
Pete Fowler **CONSTRUCTION** Services, Inc.

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| Date: | January 16, 2004 |
| To: | Robert Smith Smith Claims T: (909) 555-1149 F: (909) 555-8330 E: rSmith.Smith@verizon.net |
| From: | Pete Fowler |
| Regarding: | Xactimate Estimating vs. PFCS Method Jones-Tarzana (PF 03-275) 5232 Avenida Hacienda, Tarzana, CA 91356 |
| Note: | Sent via e-mail only. |

Dear Bob,

It was great to speak with you yesterday regarding this project. I am following up, in writing, why our estimating method is superior to the use of Xactimate.

First some back-ground: I have testified under oath many times as an estimating expert in deposition, arbitration and trial. My qualifications include almost 20 years in the construction industry, a Bachelor of Science degree in Construction Management, I am the president of a contracting, construction management and consulting company, I am a Certified Professional Estimator (CPE), and a member of the American Society of Professional Estimators (ASPE). Some of my staff members and I have been guest speakers at ASPE meetings, as well as many other construction industry functions.

Becoming a CPE requires the generation of a peer reviewed research paper, and 2-days of rigorous examination, which together demonstrates command of the professional practice of construction cost estimating. My estimating method is in conformance with the ASPE Standard Estimating Practice Manual (SEP), which is the codification of the "best practices" in estimating which have been refined over the years by the ASPE members. The ASPE SEP Manual is in conformance with the practices of construction cost estimating being taught for decades at the university level in engineering and construction management programs all across the country and the world.

In short, our method of estimating creates a legitimate estimate of the costs to perform construction work, recognized by all construction-estimating professionals.

Xactimate is a powerful tool for the insurance industry. It allows personnel with little or no technical knowledge in construction to apply prices for common activities in insurance repair and restoration. Xactimate has become a standard program used by a large percentage of the insurance and restoration community. Xactimate has created a common vernacular and allows insurers to generate prices for typical claims with very little expense. The prices are such that regardless of the nature of the work, be it a \$500 or a \$500,000 repair, almost any restoration contractor will perform the work described in a competently composed Xactimate "estimate".

Costs of construction are often not a function of commonly used “unit price” rules-of-thumb. Everyone can understand that the price per square foot for painting 10 square feet would be profoundly different than the price to paint 10,000 square feet.

Xactimate is not a program that estimates the costs of construction; it applies unit prices. Xactimate applies commonly accepted unit prices and it does not require a highly skilled and experienced professional to do so. Therefore, it is very useful for typical claims handled by insurance carriers because most claims are small and have typical issues, and it would simply cost more than it is worth to generate better estimates. Actuarially, it is better to pay a little too much for the construction work, than to pay a professional estimator and a construction manager for every claim.

Another problem with Xactimate, as I am sure you are well aware, is that creative users can come up with widely varying amounts, based on the assumptions they use. Our estimating begins with the definition of the real scope and real methods that will be used in performing the work, and then applies real-world prices to those activities, not “typical” unit prices.

In the course of our work, we often generate construction cost estimates for the purposes of insurance claims and construction projects. The power of our experience is that we have the perspective of looking back on many projects, to see what qualified contractors legitimately charge, and to compare total project costs to original estimates. We frequently compare estimates of others to our own. In fact, if you visit the company website (www.petefowler.com) you will find the quote: “We often compare our estimates to those of other parties to find and explore the reasons for differences of opinion.”

If you would like us to compare one or more Xactimate estimates to our estimate, “to find and explore the reasons for differences of opinion”, we would be glad to. We are confident in our ability to identify and explain any differences. We are equally confident that we would be able to find qualified contractors to perform the scope of work described in our estimate, for the prices described therein.

Since this project appears to be particularly sensitive, I feel confident that our method of estimating the costs for repairs is the best method available.

Regards,

A handwritten signature in black ink, appearing to read "Peter D. Fowler". The signature is fluid and cursive, with a large, stylized "P" and "F".

Peter D. Fowler