

# Spang daughters fight back at patriarch with lawsuit

By Steve Creedy  
Post-Gazette Staff Writer

The daughters of Spang & Co. Chairman Frank E. Rath Sr. have sued to have him removed from the Butler-based company's board, claiming he manipulated shares and misused company money.

The suit is part of a renewed legal battle engulfing Rath Sr. and daughters Vicky, Loretta and Laura. The sisters' move to oust their father and prevent him from chairing next month's meeting of Spang shareholders is the latest development in a bizarre family dispute involving allegations of brainwashing, religious cults and misuse of power.

Spang counsel William T. Marsh earlier this week dismissed the lawsuit and declined to discuss it in detail.

"This is strictly a frivolous proceeding," he said.

Spang, with sales of about \$100 million annually, produces control boards for power stations, magnetic components for the tele-

communications and electronics industry, children's toys and specialty metals.

It filed a lawsuit earlier this month claiming Laura Rath is being manipulated by Bart Fisher and J. Patrick Dowd, principals of Virginia-based Capital House Merchant Banking. Capital House is seeking to register 600 shares transferred to it by Laura Rath and has nominated retired Navy Adm. Elmo Zumwalt as an outside director to the Spang board.

Now the sisters, who own about 20 percent of the company, have fired back a 108-page lawsuit alleging misuse of Spang money, improper share transactions and intimidation of Spang employees and shareholders.

The lawsuit, filed last week in the Butler Common Pleas Court, includes claims that:

- Rath Sr. had Spang pay for a Palm Beach, Fla., home used almost exclusively by his family for 23 years and two farms in Butler County to further his horse breeding and farming interests. The lawsuit says the farms are part of a Spang division but do not

have significant business use for Spang and are not mentioned in annual financial statements provided to shareholders. Instead, it says, financial statements are kept privately by Rath Sr. or his son, Frank E. Rath Jr. A third farm titled to Rath Sr. and Spang Vice President Robert A. Rath was used for research between 1960 and 1968 but was sold in 1987 to Robert Rath for a "nominal sum" of \$34,470. Except for the research farm, "no Spang farming operation for the last 30 years was related to any product or product line of Spang," the lawsuit says. The lawsuit also questions the 1964 purchase of a house in Palm Beach, Fla. The house was bought and remodeled by Spang in the name of Rath Sr. and his wife and sold in 1987 for \$470,000, it says. The lawsuit says Spang paid all the expenses of maintaining the Florida home, used almost exclusively by the Rath family, for 23 years.

- Spang is illegally refusing to allow shareholders to use cumulative voting to elect directors. (Cumulative voting allows each shareholder a number of votes equal

to the number of shares he owns times the number of directorships to be filled. It can allow minority shareholders to elect a director in situations where they ordinarily would face defeat with straight voting.) The lawsuit says changes to Spang's bylaws in 1994 split its board into four classes with two directors in each class. The net effect of this was to prevent the sisters and shareholders whose proxies they held from electing a director, it says. An "anomaly" means three directors are up for election this year, the suit says, but the sisters believe that the board will attempt to shut out outside directors by reducing its membership to eight. The lawsuit asks the court to issue an order declaring that shareholders have a legal right to cumulative voting. In addition, it asks the court to prevent the present board from restructuring, altering bylaws or concealing, altering and destroying records.

- Rath Sr. issued 100,000 shares to a trust he controls and 20,000 shares to his son, David, and his son's wife without board approval. The suit says the issue was illegal

and almost doubled Rath Sr.'s holdings while diluting the value of Spang shares by 7.4 percent. It wants the court to declare the issue void and illegal.

- Rath Sr. uses the company's informal stock purchase program to coerce employees and intimidate shareholders. The lawsuit says the stock program permits selected directors, officers and employees "as well as defendant's friends and family" to buy stock financed by low-interest loans from Spang. It claims failure to participate in the stock purchase program is viewed as disloyalty by Rath Sr. and he uses the debt to Spang to coerce employees. It asks the court to remove Rath Sr. from the Spang board and bar him from election, until further order of the court. It also seeks to prevent Rath Sr. from chairing any meeting of shareholders while the suit is pending. Instead, it says, the court should appoint an independent officer to chair the meetings. And it asks the court to order that three independent judges oversee the election of directors using a secret ballot.

# Spang torpedoed former admiral's bid

Losing side in family feud vows to continue fight for shareholders

By SCOTT BELLETT  
Eagle Staff Writer

Spang shareholders Tuesday rejected an attempt by retired Navy admiral Elmo Zumwalt Jr. for a spot on the company's board of directors.

Shareholders re-elected David Rath and Robert Rath Jr. to four-year terms on the eight-member board of directors.

The two Raths received 1.2 million votes each, according to Zumwalt, a former Chief of Naval Operations. Zumwalt said he received 870,000 votes.

For the fourth consecutive year,

shareholders did not receive a dividend from the company despite Spang making a \$14-million profit last fiscal year.

"(The meeting) went exactly as I'd said it would — congenially and without incident," said William Marsh, Spang's legal counsel and a member of the board of directors.

Zumwalt agreed that the results were the same as previous meetings.

"The usual happened," Zumwalt said outside Spang's corporate offices after the shareholders meeting. "Votes were controlled."

Zumwalt said he was not surprised with the outcome. Spang's directors had opposed his election.

"I did (expect to lose) because the Rath family has made a tremendous effort to rally shareholders," Zumwalt said.

**'A company that doesn't provide financial information is nothing but a corporate dictatorship.'**

— Vicky Raff

Zumwalt said Frank Rath Sr. dismissed a \$159-million offer for Spang from Castle Harlan, a New York City investment company.

"He indicated he gets two to three inquiries a week and he has not interest in selling," Zumwalt said.

"There is nothing to consider," Marsh said. "(The offer) is just a

piece of paper."

Zumwalt's candidacy was supported by 10 shareholders, including three daughters of Frank Rath Sr.

The daughters — Vicky Raff, Loretta Poindexter and Laura Rath — own about 20 percent of the company.

The daughters claimed Spang is run for the benefit of management and not for the employees nor shareholders. Zumwalt, as an outside presence on the board, could curb some of that behavior.

The daughters complained that previous shareholders' meetings were run illegally. They made that charge in a lawsuit filed in April, but which they discontinued last week.

"I think by the letter of the law, it was run legally," Raff said. "But a company that doesn't provide finan-

cial information is nothing but a corporate dictatorship."

The practice of not giving dividends continued.

"We were told it was none of the shareholders' business," Raff said.

Howard Graham, a Spang retiree and shareholder, was disappointed with what transpired at the meeting.

"S.O.S. — same old stuff," he said. "I am disappointed not in the business sense, but in the moral sense."

"It's the shareholders be damned. My personal opinion is it's not how a business should be run."

Security was tight at Spang's Brugh Avenue offices.

The company hired Mark Peffer, an off-duty city police officer to guard the corporate entrance.

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# Spang

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Peffer told a television cameraman and reporter that no media was permitted on their property, including the sidewalk adjacent to company property.

The shareholders meeting is not the end of the Spang saga.

Bart Fisher, an owner of Capital

House Merchant Bank, a Washington D.C.-area firm that identified Spang to Castle Harlan as a possible investment opportunity, said he will continue to pursue the Butler company.

"The campaign will continue," he said. "What happened today is the dictatorship prevailed and nepotism reigned."

A meeting between Castle Harlan and Spang shareholders will be held on June 6 and 7 as planned, Fisher said.

Both sides have lawsuits against each other pending.

Spang has filed a lawsuit against Capital House and Laura Rath in an attempt to prevent a transfer of 600 shares of stock.

The company Monday filed court document notifying Capital House, Fisher, Zumwalt and Patrick Dowd, all owners of the company and the three daughters they intend to sue them.

Marsh declined comment on the details of the pending lawsuit.

But he was critical of the daughters' attempts to bring the county court system into the dispute.

"The conduct of this group has been an insult to the judicial process of Butler County," Marsh said.

The daughters have filed a court document against Spang, the board of directors and independent auditors informing them of a pending lawsuit for damages.

Bruce Boyle, an attorney representing Rath's three daughters, said he will review actions at the meeting to determine if the daughters will take further legal action.

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## Spang shareholders charge abuse of power in attempt to oust Rath

Family infighting wracks  
\$100 million manufacturer

By ANTHONY TODD CARLISLE

**BUTLER** — The daughters of Frank Rath Sr. added another page in the ongoing saga at Spang & Co.

Vicky Raff, Lorretta Poindexter and Laura Rath have filed a lawsuit in Butler County Court demanding their father's resignation from Spang, a manufacturer of toys, electrical and telecommunications equipment.

The lawsuit called for his resignation by June 5. By June 13, Mr. Rath had not left the company.

The daughters charged in a 115-page lawsuit that Mr. Rath abused his power at the company, which employs 2,000 and generates annual revenue of about \$100 million.

The daughters claim that, among other things, Mr. Rath does not have sound business judgment and is not qualified to run the corporation.

The daughters filed a similar lawsuit in April, but withdrew it several days before Spang's shareholders meeting in May.

Jerry McDevitt, an attorney with the Downtown law firm of Kirkpatrick and Lockhart, which represents Spang, dismissed the lawsuit.

"It's as silly as the first one filed," Mr. McDevitt said. "Lawsuits are like vitamins to them; they file one every day. It won't get any further than the last one."

The daughters have repeatedly complained that they haven't received dividends on their ownership stake in Spang since 1992, even though they claim that the company has \$70 million in cash reserves. Mr. Rath's daughters believe that the directors have stopped paying dividends in an effort to exert financial control over them.

Mr. McDevitt contends, however, that Spang doesn't have to pay dividends.

"Companies have no obligations to pay dividends, and many of the major corporations in America don't pay dividends," he said. "Mr. Rath is running the company in the best interest of the company."

The daughters, who own 20 percent of the company, have also tried to sell their shares. Spang has rejected the offer.

Mr. Rath has claimed that his daughters are under the control of an Oklahoma cult, and would use any investment proceeds to fund it. The daughters, however, claim that they are devout Christians and deny involvement in

any religious cult.

Last month, the daughters tried to get an independent director named to Spang's board. At present, five out of eight board seats are occupied by members of the Rath family.

The daughters nominated retired U.S. Navy Admiral Elmo Zumwalt Jr. to the board of directors. Mr. Zumwalt, a partner in a Washington, D.C., investment firm, failed in his election bid.

Mr. Zumwalt is affiliated with Capital House Merchant Banking, which has an office in Butler. Capital House, which represents the interests of the Rath's daughters, has tried to engineer a buyout of Spang.

*"Lawsuits are like vitamins to them; they file one every day."*

— Jerry McDevitt  
Attorney representing Spang & Co.

Bart Fisher, a Washington, D.C., attorney is also a partner in Capital House. Mr. Fisher was also one of four suitors interested in buying the Pittsburgh Pirates last year. He pursued the team, off and on, for three years.

At that time, observers speculated that Mr. Fisher wanted to move the Pirates to Washington, D.C., based on his role as president of Capital Baseball Inc., a group dedicated to returning Major League Baseball to Washington.

Mr. Fisher, in an earlier interview, said Spang should have board members who will look out for interest of the shareholders.

"We think it's very important to have directors who will carry out their fiduciary obligation to look out for all the shareholders in the company," Mr. Fisher said in a May interview with the Business Times.

Mr. Fisher's Capital House arranged the buyout offer by Castle Harlan, a New York City investment firm. Castle Harlan is offering between \$90 and \$100 a share, or \$159 million, for the company. Spang management is offering \$55 a share.

Mr. Rath and 13 family members and company directors own 59 percent of Spang stock.

Mr. Rath and his supporters have said they don't want any outsiders getting involved in Spang's operations, for fear that the company will be moved out of Butler.

Marcel Fournier, director of Castle Harlan, however, has said the company is not looking to move Spang or lay off workers.

Mr. Rath has not responded to the offer. His attorney, Mr. McDevitt, said Spang is not for sale.