Owned .397% of DBT (Nancy and Doug sold 5/12 of their partnership to company employees several months ago) and they will receive 700 shares in the new corporation. They will also receive a note for \$561.22. Nancy and Doug own 1200 shares of Megadiamond corporation.

H.Tracy Hall Sr. Dad held DBT ownership through the General partner which was called DION company. He will get 16,600 shares of stock in the new corporation and his share of the partnership equity was \$39,684.38 so he will receive a note for \$13,228.13. Dad owns 18,100 shares in Megadiamond.

Tracy and Betsy Owned .56% of DBT and will receive 1000 shares in the new corporation. Their share of equity was \$2374.94 so they will receive a note for \$791.65. Tracy and Betsy own 1000 shares in Megadiamond.

Virginia and Barry Owned .68% of DBT and also owns 1200 shares of Mega. They will receive the same as Charlotte and David will.

Marty and Liz Owned .68% of DBT and also own 1200 shares of Mega. They will receive the same as Charlotte, David and Virginia will.

The new DBT corporation will have 177,400 shares of stock. Our whole family combined will own 37,080 or 20.9% of the company. We are smaller stock holders than the Popes or the Hortons because of sales which we have made in the past. We have enough stock now to guarantee ourselves one of five directors positions. If our total ownerships drops below 20% we will not be able to elect ourselves a director without help from some other stock holder. In my view it is important that we not sell any more stock until the stock is listed publicly or we sell the stock in a complete block to someone else. If we sell just part of our stock we will get ourself into a position of having stock which cannot be represented. Our stock combined with other stock holders represents a majority of the stock holders. I have talked to most of the smaller stock holders and their opinions on the operation of the company agree with ours. As a block of stockholders we are going to vote in 3 of the five directors and maintain control of the company along objectives of optimizing stock value and corporate income. Most of the earnings will be put back into the corporation for increasing the companies book value so that the value of the stock increases. The company does not currently have any book value. We are in debt too much right now and so earnings will go to decreasing debt.

Megadiamond corporation also has 177,400 shares of stock right now but we are trying to purchase DDI's share of Megadiamond Industries for 33,790 shares of stock in Mega Corporation. This will increase the outstanding shares to 211,190 shares. We Our combined family holdings are 39,080 shares which give us 18.5% of the company. We have not sold as much Mega stock to others as we did DBT partnership ownership but the purchase of DDI's share of MI dilutes are total ownership. Owning 18% of MC is better than owning a larger share of MC when MI was $\frac{1}{2}$ owned by DDI because all profits were controlled by MI. MI still exists as a company but is totally owned by MC now. I have been elected to the board of MC. Megadiamond Corporation has made substantial improvements in their product and things are finally looking up for them. I do not know yet how the DDI representative to the MC board will want the company to be operated so I cannot give you any indication as to the future of MC. My views are to let the company grow slowly through internal earnings and to avoid joint ventures with other companies and any further dilutions of present ownership through additional stock offerings. I will be able to tell you more in two or three months time.

I organized my own company called DHD company on June 2, 1977. My financial year will be from July 1- June 30 so I have to close my books already in just a few weeks. DHD stands for David Hall forward and backward and also stands for Down Hole Drill which I hope to be my major product eventually.

(over)


I have k/projected a loss of 1300 dollars in my first month of operation and 12,000 dollars of loss during the next year. I am trying to sell these losses to someone who can use them because I don't have any income to deduct a loss from. I'll probably sell the losses to Mom or Dad at a minimum of 18% return for them. I am raising the capitol for the corporation by selling \$7,000.00 in stock and borrowing \$6,000.00 from banks against $\frac{1}{2}$ my own net worth. During the second year of operation of the company I have projected earnings of 20,000.00 which will be used to pay myself a ~~\$14~~ salary and pay off the copporation debts. The first product that I am working on is a high pressure water pump which i s considerably smaller than products which exist now. It has a limited market but will sell for a high price. After establishing the pump as a product I will start working on tools to be driven by high pressure water pumped by my pump. The first tool will be a 2-8 horsepower drill which I have designed already. By introducing tools I will expand the market for the pump plus increase my profit margin on the combined system.

The government is purchasing some of the farm land that Dad owns for a freeway acess road. I have recommended that dad~~z~~ transfer that income tax free into his own company by purchasing stock which is already approved for sale but not outstanding. I have done an evaluation of the stock and on the basis of H.T.H. Inc. net worth of aproximately \$225,000 and average earnings of aproximately one dollar per share over time, the stock has a value of \$10.000 per share. There are currently 25,000 shares of stock distributed with each of us owning 1750 shares or 49% and mom and dad owning the rest. Dad could purchase 2500 additonal shares for \$25,000.00 cash which would increase the total number of shares to 27,500. Mom and dad would own 15,250 shares or 55.455% of the company. Each of us would continue to have 1750 shares but instead of 7% we would own 6.364% of the company. However, the increased earnings potential of the additional \$25,000.00 capital would more than offset our loss in share. If dad decideds to re-invest his money in H.T.H. Inc. he will offer the stock to any of us at \$10.00 per share and we can buy if we want.

I am sure that I have helped confuse you with all this data but if you study it closely you will be able to understand the financial condition of each company and what your holdings are worth. In my view the DBT stock will be worth aproximately 25 dollars per share and the Megadiamond stock will be worth aproximately 10\$ per share now but probably 25 dollars per share two years from now. If we hold our stock for awhile and sell to a rich person or persons or another company we can probably sell the whole block of DBT stock for 25 dollars per share two or three years from now and the Megadiamond stock for 25 dollars per share 3 or four years from now. It is also possible that the company if controlled properly could have its maximum value as a source of dividend income providing an annuity for years to come.

Mark, Stephen, Michael and Karen are healthy and seem to be enjoying Utah more and more. The kids have lots of friends to play with which is really good for them. Karen is doing a lot of reading as usual and becoming an expert or organizational theory.

Love to all of you, we enjoy the letters

David, Karen, , Stephen, and Michael

H. TRACY HALL, INCORPORATED

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 DANIEL R. BARTHOLOMEW
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BALANCE SHEET

APRIL, 1977

ASSETSCurrent assets:

cash	\$700.00
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Total current assets:	\$700.00
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Property and equipment:

Manufacturing equipment:	\$53,750.00	
Manufacturing tools:	\$12,400.00	
Shop equipment:	\$10,800.00	
Office equipment:	\$3,200.00	
Research and Science eq.:	\$109,150.00	(\$ 106,000 for 300 ton press)
TOTAL:	\$189,300.00	

Inventory

Meters, transformers, scales, switches, gauges, etc.	\$3,000.00	
Anvils and Carbide:	\$5,000.00	
Bar steel:	\$16,465.00	(33,000 lbs. of stock)
Steel forgings (6)	\$15,000.00	(6 bases for 1000 ton press)
Precision High pressure 4-way valves :	\$6,000.00	
Motors and Pumps:	\$6,000.00	
Control Panels:	\$400.00	
Electrical supplies:	\$1,500.00	
Oils, fuels, lubricants, plastic, wood, bolts and nuts, screws etc.. :	\$3,000.00	
Misc. parts:	\$2,000.00	
TOTAL:	\$58,365.00	

TOTAL ASSETS:	\$248,365.00
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LIABILITIESLiabilities:

Accounts payable	-----
9½% note payable to bank	\$5,000.00
Notes payable to stock- holders	\$11,426.00
Debentures payable	\$2,500.00
TOTAL	\$18,926.00

NET WORTH	\$229,439.00
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COST OF DBT EARNINGS TO PARTNER AS A
FUNCTION OF TAXABLE INCOME LEVEL

Taxable Income Prior to DBT Earnings	Federal tax (married, joint return) %	State tax (Utah) %	deductable contributions %	Cost to partner as a % of share of DBT earnings *
\$20,000	37	7.75	10	50
\$30,000	46	7.75	10	58
\$40,000	51	7.75	10	63
\$50,000	53	7.75	10	65
\$60,000	55	7.75	10	67
\$70,000	58	7.75	10	69
\$80,000	60	7.75	10	71
\$90,000	61	7.75	10	72
\$100,000	62	7.75	10	73
\$150,000	64	7.75	10	75
\$200,000	70	7.75	10	80
\$400,000	70	7.75	10	80

*Cost to partner was calculated by using the following formula;

$X =$ partners share of earnings (distributed plus retained earnings)

$COST = .9X(\text{federal tax rate}) + .9X(\text{state tax rate}) + .1X(\text{contributions})$

$Cost = X(.9\text{fed} + .9\text{state} + .1)$ or $Cost = X(\% \text{ listed in right column above})$

EXAMPLE: Dr. H. Tracy Hall (1976)

Taxable Income Prior to DBT earnings = \$40,000
Cost = .63(partners share of DBT earnings)

Note: (The actual share of earnings during 1976 that Dr. Hall was responsible for was higher than this example)

Assume that Dr. Hall's share of earnings were \$10,000. Cost to Dr. Hall = \$6,300. 40% or \$4,000 would be distributed to him which means \$2,300 would have to be provided from his own private funds.

Dr. Hall estimates that during 1977 73% of DBT earnings would have to be distributed to cover his costs.

DBT CO

BALANCE SHEET
April 30, 1977

ASSETS

CURRENT ASSETS

Cash	\$ 34,670	
Accounts Receivable	185,685	
Inventory-Finished Goods	200,528	
Raw Materials	42,838	
Other	<u>2,939</u>	
TOTAL CURRENT ASSETS		\$466,660

OTHER ASSETS

Machines and Equipment	\$128,045	
less accumulated depreciation	(52,739)	
Patents	<u>1,556</u>	
TOTAL OTHER ASSETS		\$ <u>76,862</u>

TOTAL ASSETS

\$543,522

LIABILITIES & OWNERS EQUITY

CURRENT LIABILITIES

Accounts Payable	\$ 42,912	
Loans Payable-Megadiamond Corporation	70,000	
Dion Co.	<u>6,513</u>	
TOTAL CURRENT LIABILITIES		\$119,425

PARTNERSHIP EQUITY

Partners Capital December 31, 1976	\$335,315	
Income January 1 to April 30, 1977	157,231	
Distribution to Partners January 1 to April 30, 1977	<u>(68,449)</u>	
TOTAL PARTNERSHIP EQUITY		<u>424,097</u>

TOTAL LIABILITIES & PARTNERSHIP EQUITY

\$543,522

DBT COMPANY

Income Statement
For the Years Ended December 31, 1973 - 1977

	<u>1973</u> (7 months)	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u> (4 months)
Net Sales	\$61,660	\$149,692	\$263,777	\$480,273	\$314,882
Cost of Goods Sold	<u>18,754</u>	<u>85,855</u>	<u>161,551</u>	<u>267,875</u>	<u>132,999</u>
Gross Profit	\$42,906	\$ 63,387	\$102,226	\$212,398	\$181,883
Administrative Expenses	<u>4,527</u>	<u>9,401</u>	<u>33,021</u>	<u>41,275</u>	<u>24,652</u>
Net Income	<u>\$38,379</u>	<u>\$ 54,436</u>	<u>\$ 69,205</u>	<u>\$171,123</u>	<u>\$157,231</u>

DBT CO.

INCOME STATEMENT

For Period January 1, 1977 to April 30, 1977

SALES:

Sales Lew	\$ 231,640.20	
Sales Mega	1,485.00	
Sales Super Cut	62,121.00	
Sales Other	17,351.28	
Interest Income	600.36	
Other Income	1,684.17	
Total Revenue		\$ 314,882.01
LESS COST OF GOODS SOLD		<u>132,998.73</u>
GROSS MARGIN		\$ 181,883.28

ADMINISTRATIVE EXPENSE

Office Salary	\$ 3,574.19	
Office Payroll	2,697.13	
Payroll Expense	789.27	
Travel Expense	1,846.31	
Professional Expense	6,727.05	
Research & Development	877.96	
Office Expense	1,507.61	
License, Dues & Subscriptions	24.00	
Interest Expense	15.56	
Rent Expense Office	1,730.40	
Management Fees	4,862.81	

TOTAL ADMINISTRATIVE EXPENSES	\$ <u>24,652.29</u>
NET INCOME	\$ <u><u>157,230.99</u></u>

DBT CO.
STATEMENT OF COST OF GOOD SOLD
For Period January 1, 1977 to April 30, 1977

MATERIALS:	DOLLARS	CARATS	\$COST/CARATS
Pyro	\$ 4,027.37		
Moly	3,299.14		
Anvils	10,576.67		
Other	7,837.58		
TOTAL MATERIALS	<u>\$ 25,740.76</u>		
LABOR:			
Direct Labor	33,336.36		
Supervision	18,937.92		
Payroll	6,967.47		
TOTAL LABOR	<u>\$ 59,241.75</u>		
OVERHEAD:			
Plating	\$ 3,750.78		
Lab	10,239.65		
Mfg. Supplies & Ex.	8,493.03		
Press	2,073.65		
Depreciation	3,200.00		
Amortization of Patents	110.00		
Miscellaneous	304.11		
Rent	6,921.60		
Personal Prep Tax	438.28		
Sales Tax	1,598.05		
Purchasing Expense	1,281.31		
TOTAL OVERHEAD	<u>\$ 38,410.46</u>		
TOTAL MANUFACTURING COSTS	\$ 123,392.97	388,735	.3174
Less: Write down of unmarketables	15,982.18	50,350*	.3174
ADJUSTED MANUFACTURING COSTS	<u>107,410.79</u>	<u>338,385</u>	<u>.3174</u>
ADD BEGINNING F/G INVENTORY	<u>210,134.00</u>	<u>320,856</u>	<u>.6549</u>
COST OF GOODS AVAILABLE FOR SALE	\$ 317,544.79	659,241	.4817
LESS ENDING INVENTORY	<u>200,528.24</u>	<u>416,308</u>	<u>.4817</u>
COST OF GOODS SOLD:			
Write off of unmarketable	\$ 15,982.18	50,350	.3174
Cost of marketables sold: mktg.	\$ 72,978.26	151,507	.4817
Written off marketable	44,038.29	91,426	.4817
	<u>\$ 117,016.55</u>	<u>242,933</u>	<u>.4817</u>
TOTAL COST OF GOODS SOLD	<u>\$ 132,998.73</u>	<u>151,507</u>	<u>.878</u>
*Write-down during period	141,776		
Sale of Unmarketables	91,426		
Net Write Down	<u>50,350</u>		

MEGADIAMOND CORPORATION
STATEMENT OF EARNINGS
FOR THE MONTH ENDING APRIL 30 ,1977

	JUN TO APR	FOR APRIL
REVENUES:		
SALES: MI	23,016	2,581
FIXED COST REIMBURSEMENT MI	111,870	10,170
REIMBURSEMENT ADJUSTMENT MI	24,692	2,515
OTHER INCOME	1,725	621
ROYALTY INCOME	17,425	1,503
INTEREST INCOME	5,527	717
RESEARCH INCOME	(2,441)	(2,520)
TOTAL REVENUES	181,815	15,588
LESS COST OF GOODS SOLD	132,982	12,722
GROSS MARGIN	48,833	2,866
ADMINISTRATIVE EXPENSES:		
OFFICERS SALARY	176	176
OFFICE PAYROLL	9,835	768
PAYROLL SURCHARGES OFC	1,287	34
DEPRECIATION EXPENSE OFC	1,826	166
INTEREST EXPENSE	498	46
TRAVEL EXPENSES	3,519	42
TELEPHONE	980	94
REAL PROPERTY TAXES OFC	119	(16)
PROFESSIONAL EXPENSE	8,039	214
RESEARCH AND DEVELOPMENT	1,372	105
OFFICE EXPENSE	3,461	253
INSURANCE EXPENSE	126	0
POSTAGE OFC	364	(29)
OTHER ADMINISTRATIVE EXPENSE	63	18
RENT EXPENSE-OFFICE	2,090	190
PERSONAL PROPERTY TAX OFC	117	10
CORPORATION TAX	609	0
TOTAL ADMINISTRATIVE EXPENSES	34,486	2,075
NET INCOME (LOSS) BEFORE TAX	14,346	790

MEGADIAMOND CORPORATION
STATEMENT OF FINANCIAL POSITION
APRIL 30, 1977

ASSETS

CURRENT ASSETS:

CASH ON DEPOSIT	(22,842)
ACCOUNTS RECEIVABLE OTHER	18,121
ACCOUNTS RECEIVABLE 25,000 Re. - 10,000 Mo. Bal. Rodgaltan	90,479
ALLOWANCE FOR BAD DEBT	(22,869)
INTEREST RECEIVABLE	1,149
PRE-PAID EXPENSE	719
PRE-PAID REAL PROPERTY TAX	492
INVENTORIES: WORK IN PROCESS	8,892
INVENTORIES: RAW MATERIALS	10,015
REIMBURSAL LABOR	657
TOTAL CURRENT ASSETS	84,815

FIXED ASSETS:

INVESTMENTS	MI payments 57,500
LAND	6,240
MACHINES AND EQUIPMENT	113,537
LESS RESERVE FOR DEP. MACHINES	(53,438)
OSCILLOSCOPE	4,985
AUTO	9,772
LESS RESERVE FOR DEP. AUTO	(2,879)
OFFICE FURNITURE AND FIXTURES	6,935
LESS RESERVE FOR DEP. FURNITURE	(2,725)
TOTAL FIXED ASSETS	119,928

OTHER ASSETS:

NOTES RECEIVABLE	notes rec. MI. 51,220
PATENTS	20,1K DDT 31,521
TOTAL OTHER ASSETS	82,741

NET TOTAL FIXED ASSETS

202,670

TOTAL ASSETS

287,486

MEGAOJAMUND CORPORATION
STATEMENT OF FINANCIAL POSITION CONTINUED
APRIL 30, 1977

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:

ACCOUNTS PAYABLE	503
PENSION LIABILITY	101
SALARY PAYABLE-OFFICERS	9,583
INTEREST PAYABLE	498
ROYALTIES PAYABLE-RC	119
ROYALTIES PAYABLE-HH	239
ACCRUED STATE INCOME TAXES	(122)
ACCRUED FICA WITHHOLDING-EMPLOYEES	(0)
ACCRUED FEDERAL INCOME TAXES	0
TOTAL CURRENT LIABILITIES	10,923

LONG TERM LIABILITIES:

NOTES PAYABLE	6,289
TOTAL LONG TERM LIABILITIES	6,289

TOTAL LIABILITIES	17,213
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STOCKHOLDERS EQUITY:

CAPITAL STOCK-COMMON	53,220
PAID-IN SURPLUS	236,833
RETAINED EARNINGS	(19,780)
TOTAL STOCKHOLDERS EQUITY	270,273

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	287,486
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