ChemRisk® COPY

December 28, 2010

Dolores Nunez Studier
Ford Motor Company
One American Road
Suite 410-A2
Dearborn, MI 48126

Re: Ford Billing Rates - Proposal from ChemRisk for 2011

Dear Dolores:

When we met in July in your office in Detroit, and again when I met with Craig and others in September, I asked if we could revisit our billing arrangements. You indicated in July and Craig indicated in the September meeting that we should set up a time to meet before the end of the year to address this matter.

Alas, we began to try to get on your calendar beginning in mid-November and have been told that you were not available until mid-January. This was unfortunate as I had hoped to begin the rate change effective Jan. 1, 2011, which would be plausible if we can reach agreement before we send our January invoices (usually issued by us around Feb. 12). Hopefully, Pam Chapman or I will have secured a time on your calendar this week.

As you are well aware, ChemRisk has had a long standing relationship with Ford. I have expressed to you on numerous occasions that we are hugely appreciative of your support. Based on what you have indicated to me, you have been generally pleased with our performance on behalf of Ford. Over the past 8 or more years, Brent Finley and I have worked closely with Darrell, John and others to understand and further the science of asbestos while providing sound technical expertise both in and out of the courtroom.

Our Problem

As you are aware, our history goes back to 2002 when I was originally approached by Darrell. As we discussed in July and then later in September with Craig, we are currently working under the 2004 billing rate structure for Ford. While the auto industry was in financial turmoil, it made sense for us to accommodate the needs of each firm to control costs.

As I went over with Craig, in some detail, the internal problems generated for our firm have been difficult, but some nuances have now moved to the near ridiculous. I know Jill is aware of some of the issues.

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Not only are our billing rates nearly 7 years "out of date", our approved Ford rates are not consistent with current job titles for our employees. For example, in 2004, Meg McKinley had a Senior Associate Health Scientist title and a $145 hourly bill rate. As of January 1st, she is a Senior Health Scientist with an hourly bill rate of $220, yet she is "locked" at the 2004, $145 bill rate on all Ford cases. She, like many other early to mid career scientists have seen a 50% pay raise during that time period so, our profit margin on her work for you is virtually zero. This is true for many staff who have been working on your projects.

For those persons who do work on Ford cases and who are locked into the 2004 rates, our multiple (base salary and bonus vs. their hourly Ford billing rate) does not equal 2.1. The U.S. government contracts "start" at multiples of 2.8 because they assume it is not possible to stay in business below this level in the professional services industry.

Personally, I am wildly happy with the fantastic turn around in Ford's profitability, its stock price, and the quality of its products. It is a tribute to American ingenuity and discipline. The recent article in the Economist must make everyone at Ford very happy. I am asking that since we have done our share in helping you control costs for the past 7 years that you can help us out. In spite of what outside counsel has been telling us for the past 4 years, that is, "every expert's rates have been frozen," that is not the case. In fact, nearly all of your smaller shop or individual providers have enjoyed annual pay increases if they asked for them. I recognize that our total invoices far exceed theirs but for good reason.

Beyond the obvious problems of a 7 year freeze, there are other vagaries of your billing system that simply appear to be illogical and have nothing to do with controlling costs. For example, a number of our full time BS, MS and PhD consultants are "locked in" at the rates we billed them as summer interns. For example, we have a couple employees who bill you at $75/hr (a rate from when they were still in school) and every other client at $130/hr.

And there are other bureaucratic problems which is making it difficult for us to serve you. Specifically, we are unable to get many new timekeepers approved. This significantly hampers our ability to handle the current case load, and it is impacting our ability to accept last minute "emergency" requests from local counsel. These requests have become more frequent and I assume this, too, is to control costs. Craig agreed that we should not be having this problem, but it has been the case for more than 12 months.

At my request, our accounting department did a rough estimate comparing our Ford revenue loss using outdated and inaccurate rates. We can document that in 2009, we had a $600,000 "shortfall" based on using 2004 versus 2009 rates. In 2010, the shortfall was approximately $525,000 (based on using 2004 versus 2010 rates). This was in large measure because we had to assign our most junior staff to many of your cases in order to be financially viable.

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Historically, as you know, beyond the "old rate" shortfalls, the time to payment has been the worst of our more than 200 clients. Although the transition to the Collaborati e-billing system has significantly improved payments, prior to this transition, we payed the bank about $100,000 annually in interest to cover the difference between when we had to pay our employees vs. when we received payment from Ford.

Some case studies regarding most persons who are assigned to Ford projects

To illustrate some of the problems we are having with your account, I have selected a few consultants as examples. These persons are key members of the team who know the science of asbestos and brake wear debris, who therefore operate with considerable efficiency, who can serve well your talented (and not inexpensive) outside counsel, and for those reasons, who like them to perform the majority of the Ford work.

As you will see, the salary increases alone (not to mention the increasing overhead and health care benefit costs) are creating billing structures that are no longer profitable for us.

- Name: Pam Chapman, MPH
  Current Friction bill rate: $180.00 per/hr
  Current Friction title: Managing Health Scientist

  Actual 2011 bill rate: $255.00 per/hr
  Actual 2011 title: Managing Health Scientist

  Difference in bill rates $75.00 per/hr or a 42% discount / loss
  Consultant's percentage increase in salary (only) since 2004 of 49%.
  Consultant's percent increase in total compensation since 2004 was 70%.

- Name: Brent Finley, PhD
  Current Friction bill rate: $375.00 per/hr
  Current Friction title: Managing Principal

  Actual 2011 bill rate: $475.00 per/hr
  Actual 2011 title: Principal Health Scientist and VP

  Difference in bill rates $100.00 per/hr or a 27% discount / loss
  Consultant's percentage increase in salary (only) since 2004 of 100%.
  Consultant's percent increase in total compensation since 2004 was 200%.

  Note: This is currently what it takes to retain a super senior and well respected consultant within a firm like Exponent or ChemRisk since they could easily work out of their house and make more money if we were not able to compensate aggressively when they become relatively famous testifying witnesses. I am certain Brent is "far less" expensive to Ford working within our firm than if he were to be an independent consultant like a Pat Hessel, Roy Balzer, Mort Corn, or David Garabrant.

- Name: Meg McKinley, MPH
Current Friction bill rate: $145.00 per/hr
Current Friction title: Associate Health Scientist

  Actual 2011 bill rate: $220.00 per/hr
  Actual 2011 title: Senior Health Scientist

  Difference in bill rates $75.00 per/hr or a 52% discount / loss
  Consultant's percentage increase in salary (only) since 2005 of 35%.
  Consultant's percent increase in total compensation since 2005 was 50%.

- Name: Dennis Paustenbach, PhD, DABT, CIH
Current Friction bill rate: $425.00 per/hr
Current Friction title: Chief Principal

  Actual 2011 bill rate: $575.00 per/hr
  Actual 2011 title: President and Founder

  Difference in bill rates $150.00 per/hr or a 35% discount / loss

- Name: Amanda Phelka, PhD
Current Friction bill rate: $155.00 per/hr
Current Friction title: Senior Health Scientist

  Actual 2011 bill rate: $220.00 per/hr
  Actual 2011 title: Senior Health Scientist

  Difference in bill rates $65.00 per/hr or a 42% discount / loss
  Consultant's percentage increase in salary (only) since 2004 of 27%.
  Consultant's percent increase in total compensation since 2005 was 45%.

- Name: Sam Serrano, BS
Current Friction bill rate $75.00 per/hr (Intern rate from 3 years ago)
Current Friction title: Research Associate II

  Actual 2011 bill rate: $110.00 per/hr
  Actual 2011 title: Assistant Health Scientist I

  Difference in bill rates $35.00 per/hr or a 47% discount / loss
  Consultant's percentage increase in salary (only) since 2009 of 17%.

Another way for you to understand our problem

Another way to understand our predicament is to evaluate this issue on a "per case basis". To estimate a per case "average loss" (what you might call a discount), we selected 10 cases from 2010.

	Actual Billings for cases at FRIC current rates	Billings would have been if we were on 2010 rates	ChemRisk loss	% change
FRIC 929	40,784.56	53,059.00	-12,274.44	-23%
FRIC 923	12,229.50	15,746.50	-3,517.00	-22%
FRIC 914	14,715.50	19,277.00	-4,561.50	-24%
FRIC 911	16,906.50	21,847.00	-4,940.50	-23%
FRIC 904	11,055.00	14,593.00	-3,538.00	-24%
FRIC 888	11,154.75	14,626.75	-3,472.00	-24%
FRIC 878	16,022.50	21,116.25	-5,093.75	-24%
FRIC 873	35,485.50	46,592.00	-11,106.50	-24%
FRIC 872	13,171.25	16,887.50	-3,716.25	-22%
FRIC 871	27,534.25	36,475.50	-8,941.25	-25%
			Average	-24%

My proposal

Dolores, currently, you are among our largest clients. And, Ford has certainly been a loyal supporter. The Big 3 were the foundation of the firm during our formative years, and for this reason, I have tried to go the extra mile to try to satisfy your needs.

Because of the nature of our industry, we have not had to discount our other work for other clients (other than, arguably, the government) for several years. Beyond that, it is never even requested because of the pressure to retain scientists who know asbestos and toxic tort litigation. As you are aware, for many of your toxicology or medical consultants, they have more work than they can do, and I know that some of them have chosen not to always be available to you in light of the billing difficulties they believe that they have experienced.

I would hope you agree that it is an appropriate time to set up a different compensation arrangement with us for 2011.

Along those lines, and because your calendar has been too crowded for us to have a "face to face" discussion and resolution, for 2011, I am proposing that we adopt one of the two following approaches:

1) Implement 2011 rates at current titles and increase PO approval amounts.

    1. Currently, 2a approval is case dependent but averages approximately $14,500. We recommend increasing this to $18,125.

    2. Similarly, 2b (deposition) is approximately $4,500. We recommend a comparable (25%) increase to $5,625.

    3. Finally, Trial approval averages $50k per case. We will need this increased to $62k.

2) Go to 2011 rates and back to a flat fee arrangement of $24k per case to cover both phases 2a and 2b. Trial approvals will be for $62k.

Brent and I, as well as the entire ChemRisk friction team, hope that we can reach agreement in early January on our billing arrangements for 2011. I have asked that Pam Chapman be available to meet with you as soon as a date can be identified. I am led to believe that this can occur before Jan. 15th. She is the closest person to the financials for your projects.

<u>Closing Thoughts</u>

I believe you can assure your management that you have been "the good steward" of Ford resources over the past 8 years in your dealings with our firm. To be specific, during this time period, when we were generally not "discounting" any of our invoices, Ford received approximately $4,000,000 in professional courtesies (which includes write-offs, discounts on rates, and the interest on monies borrowed while waiting for payment). I think you would agree that for a firm of our size, this is a remarkable loss in income.

Let me close with another issue which the two of us have not discussed previously, and I am not sure that outside counsel has brought this to your attention. Over the past 5 years, I have personally spent (in hard or soft dollars) a little more than $3M in profits (which would have been distributed to me or the staff) in asbestos related research which resulted in publications which have been enormously illuminating to the courts and juries. I did this because I believe that the courts deserve to have all the scientific information that can be brought to the table when reaching conclusions. In my view, these papers have changed the scientific playing field in the courtroom. You know this better than anyone as you have seen the number of plaintiff verdicts decrease and the cost of settlement go down over time.

As I am constantly reminded by the 1-14 person shops who work for Ford as experts (including Exponent, Veritox, and a host of industrial hygienists), all of them base the background of their testimony on our published papers. We know this because of the dog fight we just went through on the Bankhead case. The Kazan firm successfully argued that even if Paustenbach and Ford were no longer in the case, everyone else was relying our published work so they were entitled to the basis for our conclusions.

I will bring to your attention (attached) our recent paper on bystander exposure to asbestos. From what I can determine, it has been used in perhaps 30 "friction" cases over the past 90 days since it was published. This was a ChemRisk funded paper which required no less than $300,000 in effort.

I wish you the best this holiday season and look forward to seeing you in the month of January.

Sincerely,

Dennis Paustenbach, PhD, DABT
President and CEO

CC: C. Halseth
J. Plensdorf
J. Henderson
M. Garavaglia
D. Grams
P. Lankford
P. Chapman
P. Barnette

Enclosures: Donovan et al. 2010
2004 ChemRisk Rate Sheet
2010 ChemRisk Rate Sheet
2011 ChemRisk Rate Sheet