

JONES, WALDO, HOLBROOK & Mc DONOUGH

A PROFESSIONAL CORPORATION

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RAWLINS, THURMAN, WEDGEWOOD & HURD 1897
RAWLINS, RAY & RAWLINS 1907
INGEBRETSEN, RAY & RAWLINS 1929
INGEBRETSEN, RAY, RAWLINS & CHRISTENSEN 1941
INGEBRETSEN, RAY, RAWLINS & JONES 1948
RAY, RAWLINS, JONES & HENDERSON 1949

June 5, 1989

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IN REPLY REFER TO:

Salt Lake City

OF COUNSEL
SIDNEY G. BAUCOM
ROGER J. McDONOUGH
ALDEN B. TUELLER

*ADMITTED AND RESIDENT IN WASHINGTON, D.C.

†REGISTERED PATENT ATTORNEY

‡ADMITTED IN TEXAS AND IDAHO ONLY

§ADMITTED IN VIRGINIA

H. Tracy Hall, Sr.
1711 North Lambert Lane
Provo, UT 84601

Dear Tracy:

Duane Horton asked our firm to review Smith International Inc.'s ("Smith") position with respect to certain milestone payments provided for in the purchase agreement between Smith and its former shareholders. After discussing the matter with Duane and examining the pertinent documents, we have concluded that Smith may be in violation of its agreement with you in making its "milestone payments" for 1988 under the terms of the agreement. Assuming that this conclusion is correct, Duane estimated that Smith has failed to pay in excess of \$460,000 to the former Megadiamond shareholders, of which you are one. Moreover, Smith's position will quite likely result in similar future conduct.

In assessing whether legal action against Smith should be initiated to require Smith to properly determine monies owed, owing and to be owed under the terms of the milestone payment provision, it is apparent that such an action would benefit all former Megadiamond shareholders. Consequently, Duane suggested that we schedule a meeting with the entire group to go over the matter, with the thought of determining how many former shareholders are interested in participating in litigation on this issue with Smith.

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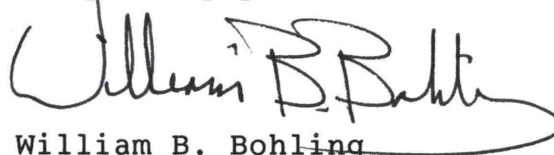
We have scheduled a meeting to further discuss legal action against Smith at 7:00 p.m. on June 15, 1989. The meeting will be held at the offices of Jones, Waldo, Holbrook & McDonough located at 170 South Main Street, Salt Lake City, Utah.

Enclosed are two proposed agreements between our firm and all participating former shareholders, which will be discussed at the meeting. As noted in the second agreement, an Oversight Committee will be created, which will manage the affairs of this litigation. It is proposed that this committee be comprised of 3 or 4 persons with Duane Horton as chairman. The actual composition of this committee, as well their scope of authority will be discussed and determined at the meeting.

We hope that you will take the occasion to attend this meeting. In the event that you are unable to attend this meeting, but wish to become involved in this matter, please call either myself or Jeffrey N. Walker, an associate with our firm for further information.

We look forward to hearing and meeting with you again.

Very truly yours,



William B. Bohling

jnw 7/sa

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IN REPLY REFER TO:

Salt Lake City

H. Tracy Hall, Sr.
1711 North Lambert Lane
Provo, UT 84601

Re: Retainer Agreement

Dear Tracy:

We are pleased that you have requested our firm to represent you in the above-referenced matter. Our understanding of the scope of this representation is that we will initiate and prosecute an action against Smith International, Inc. ("Smith"), or any division or related entity, for claims you may have, as a former shareholder of Megadiamond Industries, Inc. ("Megadiamond"), which has arisen out of the sale of Megadiamond to Smith.

The firm will establish a new billing account against which the firm's fees and costs will be assessed. The firm will maintain detailed records of time spent by each attorney and paralegal in rendering services. Charges will be determined at the firm's established hourly rate. Bill Bohling's present hourly rate is \$150.00 and Jeff Walker's present hourly rate is \$80.00. The firm's established hourly rates are adjusted from time to time to reflect economic conditions.

In addition to attorney's fees, you will also be responsible for accompanying costs, if any, which are incurred

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with respect to this representation. Costs include telephone tolls, copying costs, postage, travel expenses, filing fees and deposition expenses. Also, when the firm's computer research terminals, LEXIS or WESTLAW, are used, the firm computer research charges, together with an overhead assessment equal to 26 percent of the computer research charge, will be imposed.

Because all the claims that the participating former shareholders of Megadiamond may assert against Smith will be handled in concert, you will only be held responsible for a portion of these fees and costs. Your proportionate share will be in direct relation to the number of Megadiamond shares you sold to Smith in 1984, compared to the total number of Megadiamond shares sold by all the participating shareholders in the above-referenced matter. Similarly, any recovery made as a result of our representation in the above-referenced matter, will be distributed in the same manner. Our records indicate that you sold 8,600 shares of Megadiamond stock to Smith in 1984 or approximately 2.855018% of the total shares.

It has been estimated that this matter will not likely generate legal fees and costs in excess of \$40,000. As a result, if all former Megadiamond shareholders participate, your pro rata portion will be \$1,142.01. It will increase, of course, if some shareholders elect not to participate. Once this money is paid, it will be placed in an interest bearing trust account against which all legal fees and costs will be charged. In addition, the firm will send a monthly statement to the chairman of the Oversight Committee, which is discussed below. The statement will include the total monthly fees and costs. At the conclusion of this matter, any funds which may be remaining in the trust account will be returned to each participating shareholder based upon his or her pro rata contribution. In the event that legal fees and costs exceed the amount in the trust account, you will only be responsible for your pro rata share. Of this amount, the firm will expect payment upon receipt of each statement. Should payment not be reached in thirty (30) days of the date of the statement, interest will be charge on the unpaid balance at twelve percent (12%) per annum.

In the event it becomes necessary to enforce the terms hereto, you will be required to pay collection costs and attorneys' fees.

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We appreciate the opportunity to represent you, and we trust that this letter adequately outlines the scope and terms of our representation.

Very truly yours,

William B. Bohling

Jeffrey N. Walker

I have read the above letter and agree to the terms thereof this ____ day of _____, 1989.

jnw 16/sa

By _____

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June 5, 1989

H. Tracy Hall, Sr.
1711 North Lambert Lane
Provo, UT 84601

Re: Joint Representation of Former Megadiamond
Industries, Inc. Shareholders

Dear Tracy:

This letter addresses aspects of this firm's joint representation of you and all other participating former Megadiamond Industries, Inc., ("Megadiamond") shareholders in your prosecution of an action against Smith International, Inc., ("Smiths") for claims arising out of the sale of Megadiamond to Smith.

While all of the participating former Megadiamond shareholders have asked this law firm to represent them in this matter, we have informed each of you that we cannot undertake this joint representation unless such representation is in accordance with the Utah Rules of Professional Conduct. Specifically, is our compliance with Rule 1.7 of the Utah Rules of Professional Conduct which, in pertinent part, states:

(a) A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:

(1) The lawyer reasonably believes the representation will not adversely

affect the relationship with the other client; and

(2) Each client consents after consultation.

(b) A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person or by the lawyer's own interests, unless:

(1) The lawyer reasonably believes the representation will not be adversely affected; and

(2) Each client consents after a consultation. When representation of multiple clients in a single matter is undertaken, the consultation shall include explanation to each client of the implications of the common representations and the advantages and risks involved.

Pursuant to Rule 1.7, we wish to explain to you the advantages and disadvantages involved in the joint representation of all former Megadiamond shareholders in the above-referenced matter. We believe that the advantages of joint representation will center on the ability to present a "united front" in this litigation, to have the lawyers of your choice, and to greatly reduce your legal fees and expenses.

The disadvantages of being jointly represented include the possibility of conflicts arising between any of the participating former shareholders. Yet, because each of the former shareholders' legal claims and factual objectives are virtually identical, we believe that no actual conflict of interest exists among you. It is conceivable, however, that at some point in the future, your interests may diverge. This might occur if, for example, you have conflicting desires as to how this lawsuit should be handled. If such a conflict should arise and a resolution of it cannot be reached, we may have to withdraw from representing all conflicting parties unless the conflicting parties can reach an agreement as to who we would continue to represent (and if proper under the Utah Rules of Professional Conduct). If we did withdraw from representing

June 5, 1989
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you or any of the participating former Megadiamond shareholders, you and/or they would have to bear the financial burden of hiring new counsel and familiarizing the new counsel with this matter.

Another aspect of joint representation relates to confidences. Under the Utah Rules of Professional Conduct, attorneys must hold in strict confidence all information relating to the representation of a client. (Rule 1.6) When one lawyer or law firm represents multiple parties in the same lawsuit, the sharing of information with the other clients is often necessary. This necessity will likely apply to the sharing of information we will obtain from and between participating Megadiamond shareholders in our efforts to provide efficient and thorough representation. Our representation of you will require an agreement to such an exchange.

Finally, as we have discussed earlier, an Oversight Committee has been created to function as the decision-making body throughout this matter. This committee is comprised of three or four participating shareholders with Duane Horton as chairperson. This committee will need to be authorized to act on your behalf for all matters arising from this matter.

Please understand that any concerns or interest you may have at any time may be communicated to this committee or either to Bill Bohling or Jeffrey Walker.

We recommend you discuss this letter with independent counsel. If you consent to our representation, please so indicate below and return this letter to our office in the enclosed self-addressed envelope. If you have any further questions or concerns regarding the content of this letter, please do not hesitate to call.

Very truly yours,

JONES, WALDO, HOLBROOK & McDONOUGH

By: _____
William B. Bohling

By: _____
Jeffrey N. Walker

June 5, 1989
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CONSENT

I have read and I understand the foregoing discussion with respect to Jones, Waldo, Holbrook & McDonough's joint representation of all the former Megadiamond shareholders in the above-referenced matter.

I hereby consent to Jones, Waldo, Holbrook & McDonough's joint representation of all the former Megadiamond shareholders in the above-entitled lawsuit and to the sharing of confidences as well as the formation and function of the Oversight Committee as described above.

jnw 20/sa