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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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June 27, 1989

IN REPLY REFER TO:

Salt Lake City

**CONFIDENTIAL AND PRIVILEGED**

Ida Rose Hall
1711 North Lambert Lane
Provo, UT 84601

Dear Ida:

On June 15, 1989, a meeting was held at the law offices of Jones, Waldo, Holbrook & McDonough, to discuss the implications of bringing a legal action against Smith International, Inc., ("Smith") for its alleged improper payments to the former shareholders of Megadiamond under the terms of the 1985 Merger Agreement ("agreement").

During this meeting, Duane Horton explained the background negotiations which led to the agreement and his recollections as to the purpose of the provisions which dealt with the future payments by Smith to the former shareholders. These provisions are referred to in the agreement as "milestone payments". Duane pointed out that while the legal fees to bring this action are estimated at approximately $40,000, if successful, the present value increase of the "milestone payment" provisions is estimated to exceed $1.4 million.

This explanation was followed by a discussion led by Bill Bohling, a litigator with Jones, Waldo, Holbrook & McDonough, regarding the legal implications and theories involved in filing such an action, as well as the strategy he recommended in prosecuting the case. Questions were raised during this discussion on our estimation of the shareholders'

chances of success in this proposed action. These questions were answered and another letter has been sent to the Oversight Committee summarizing the responses. Finally, I explained the purpose and scope of both the retainer and consent agreements sent in our previous communication. This explanation encompassed both the administrative aspects and the substantive commitments which these agreements represent.

Next, Duane proposed that the Oversight Committee members be Duane Horton, David R. Hall and Richard C. Stratford, and those present all concurred.

During the course of the meeting, Duane reported that each of the major family groups representing former Megadiamond shareholders have verbally committed to participate in the bringing of this action, and it was determined that each shareholder who wished to participate must sign both the retainer and consent agreements and return them to Jones, Waldo, Holbrook & McDonough along with his or her share of the advance retainer on or before June 30, 1989. This date has been extended to July 6, 1989.

In discussions with a former shareholder, a question has been raised concerning whether the shareholders will incur any additional risks or potential liability as a result of bringing this action. In this regard we call your attention to Article 19.1 of the agreement. This provides that the prevailing party to a legal action resulting from "an alleged dispute, breach, default, or misrepresentation" arising from the agreement, can recover attorney's fees and other costs associated with the action. This provision, of course, works as a two-edged sword. Should we lose this action, Smith would have a claim against us for its reasonable attorney's fees in defending the action. On the other hand, if we prevail, we would have a claim against Smith for our fees and costs, which you now are being assessed. You should take this risk into account in determining whether you elect to participate in this action.

Finally, it is anticipated that we will file a complaint against Smith early in July. Therefore, we reiterate that all former shareholders who wish to participate must let us know on or before July 6, 1989, so that they can be named as plaintiffs in this action. Also, if you have already committed to participate in this action and for any reason have had a change of heart and no longer desire to join this action, it is essential that you let us know in writing before July 6, 1989.

Many topics were discussed during the June 15, 1989 meeting, but due to concerns of confidentiality, we feel that it would be inappropriate to attempt to recount the discussion in any detail in this letter. Accordingly, we encourage you to contact any member of the Oversight Committee or any other former shareholder who attended this meeting to answer any specific questions you may have. Of course, you are also welcome to call us, as your attorneys, should you prefer to talk with us directly.

Very truly yours,

By: Jeffrey N. Walker

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