

DRYSTONE CAPITAL

LITIGATION PORTFOLIO OUTSOURCING

To reduce costs, Fortune 500 corporations outsource a wide variety of products and services outside their core competencies (*e.g.*, information technology, employee benefits). The corporate self-insured litigation market is the last large cost center where outsourcing opportunities have been unavailable. Litigation is the only corporate activity where transaction costs exceed all other costs. Litigation management is not a core competence required to run your business.

Outsourcing litigation is a powerful solution for managers with responsibility for the bottom line. In managing litigation internally, you self-insure with your own balance sheet. Capital reserves are a drag on earnings, and unpredictable cases may produce quarterly volatility, adversely impacting your stock price at any time.

DryStone Capital offers you the opportunity to outsource litigation and remove contingent liabilities from your balance sheet. DryStone focuses exclusively on defending large portfolios of litigation, including employment, personal injury, product liability, commercial and environmental. DryStone offers you a buy-versus-make alternative.

DryStone resolves all lawsuits for a fixed price, which includes both defense and liability cost, and is 10% less than what you would otherwise spend. Using our own capital, DryStone will create a reserve to take the financial risk away and guarantee the savings.

Your corporation enters into a Litigation Outsourcing Agreement with DryStone. DryStone purchases insurance to protect you from excess liability cost. DryStone retains a leading national law firm. DryStone and insurers absorb your losses up to 120%. With your auditors' approval, you can remove accrued contingent liabilities from your balance sheet, and be confident no further accruals will be needed, regardless of the ultimate defense and liability cost of the portfolio. DryStone contractually assumes responsibility for the total cost of the outsourced litigation. In short, DryStone offers you certainty and lower cost.

Four Compelling Reasons to Outsource Litigation

1. Significant Operating Expense Savings

Operating expense savings are achieved in two ways:

- DryStone **guarantees** a 10% lower cost than what your corporation would spend managing its litigation. The savings guarantee is collateralized by a dedicated capital reserve.
- Additional savings can be achieved. By outsourcing, you can substantially reduce your legal staff – the larger the litigation portfolio, the greater the potential for internal savings.

2. Clean Up Balance Sheet of Reserves & Exposure

Large litigation portfolios place a corporation's capital constantly at risk. DryStone shields you from exposure to the open-ended costs of self-insured litigation. As litigation exploded and insurance premiums have risen, most corporations have assumed more and more exposure, only insuring against extraordinary events. DryStone provides adverse development protection in an amount that should satisfy your independent auditors that your liabilities are transferred.

3. Financial Reporting

Litigation is one of the most sensitive areas of financial reporting. There is no line item in any corporate statement of accounts for the total cost of litigation. Defense cost is separated from liability cost. Defense cost is expensed annually by the law department. Liability cost – settlements and judgments – is generally expensed when paid by the business units that spawn the litigation; it is often charged back and buried in multiple accounts. Total litigation cost is not always clearly understood.

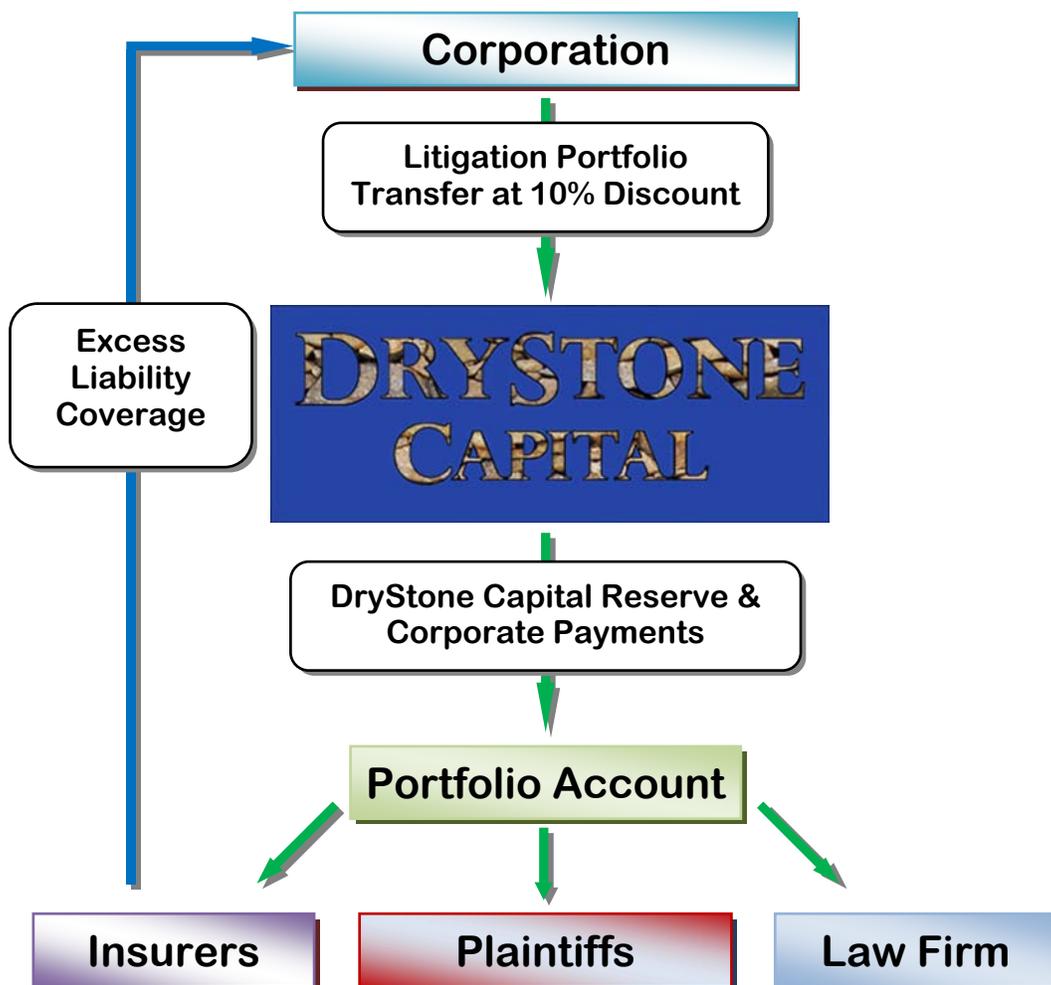
Senior management – not outside accountants – is responsible for determining defense and liability cost disclosure. Properly establishing reserves is a problematic exercise and any estimate is subject to challenge with the benefit of 20-20 hindsight.

4. Stock Price Impact

DryStone cost savings drop straight to your bottom line. Greater earnings should lead to a higher stock price.

Five Steps in Engaging DryStone Capital

1. Your corporation works with DryStone to select a litigation portfolio for outsourcing and to project the total cost – defense and liability – your corporation expects to spend.
2. DryStone purchases excess insurance that protects your corporation from adverse development.
3. DryStone retains a leading law firm, approved by your corporation, to manage the litigation portfolio.
4. Your corporation outsources the portfolio to DryStone Capital at a fixed price 10% less than your projected total cost.
5. DryStone collateralizes the 10% discount with a dedicated capital reserve.



DryStone Track Record

DryStone is well-positioned to outsource litigation portfolios. DryStone has experience with the leading law firms in the United States. DryStone uses its proprietary database, market experience and proven business model built over the past decade. DryStone's proprietary database contains litigation data from dozens of Fortune 500 clients across a wide range of industries. The database includes both the defense and liability cost for more than 100,000 cases in most areas of law. DryStone has invaluable insights into Fortune 500 litigation. DryStone uses proprietary techniques in total litigation cost analysis, case valuation, fixed fees, results-based compensation and competitive sourcing.

DryStone has generated more than \$500 million in savings for Fortune 500 clients. DryStone's ground-breaking approach to managing litigation has been recognized by prominent management experts. In his Harvard Business School case study, ***Transforming Legal Services***, Professor Clay Christensen summarizes the principles driving DryStone's business model:

- Outsource everything that is not a core competence
- Measure portfolio results on a total cost basis
- Aggregate cases to leverage buying power
- Competitively source suppliers for fixed fees
- Align incentives to reduce total cost by paying for performance

Through litigation outsourcing, DryStone is the first to offer a comprehensive defense and liability solution.