

10-6-1977

Letter and Papers to All Former Stockholders of Lortitats

Duane Pearsall

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L O R T I T A T S

November 8, 1977

TO: All Stockholders of Lortitats

SUBJECT: Meeting of October 6, 1977

Gentlemen:

The purpose of the meeting was to first identify the legal liabilities of former stockholders of Statitrol Corporation with respect to the Teledyne Water Pik law suit and second, to review a proposed agreement made up by the attorney for Lyman Blackwell between Hion and Emerson Electric Co. for license free use of certain new patents.

Our attorney, Tim Campbell, first reviewed the charges of Teledyne Water Pik (TWP) with respect to the Agreement between Statitrol Corporation and Emerson Electric (merger Agreement). Attached is a summary of that discussion as recalled by Tim Campbell.

In addition to the attached report, we discussed the fact that we had no market analysis of the potential for use of the "Hot Wire" patent outside of the fire and security industry. Such a market analysis should be made as a first step following organization and capitalization of Hion. Following acceptance of a preliminary agreement with Emerson, I will forward to each former shareholder of Statitrol Corporation, the following items:

1. A copy of the proposed Bylaws and Articles of Incorporation.
2. A copy of a proposed research study presented by Hauser Laboratories as a first step in research analysis of this principle.
3. A complete list of the Statitrol Corporation Shareholders as of March 16, 1977.
4. A response document which will indicate each shareholders' opportunity to participate in ownership in relation to his former percent ownership in Statitrol Corporation, and the initial investment based upon initial capitalization of \$50,000.

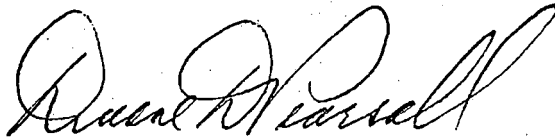
This will identify those who wish to participate and those who do not. All of this must be properly handled so as not to violate any SEC regulations relative to stock offerings.

Page 2

To: All Stockholders of Lortitats
November 8, 1977

All of the above is contingent, of course, upon a successful agreement with Emerson and secondly, upon sufficient interest from former Statitrol stockholders to develop an entirely new business.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Duane Pearsall". The signature is fluid and somewhat stylized, with large loops and a long tail on the final letter.

Duane Pearsall
bc

Attachment

Send this

LAW OFFICES

BRADLEY, CAMPBELL & CARNEY

1717 WASHINGTON AVENUE

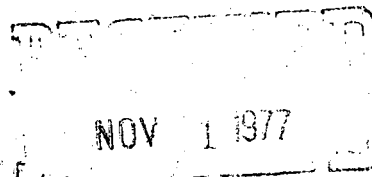
GOLDEN, COLORADO 80401

(303) 278-3300

LEO N. BRADLEY
TIM L. CAMPBELL
THOMAS J. CARNEY
EARL K. MADSEN
RONALD K. REEVES
VINCENT K. TURNER
EDWARD A. WALTERS
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EARLE D. BELLAMY II
JOHN G. BRANT
DOUGLAS S. ROUSE
JAMES J. NOLAN
JAMES B. SHACKELFORD
COUNSEL
WILLIAM D. JOHNSON
CARL CLINE

October 31, 1977

P. O. BOX 2798
FIRST NATIONAL BANK BUILDING
EVERGREEN, COLORADO 80439
(303) 674-3351



Mr. Duane Pearsall
Statitrol
140 South Union Boulevard
Lakewood, Colorado 80226

Dear Duane:

While I did not take any notes at our October 6th meeting with the former shareholders of Statitrol Corporation, I do have an outline of the matters I discussed with them. Perhaps you can use the information I am submitting herewith, together with your own recollection of the meeting, to prepare a report for those who could not attend.

1. The Agreement and Plan of Reorganization ("Agreement") between Statitrol Corporation and Emerson Electric Company was reviewed and discussed including the following points:

(a) That in Section 2.13 of the Agreement, Statitrol assured Emerson that there were no claims, demands or proceeding instituted, pending or known by Statitrol or threatened by any person or firm...to obtain...or use any of Statitrol's patents...and that Statitrol had no knowledge of any patents belonging to others which would materially and adversely affect Statitrol's business.

(b) That in Section 2.21 of the Agreement Statitrol had represented that it did not know of any basis for any lawsuit against Statitrol which would have a material adverse effect on Statitrol's business.

Mr. Duane Pearsall
Page Two
October 31, 1977

(c) That under Section 9.1 of the Agreement, Statitrol and its shareholders agreed to protect, defend, indemnify, and hold Emerson harmless...from all losses, damages, etc.... occasioned by any liabilities of Statitrol not assumed by Emerson but which Emerson might become obligated to pay. The Teledyne lawsuit could fit in this category as it is an obligation which was not assumed by Emerson but one that Emerson could become obligated to pay. Statitrol also agreed to indemnify Emerson for material losses occasioned by any liability of Statitrol arising from any untruth, breach or failure of the warranties, representations and covenants contained in the agreement provided Statitrol or its directors or officers had knowledge prior to closing of such liabilities and did not disclose same to Emerson.

(d) We discussed the fact that if the warranties and representations we made in Section 2.13 and 2.21 were untrue, and any of the directors, shareholders or officers of Statitrol knew it and did not disclose same to Emerson at or prior to the time of closing, there could be an obligation to indemnify Emerson for any losses suffered in this Teledyne action.

2. We then explained and discussed some aspects of the lawsuit brought by Teledyne against Emerson and Statitrol in the following order:

(a) We went through the allegations in Teledyne's Complaint, in quite some detail, and discussed the allegations regarding unfair competition, inducement by misrepresentation, breach of warranty, patent misuse, anti-trust and declaratory judgment.

(b) We explained that we felt most of the allegations contained under the unfair competition claim and the inducement by misrepresentation claim just weren't true and furthermore, that we had another side to the story, particularly with respect to the amount of time and money that Statitrol had spent in assisting Teledyne and in complying with the spirit of the agreement with Teledyne.

(c) We discussed the claim of patent misuse and advised them, that based upon what our patent attorneys had told us, we didn't feel that they had properly pleaded their case even if they did have any cause to complain. We also explained the patent reissue situation to them.

Mr. Duane Pearsall
Page Three
October 31, 1977

(d) We did not spend much time discussing any other claims contained in the Complaint except that we were at a loss to really explain how there was any antitrust violation involved here.

(e) We explained to them that Emerson's Chicago legal counsel was representing Emerson, together with Phil Sheridan, that Bradley, Campbell & Carney was representing Statitrol and that we would keep them informed as things developed.

3. We also discussed the Hion Corporation situation, particularly with respect to the following matters:

(a) The proposed license agreement between Hion Corporation, as licensee, and Emerson Electric Company, as licensor, for rights to exploit the "hot wire" technology, as disclosed in Lyman Blackwell's patent, except, of course, in the fire detection, smoke detection and security related fields.

(b) The participation of the former Statitrol stockholders in Hion Corporation, whether or not we should be operating in the corporation or limited partnership, how to fund the corporation (or partnership), how much funding would be necessary, the timing and extent of experiments to be handled by Hauser Laboratory in related problems.

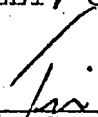
(c) We decided to defer any firm action on the structural aspects or financial aspects of the corporation or partnership until we had a better reading from Emerson as to what the license agreement was going to contain.

Duane, I hope that you can, with the assistance of the above outlined information, prepare your report. If I can clarify anything, please don't hesitate to give me a call.

Best regards,

BRADLEY, CAMPBELL & CARNEY

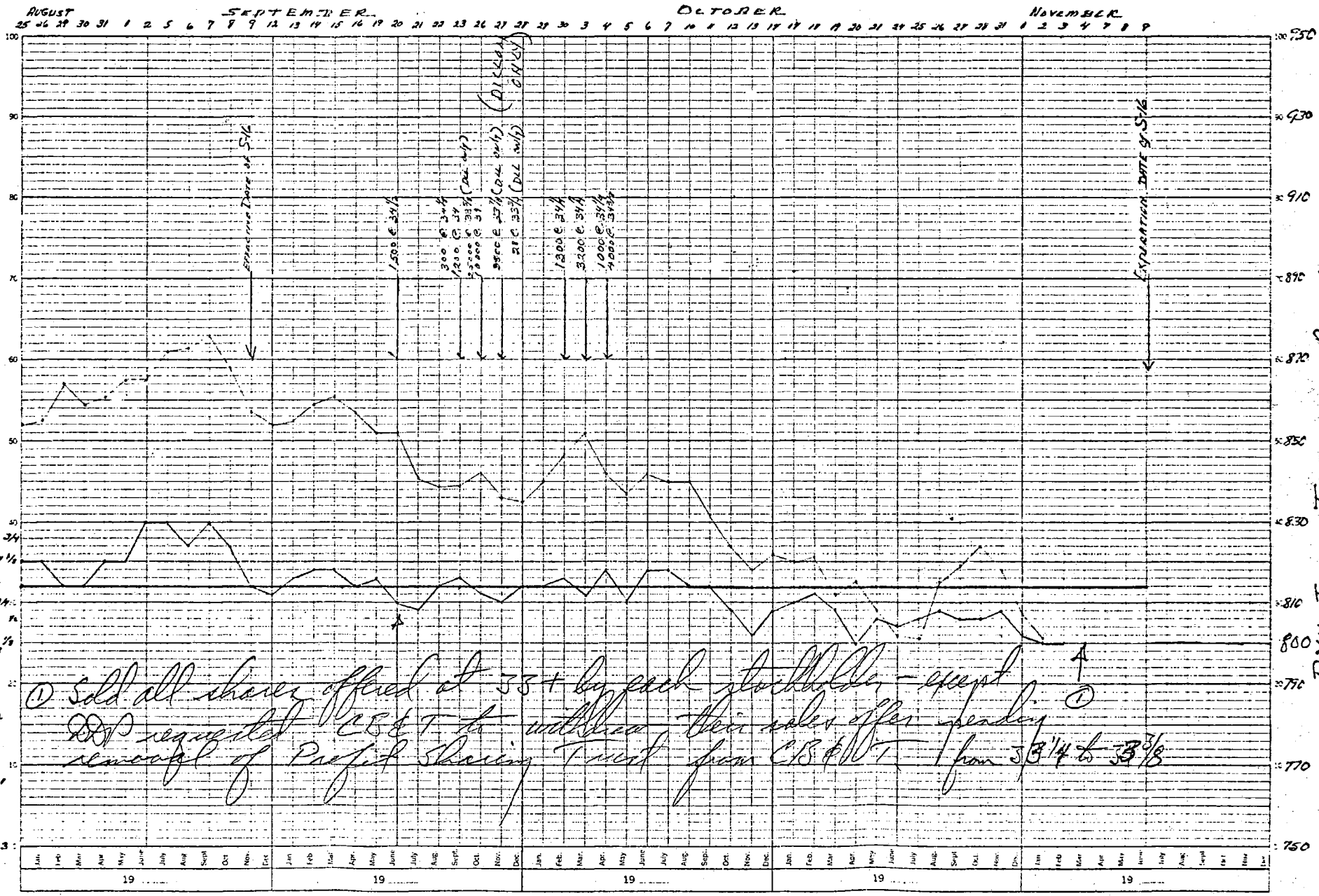
By



Tim L. Campbell

TLC/sm

MTG. 11/3/77
 Blaine D'Arcy report on stock sales



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