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SHEEKS & RAWLINS 1875
RAWLINS & CRITCHLOW 1891
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

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IN REPLY REFER TO:

Salt Lake City

Ida Rose Hall
1711 North Lambert Lane
Provo, UT 84601

Dear Ida:

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.