



Insurance Resources Consultants

A subsidiary of Shoemaker-Schexnayder, Inc. - an IR Group Company

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March 9, 2006

Ms. Jeanne Cain
Chairwoman
State Compensation Insurance Fund
c/o: California Chamber of Commerce
1215 "K" Street, Suite 1400
Sacramento, CA 95814

Letter of Understanding

Dear Ms. Cain:

We are very pleased to accept the engagement to manage the search for the next President of the California State Compensation Insurance Fund.

This letter will confirm the terms of our engagement, and I ask that you sign your acceptance at the bottom of the letter and return an original to us.

We will perform those services specified on Attachment "A" that accompanied your December 19, 2005 RFP. We will perform those services in the manner outlined in our January 6, 2006 proposal.

We will commence the project upon receipt of the signed acceptance and the receipt of the retainer (billing enclosed).

We will conduct the search in compliance with all Federal and State employment non-discrimination statutes. We will use an analysis tool called PI (Predictive Index). Under separate cover, I will send you the Validity studies that have certified its use.

We will conduct formal reference checks and utilize an outside service for criminal, DMV, and financial background checks. If SCIF has any predetermined standards for utilizing such background checks, we would like to have those as soon as possible. If you have any formal policy that limits the use or extent of such background checks, we need that information.

If you require drug testing or a physical exam as a prerequisite to hiring, we do not arrange for such testing but would coordinate with your authorized representative. SCIF agrees to hold us harmless and indemnify us in the event an applicant is rejected on such grounds and subsequently brings suit under the Americans with Disabilities Act. We need to know if you have such prerequisites so that we can disclose this to candidates during the process.

We will provide you with a timeline that includes key milestones and written progress reports. In addition to the formal timeline plan, we welcome any verbal or written inquires as to the status of the project at any time. We want to work in partnership with you and the Board and be available by phone or in person as the need arises. We do ask that you establish a clear protocol as to our responsibility should we be contacted by an individual Board member during the process.

We will evaluate internal candidates as well as external candidates. Our final recommendation may be a mix of both. In the event you hire an external candidate and that person resigns or is terminated for any reason other than death or disability in the first six months of employment, we will conduct a second search at no cost to SCIF except for our travel expenses. If that person resigns or is terminated for any reason other than death or disability after six months of service but short of one year, we will, at your option, conduct a second search at a cost of 50% of this project plus travel expenses. ***Please do not be alarmed by this clause. We do not expect this to happen.***

We will bill for the project on the following basis:

Enclosed is a billing for \$29,250, representing 30% of the flat fee. This is due at the commencement of the project.

Sixty days from the commencement of the project we will present an interim billing for \$19,500, representing 20% of the flat fee. We will also bill a flat \$10,000 for travel expenses. At the end of the project, we will present a detailed accounting of our travel and will either bill for the excess or refund any unused portion. Both of these billings would be due within 15 days.

One hundred twenty days from the commencement of the project we will present an interim billing for \$19,500, representing 20% of the flat fee. That billing will be due within 15 days.

At the time we present our pre-committed, pre-screened, qualified, recommended candidates, we will bill for the final 30% in the amount of \$29,250. We would also present our travel expense receipts and detail and bill for any excess or refund any unused portion. The final billing would be due in 15 days.

We congratulate the Board on its decision to conduct an internal / external search to insure that the best possible leadership is in place at the SCIF. We look forward to working in partnership with you.

Sincerely,



Richard C. Shoemaker
President
IR Group Companies

Enclosure
RCS:em

Accepted on behalf of the
California State Compensation Insurance Fund



Jeanne Cain
Chairwoman

3.21.06

Date