

UNITED STATES SENATE
SELECT COMMITTEE ON SMALL BUSINESS
424 RUSSELL SENATE OFFICE BLDG., WASHINGTON, D.C. 20510
TELEPHONE 202-224-5175

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MEMORANDUM

July 8, 1977

Mr. Duane D. Pearsall
President
Statitrol Division
Emerson Electric Co.

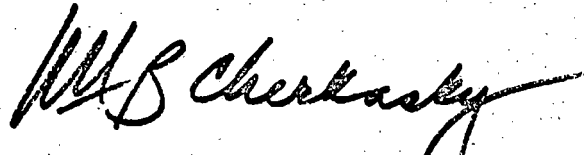
RE:

This transcript of your remarks is furnished to you so that you may review your testimony (or answers to questions) and make necessary typographical and grammatical corrections. Other minor clarifying changes will be accepted if they do not change your original statements.

Please make all corrections in RED (OR ANOTHER CONTRASTING COLOR) DIRECTLY ONTO THE TRANSCRIPT ATTACHED. If a lengthy insert should be necessary, please staple it to the page of origin with point of insertion clearly marked.

Kindly return the transcript WITHIN FIVE DAYS to the attention of Mr. Frank J. Merendino, editorial assistant, U.S. Senate Small Business Committee, Room 424, Russell Senate Office Building, Washington, D.C. 20510.

Respectfully,



William B. Cherkasky,
Staff Director.

P.S.: Please supply the Committee with any documents or information which may have been requested during your appearance. A self-addressed, franked mailing label is enclosed for your convenience in returning the transcript.

1 Senator Humphrey. I believe we have the Small Business
2 Man of the Year with us here, too. We welcome you, Mr.
3 Pearsall.

4 STATEMENT OF MR. DUANE D. PEARSALL, PRESIDENT,
5 STATITROL DIVISION, EMERSON ELECTRIC COMPANY

6 Mr. Pearsall. Thank you, Senator, it is my
7 privilege to be here.

8 My name is Duane Pearsall and I am President of
9 the Statitrol Division of Emerson Electric Company.

10 I want to very quickly identify that Statitrol
11 did not receive the award of small business as being part
12 of the Emerson Electric Company. We were quite a small
13 business and only as of March did we become a Division of
14 Emerson.

15 Rather than read the report which is part of the
16 record, I would like to only summarize that my purpose in
17 being here is simply to testify to the fact that our company
18 by coincidence reflects a characteristic in our economic system
19 that identifies a circumstance where small business or the
20 intermediate business sector is being eroded from our whole
21 business structure.

22 Our company started out making smoke alarms -- home
23 smoke alarms. We were the first to introduce a low-cost
24 unit. We were successful in encouraging code agencies to require
25 home smoke alarms and we demonstrated the life safety

1 characteristics of such a device. Today there are probably
2 fifty manufacturers of similar devices, most of them major
3 corporations in the United States. Our other independent
4 competitors were gradually acquired by larger businesses
5 and we found ourselves very visible as a small company with
6 a unique product in an explosive market.

7 As a result we had to elect what alternatives we
8 had to stay in business. We had previously gone through the
9 SBA programs of loans and I share your concern for paperwork
10 involved in getting an SBA loan, Senator, and was disturbed
11 to learn that your credit rating was as bad back in your
12 state. Mine was bad, too, but with good justification.

13 (Laughter)

14 I would have to say that the paperwork involved in
15 getting a loan through SBA was horrendous. I think they call
16 them 502 loans -- and ended up with five mortgages, one of which
17 we held ourselves, if you can imagine such a complicated
18 structure. But it was effective, it worked. It was expensive
19 and a lot of paperwork. Subsequently we went into a ⁹⁰ percent
20 SBA guaranteed loan which is ^{A MORE} ~~support to be~~ a simplified form
21 but ^T this was some three years ago and the paperwork was about
22 six or eight inches deep at the final closing. That is
23 being reduced and I commend Senator McIntyre for his efforts
24 in paperwork reduction.

25 We reached a crossroads, as I started to say,

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1 on where we should go ^{IN ORDER} to stay in business. We were what
 2 you might term a medium or intermediate size company growing
 3 out of a small business category. Normally such a company
 4 would have access to public funds in the public market, but
 5 because of the impediments created through the ERISA program,
 6 not the type that have been discussed today in terms of
 7 paperwork, but ^{BECAUSE OF} by the prudent-man-rule, investors are not
 8 allowed, (those controlling pension funds) ~~were not allowed~~
 9 to invest in small businesses, as such a decision would not
 10 be a ^{NEWLY DEFINED} prudent decision. As a result, the public market, ^{FOR} because
 11 ~~of that~~ ^{THE ERISA} reason, and also because of SEC 144 rules and similar
 12 regulations, ~~the public market~~ is not available to intermediate
 13 growing businesses today. I think the statistics are clear
 14 in the SBA report, ~~the task force report~~, which is already ^(SUBMITTED AS)
 15 a matter of record, that ^I in 1972 there were some 418 businesses
 16 that went public which acquired capital just under \$1 billion.
 17 Three years later there were only four businesses that were
 18 able to go public acquiring capital under \$16 million. Not
 19 a reduction but a precipitous drop-off in the availability of
 20 public funds to intermediate growing businesses.

21 Senator Humphrey. What was the time span?

22 Mr. Pearsall. 1972 there were 418 businesses and
 23 1975 there were four. Part of that is the obvious recession,
 24 but a big part of it was the 1974 ERISA legislation which
 25 had the unintended effect of creating a major impediment to

1 pension fund investing in small business either in the market
2 or independently.

3 So our alternatives were perhaps to start an
4 ^{ESOT} ESOP program or an ~~ESOP~~ ^{ESOP} That, historically, is called a
5 low-multiple bail-out method. It is nothing new. It has
6 been touted recently but it really is not new. And because
7 our major stockholder was ~~in~~ ^{AN} SBIC, it was not a reasonable
8 alternative. It would not produce the multiple ^P on earnings
9 necessary to relieve a major stockholder.

10 We looked at leverage ^d assets as a means of increasing
11 debt to allow us to build machinery, to automate production, to
12 meet this major competition. This was not possible because
13 we are fundamentally a labor-intensive company. So the
14 remaining alternative which was the one we chose, was to
15 become acquired by a big business, and our choice was ^{THEN} which
16 big business, and ~~we~~ ^(w) are very pleased with Emerson Electric.
17 I do not want to reflect any negatives. They ^(EMERSON) probably saved
18 us from going bankrupt -- not yet, but we would have progressively
19 The competition in smoke alarms today is fierce. It is almost
20 going the way of the hand-held calculator. So we are a
21 typical example of a technically oriented, growth-oriented,
22 intermediate size business that had no alternative but to
23 become part of big business, and we are proud of it at this
24 point. But I look back at some of the statistics of the
25 SBA task force which I was privileged to participate in last

1 year, ^Tand through the SBA staff we learned that in the 20
 2 years, from 1956 to 1975, the total invested capital in
 3 business in the United States went from 1.3 (in businesses
 4 under 50 million) times ^{THE} investment in businesses over 50 million
 5 to the reverse in 1975 -- 3.1 times the capital, invested
 6 capital, is now in big business as opposed to small business.
 7 This is not a criticism of big business, but it does
 8 demonstrate that because of the unintended effects of
 9 legislation we are institutionalizing our ^{LARGER} business ^{ES} by a
 10 natural effect of legislation.

11 Now, I agree wholeheartedly with Dr. Lesher, ^Wwhat
 12 my main concern is and I want to emphasize, I am a member
 13 of the Council of Small Business of the U.S. Chamber. That
 14 is an organization which has been in place just one year.
 15 It is made up of about 70 small businessmen that are turned-on
 16 small business ^{PEOPLE} that are reacting to some of the bad effects
 17 of legislation up to now, ^Tand the Chamber has responded
 18 beautifully. We are tickled to death to be part of the
 19 U.S. Chamber in making the united effort to correct some of
 20 these impediments.

21 ^{MY POSITION}
~~What my concern is~~ is that this legislation looks
 22 good to me, it really does, because it improves the visibility
 23 of small business in the Congress, it establishes some clear
 24 objectives, ~~I think,~~ but I am not experienced in reviewing
 25 legislation, and I have learned to respect the Chamber's

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1 analysis and their depth of study of legislation and its
2 long-range philosophical effects and tangibly predicted ^{ABLE}
3 effects.

4 What I am concerned about is that this legislation
5 may still have some unintended effects that could create
6 ~~some negative~~ problems to small business. I cannot see
7 them, but I lean to the experience ^(OF THE CHAMBER) and I just add a word
8 of caution that I would hope that this legislation ^{FOR THE BENEFIT} oriented ^{OF}
9 to small business, is carefully reviewed before it is released.

10 I would like to add for the benefit of any ^(LATER)
11 questions, my experience ^{RELATES TO SERVING} has been ^{AND} on the SBA Task Force last
12 year. I have been cited by OSHA twice for some of the
13 circumstances that Mr. McDonough mentioned this morning -- a
14 disgruntled employee, been fined once for \$459, ^W we have
15 been plagued by ERISA legislation ^{AND} not only from ^{JUST} the paperwork.
16 Let me give you some figures -- in a company of -- last year --
17 650 employees, it cost us \$13,000 to administer the paperwork
18 of ERISA. I instructed our Chief Accountant to keep a
19 separate record. Now the company absorbed that ^(13,000) last year,
20 but normally a plan is structured so that those costs are
21 deducted from the employers contribution to the plan. That
22 would mean that those 650 employees of which about 400 were
23 "participants" in the plan would have paid \$13,000 for the
24 administration of ERISA which did not improve the employees'
25 benefits. It impeded the employees' benefits, and I can cite

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two or three circumstances of that. In addition of course they pay their taxes to support the agency.

So with that background I just want to emphasize that it is a real pleasure and a privilege ^{TO APPEAR} -- ^{MAY I ADD THAT} Sir, your opening remarks gave me a little thrill this morning. I appreciate those.

Senator Humphrey. Thank you very much.

(The prepared statement of Dr. Leshner and Mr. Pearsall follow:)