

H O N E Y W E L L

I N C.

S. J. NELSON
Vice President
Commercial Division

2747 Fourth Avenue South
Minneapolis, Minnesota 55408

May 4, 1966

Mr. Duane D. Pearsall, President
Statitrol Corporation
1030 W. Ellsworth Avenue
Denver, Colorado 80223

Dear Duane:

At the conclusion of our meeting yesterday, we summarized the principal points in an effort to be clear as to where we stand at this point. I'll try to highlight the principal items for the record.

In regard to the patent situation, it appears that the Stroh patent covering your current device does have some possibility of infringement with the Cerbers ^{no} patent licensed to Pyrotronics. However, we agreed that our principal mutual interest was in your newer design which essentially uses the Blackwell patent held by you. It was agreed that you would check further with your patent attorney to confirm our general belief that the Blackwell patent is free of infringement problems as far as we know at the moment. Since it is a relatively new application, further search would seem to be in order in this area.

You stated that to your knowledge it was the clear intent of Powers Regulator Company not to pursue extensive marketing of the Statitrol smoke detector except where it might continue to be a part of temperature control jobs in connection with smoke detection in ducts. It would appear that Powers is interested in disposing of their investment in Statitrol, and the nature of your incorporation Articles suggests that sale to present owners would have preference. For the moment we'll proceed on the basis that you would be able to accomplish this.

I won't go into detail on the many engineering design and manufacturing points which we covered except to say that we express some concern over the three-way arrangement which involves Colorado Instruments as well as Statitrol and Honeywell. With all due respect to Statitrol and Colorado Instruments, I think our concern would be in the area of engineering documentation, quality control and the problem of engineering backup. It was your expressed preference, at least initially, that we arrange an exclusive agreement whereby a specified number, such as 30,000 units over a three-year period at a price to us of no more than

Mr. Duane D. Pearsall

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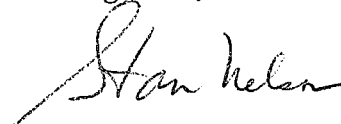
\$50.00, would be the basic approach. This would cover not only the number of detectors which we would install and use on our jobs but also assumes our resale to other manufacturers. It was in this area that you pointed out that not only Powers but others would be very reluctant to buy from Honeywell even though the price that they paid was no greater than if they bought from a third party distributor. In this connection, we discussed the possibilities of setting up someone as a distributor to overcome this problem. It does complicate the arrangements, however.

Perhaps the most important matter to occur in our meeting was our proposal that you consider licensing Honeywell to manufacture the Statitrol smoke detector. Since this proposal was new to you, you indicated a definite need to think about it and perhaps get advice from other people as to whether this would be the best solution for your purpose.

We understand, of course, that your basic desire and motivation is to set up a successful manufacturing business in the Denver area. Since the Statitrol company also has other devices which appear to have interesting potential, we advanced the thought that perhaps the license route would suit your needs to a high degree in that you would be relieved of the added financial risk and responsibility of building up resources to meet our needs, should we go the route of having you do the manufacturing, and permit your personal concentration and the concentration of your funds on some of the other developments. This, I would imagine, would involve a good deal less strain as far as you were concerned, and we therefore are in the position at the present moment of having formally proposed that you seriously consider the licensing aspect. We would be prepared, as soon as you indicate interest in this area, to write up an agreement which would spell out the amount per device to be paid in royalty and a minimum annual royalty payment in the event that our volume did not materialize as hoped.

I think this brings us up to date, and we will look forward to hearing further from you. I'm sure it's clear to you, Duane, that we are very interested in utilizing your smoke detector in our marketing efforts if the patent situation is clear, if a satisfactory means of maintaining mutual protection can be arrived at, and a plan can be worked out to embody the needs of both parties.

Best regards,



S. J. Nelson

lm

cc: Messrs. R. W. Crysler
L. B. Koontz
R. L. Patton
E. C. Vorlander

May 7, 1966

Mr. S. J. Nelson, Vice President
Commercial Division
Honeywell, Inc.
2747 Fourth Avenue South
Minneapolis, Minnesota 55408

Dear Mr. Nelson:

I appreciated receiving your letter of May 4 summarizing the major points discussed in our meeting of Tuesday, May 3.

As you know, I left Minneapolis to attend a meeting in Chicago with our principle stockholder, the Powers Regulator Company, on Thursday, May 5.

It is their intent to sell their interest in Statitrol Corporation and retain the right to furnish Statitrol equipment for duct detection in conjunction with temperature control systems.

They have seriously entertained a proposal from another fire alarm manufacturer for the purchase of their equity and it is their strong desire that I agree to a change in our Articles of Incorporation to allow this to take place as soon as possible. A very generous offer has been made to me personally by this fire alarm manufacturer. I must give their proposal very serious consideration. I have agreed to a further meeting the latter part of this week, probably May 11 or 12.

It is therefore necessary that if a satisfactory agreement is to be consummated between Honeywell and Statitrol definite action should be taken this week.

I have reviewed in detail the considerations important to Honeywell and to ourselves and have arrived at the following conclusions:

1. We cannot consider the possibility of sublicensing the manufacturing rights. Manufacturing technology is an important component to the total ultimate value of the product and is a major asset.

2. The responsibility of engineering documentation, quality control and engineering backup will remain that of Statitrol.

We must reserve the right to subcontract portions or all of the manufacturing of the device. The control of quality is more important to our total interest than to any potential principle involved and therefore our requirements will be the more stringent. I think it is in order to point out that Underwriters' Laboratories also require certain minimum quality control standards to insure a reliable product and they must also approve the manufacturing facility.

3. Our original proposal requiring one purchase order for 30,000 units for shipment within a three-year period for a net price not to exceed \$50.00 each is still our basic requirement.

After such consideration in the approach that Honeywell might take to other OEM sales, the simpler approach seems to be the suggestion made in the meeting that Statitrol be sublicensed by Honeywell for sales to other OEM accounts. The main advantage is that Statitrol, in reselling, can operate on bare costs and not involve a substantial additional markup beyond that required by Honeywell.

4. We would therefore request a sublicense to purchase from Honeywell and at a price not more than 10 per cent higher than Honeywell's purchase price.

In the resale by Statitrol to other OEM accounts, a minimum annual quantity of 3,000 units from one account should be established as a means of limiting the number of OEM accounts involved. An exception may have to be those sales to the Powers Regulator Company.

5. It would be in order that the \$50.00 purchase price by Honeywell be subject to escalation in relation to the Consumer Price Index only in the event there is a change beyond 5 per cent in the Consumer Price Index.

There should be reasonable "safety valves" in the agreement supporting both parties. There should be adequate notice of any condition creating a possible default in performance on the part of either party. In the event that Honeywell cannot make their total commitment, which includes those items sold to other OEM accounts, there should be a minimum royalty penalty of 20 per cent of the net purchase price for each unit that is not shipped by the end of three years, or in the event the matter cannot be re-negotiated.

With reference to the patent situation, the product will be developed and submitted to Underwriters' Laboratories as a single chamber unit avoiding the conflict with the patents in question.

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We are, however, proceeding with a comprehensive review of the infringement possibility for the purpose that we may ultimately elect to add a second chamber for reasons not known to us at this time.

Because of the pending negotiation, time is becoming critical. If it is the desire of Honeywell to become the exclusive marketing channel for our equipment, an agreement and a purchase order must be available to enable me to arrange for the purchase of the Powers interest in Statitrol prior to their final negotiations with others. I cannot ask them to turn down a bona fide offer unless I am in a position to replace it in like kind. I want most sincerely for an agreement to be consummated with Honeywell because I am convinced that it will be highly beneficial for Honeywell, and for the long run, be most beneficial for Statitrol.

Please call me if our position as expressed in this letter is not clear in any manner.

Sincerely yours,

STATITROL CORPORATION

Duane D. Pearsall
President

DDP:mf

cc: R. W. Crysler
L. B. Keontz
R. L. Patton
E. C. Verlander