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NO CANNED COMMODITY

Recollections of a brief but strenuous engagement that started with the merger desires of Signal Oil and Gas Company and the Garrett Corporation.

“How,” asked the Wall Street Journal on December 23, 1963, “does an attractive maiden fend off the unwanted advances of a wealthy suitor? Often by eloping with someone else.”

The *maiden* in the WSJ article was Garrett Corporation, a big Los Angeles maker of gas turbines and “environmental controls,” principally in the aerospace industry. The *wealthy suitor* was Curtiss-Wright Corporation, which had asked for tenders of some 47% of Garrett’s stock—enough to gain working control. And the *someone else* was Signal Oil and Gas Company, a client of our Los Angeles Office.

The article told of the financial in-fighting that followed Curtiss-Wright’s advances, and it made fascinating reading. We have a sequel to tell—a story about a few long days in October that year when a crew of Los Angeles Office accountants strove mightily to win on another front.

As a story it could have come from Omaha or Birmingham, from Buffalo or Orange County—you don’t have to be on the staff very long before you have your own tale of working on X assignment—Saturdays, Sundays, and past midnight. And though psychologists might say you can’t perform effectively beyond a certain level of fatigue, it’s amazing what self-winding our people can do to keep up a high level of performance under do-or-die conditions.

In most cases, the heroes are unsung; but the records are there to confound the man who comes new on the

engagement next year and tries to puzzle out—“how in the world did those fellows get a job that size done in such a short time?”

We recalled Signal-Garrett recently (it was an SEC engagement and involved several accounting questions that were batted around the Executive Office) and we asked the men who did the work to recall “how it was.” They came back at us, despite the intervening years, with vivid details.

Monday, 8:00 am

Rudy Creipel told us how it started, on Monday, October 21, 1963. “I was the senior in charge of the Signal audit. As I drove to work that morning, I was thinking about which assistants I could release, because our interim work was nearly finished, and I forgot to tune in E. F. Hutton’s business news on the car radio. I realized this as I pulled into the parking lot. Oh well, I thought, probably nothing exciting happened over the weekend anyway.”

But it had. Ted Middendorf, driving in on the Hollywood freeway, heard the news that Rudy missed, and on it, as it had been for the past month, was the offer by Curtiss-Wright Corporation to buy Garrett stock. But also on the news was a report of a possible merger of Signal and Garrett.

Ted was exploring with other assistants the effects such a merger might have on their work assignments when Rudy got off the elevator at the eleventh floor. As

they learned later, Signal and Garrett top management had negotiated all weekend to put the merger together.

Rudy went to his desk. "I put in a call to Bob Runser, audit principal on the Signal engagement. The news had reached him before my telephone call. We discussed the possible need for a proxy statement if such a merger were to take place, and we agreed to keep each other informed of any new developments. I went back to running the interim audit as usual.

"But," Rudy recalled, "the atmosphere in the client's office was anything but 'as usual.' Everybody's thoughts seemed to be dominated by merger possibilities, but there was nothing official. I did learn that Signal had purchased a large block of Garrett stock recently, and I relayed this information to Bob Runser.

"Driving home that evening, I listened eagerly to the news broadcasts, but the Signal-Garrett merger, though hot, was still unofficial and Curtiss-Wright's offer for Garrett stock was still a main feature of the business news. But this news took on new meaning for me, as it appeared that the race was on between two corporate giants, Signal and Curtiss-Wright, for the acquisition of Garrett."

"The race," Bob Runser explained, "started because the Curtiss-Wright offer had no appeal to Garrett management, who didn't want to lose control of the first-rate research and design company they'd built up over 25 years. Garrett called on stockholders, the company's brokers, and even mutual funds that held blocks of

Garrett stock, and rallied them to their aid. They had trouble, though, with too many people buying stock at the market price (about \$45) and turning round immediately and tendering it at \$50, the price Curtiss-Wright had set. Signal management saw this situation and offered itself as a 'friendly buyer' of the stock for its own investment portfolio. It was the purchases Signal made on this basis that Rudy had heard about.

"This arrangement worked successfully at first, but then Curtiss-Wright upped its offer to \$57 a share. Garrett saw it would have to act fast to beat that price and, in a whirlwind of merger offers from other companies, chose to get together with Signal."

Tuesday, 9:30 am

Here's how Rudy Greipel got the word: "Tuesday morning the news hadn't changed, and I started reading and excerpting minutes of recent meetings of the Board of Directors. At 9:30 my phone rang. I picked up the receiver expectantly. It was Bob Runser. The merger was on! He and John McCormick, partner in charge of the engagement, would be right over to discuss our part in the proxy statement.

"When they arrived, John told me that Paul Ludman, financial vice-president of Signal, had called that morning to tell about the merger and to discuss the timetable for the proxy. It appeared that the finished proxy statement would have to be ready in two and a half weeks. Mr. Ludman was busy lining up his own forces, and

Bob, John, and I went into a huddle to map out the strategy and logistics for the part we would play in dealing with the necessary financial data.

“Over lunch, we discussed the proposed merger and the benefits that would accrue to each company because of it. With a deadline two and a half weeks away, the proxy statement would not be too great a task, but our interim work would temporarily halt. After lunch we held a staff meeting to inform the assistants about the merger and to assign their duties.”

The proxy statement, which would be sent to stockholders of both companies so they would be able to vote intelligently on the proposed merger at the special stockholders’ meetings, would have to be submitted beforehand to the SEC. Financial statements for both Signal and Garrett, and pro forma statements showing the two combined, would be included. Garrett’s June 30 year-end statements would be recent enough, but Signal’s from the previous December 31 would have to be supplemented by figures for the subsequent six months. As Ron Kabot, a senior assistant, said, “If only it had happened in February or March nearly all the data needed would have been in the annual and 10K reports. Alas, no such luck.”

What, then, did they have to do?

“Well,” said Bob Runser, “those six-month statements didn’t have to be audited, and in normal conditions we’d have expected the client to have had the draft financials put together before we came in. But here, with no advance notice, the client had, of course, to start from scratch, and with two weeks to complete the work, we had to be right on his heels, or, more nearly, working right alongside of him. In any company this size there are always new business dealings, and since the previous December Signal had had a particularly large number that had to be accounted for, including acquisition of interests in several foreign companies, formation of a tanker-construction company and changes in other holdings, and new or extended contracts in production, marketing and finance. For instance, Signal had bought all the remaining stock of a company that was only 50%-owned before, and that company and all its subsidiaries—in some of which Signal held stock directly—had to be consolidated for the first time. Then, of course, the proxy statement had to

include pro forma balance sheet and income statements to show what Signal and Garrett would look like combined—and that involved answers to a number of accounting questions. Like whether it was a purchase or pooling, and what effect restrictive clauses in Garrett loan agreements might have on Signal dividends, etc.”

What else? Bob continued: “We had to be looking in two directions at once. Looking to the rear, we had to analyze what effect if any, the six months’ developments had had on the financial statements at the end of the previous year. Looking ahead we had to be sure the six-month statements and the pro formas would tie in with the statements we’d have to report on for the full year 1963. And underlying this, of course, there was a tremendous amount of work getting all the information together for those six-month statements. Ivan Stewart, the Assistant Treasurer [now Treasurer] and his people had their hands full and we had plenty to do, too.”

But on that Tuesday evening, Rudy Greipel recalled, he was comfortably optimistic: “By 8 p.m. I felt we had made a good start and we all went home. As I drove back through Glendale in light evening traffic, I reflected on what a full day it had been and that the next several days would probably be busy also. Little did I know!

Wednesday, 8:00 am

“Shortly after I arrived at my desk on Wednesday, Mr. Ludman came into the office with the news that the proxy statement must be completed by Friday! I thought: ‘The day after tomorrow! That means two weeks work to be compressed into three days!’

“After the initial shock had worn off, we discovered that the SEC had said that Signal must have a preliminary proxy statement in the hands of the Garrett stockholders before the Curtiss-Wright tender offer expired on Thursday, October 31—little over a week away! How could it possibly be done?”

Whether the “how” was ever figured out at the time is unclear. As Bob Runser looked back on it he saw this answer: “CPAs are trained and conditioned to organize and plan their work—to calculate strategy before acting. Accounting is an art, too, and our basic job with Signal was to help them portray the financial pictures in this proxy statement with insight and clarity. But planning

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and artistic efforts take time, and the sand was rapidly running out of our hour-glass. What we really had to do was to summon up our collective experience to instant availability, and to keep it that way for three days. You can't keep the pressure on any one man all the time this way, but through teamwork you can come pretty close to getting that effect."

Outwardly, the pace of obtaining and assembling data was stepped up and the tension began to mount. Rudy recalls: "My assistants were scattered in every direction and every department, working on material in footnotes on investments, long-term debt, income tax status, pension plans. John McCormick came over with Bob Whyte, another partner in the Los Angeles Office. They commandeered an empty office for a work area and began reviewing everything as fast as it was put together."

Rudy was at the nerve center of it all. "On one side I was being barraged by assistants with questions about depletion of royalty interests, long-term tanker charter rents, unfunded past service liability, etc., etc. On the other, Messrs. Runser, McCormick and Whyte were calling for answers to questions raised in their review of the statements that were taking shape. I was in the middle struggling with the consolidation of 40 subsidiaries. My desk was so covered with papers it was difficult to find the telephone when it rang. The tension was high as we worked on into Wednesday night and occasionally it showed. But over all, the feeling of teamwork and comradeship, if anything, reached higher levels."

"It had to," said Bob Runser. "Cooperation had to be intuitive, for time budgets were out the window. Accounting questions that ordinarily would have been considered over a period of days had to be decided literally in minutes." How was this possible? "Because everybody was keyed up to jump quickly from one question to another, and to bring all his faculties to bear on it. We'd get meetings together in minutes that might otherwise have taken days to arrange."

"You have to remember that through all of this the client was working at top speed, too. The last time they had issued a proxy statement that included financials was in 1959. And they had all the narrative section to write as well. Bruce Arms, Corporate Secretary, was the

overall coordinator for the company. We were in constant communication with him.

"After the first moments of doubt about whether we could meet the deadline we just accepted that we could. We also knew that everything in that proxy statement had to comply with SEC rules and regulations the first time. Except to answer very minor questions, the client just couldn't afford time to go back and dig up more information or hash out questions about accounting treatment after submitting the proxy statement to the SEC."

"Just to show you how our minds were working," said Ron Kabot, "Tom Rowland was rushing through the newspaper Wednesday morning [before the big push was on] and was keen enough to pick up a secondary news article about the new president of Argentina cancelling certain foreign oil contracts. It turned out that some of Signal's operations in Argentina would be affected, importantly enough to be mentioned in the proxy statement."

Wednesday, 12:00 midnight

Ted Middendorf had just started with H&S in September, and this was the first engagement he'd been on. Here is his picture of that Wednesday: "We worked on through the day and into the night. By midnight all neckties were off, cuffs rolled up, and vision was limited to ten feet by cigar and cigarette smoke. Several of us went home about 4 a.m. to shower and have breakfast."

Ron Kabot was one of three who stayed through the night. "We had started at 7 o'clock Wednesday morning (that was on the schedule we'd set up before we got the 3-day deadline) and we worked right through to 9:30 or 10 p.m. the following day—some 38 or 39 hours in a row. Our five o'clock shadows (a.m., that is) were whisked away before the client arrived, thanks to Ted, who brought his electric razor back with him. I never knew how pleasant a shave could be, if for nothing else than to forget stock options granted, exercisable and exercised for a few minutes."

Bill Roach was another member of that trio: "Other staff members were called in, but it was not feasible to use H&S people who had had no experience at Signal, as much of the work involved seeing client personnel and asking questions. We had to know whom to ask and where to go. Questions, answers, figures, more

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questions, less answers, fewer figures—time for dinner.”

Thursday, 1:00 am

Bill remembered things in terms of his stomach. “About 1 a.m. Thursday morning, I was hungry, so down to an all-night restaurant for coffee and toast. Then back to Signal for presentation of past service benefits of the retirement plan. (Can you imagine working on a footnote about that at two in the morning?) Coffee, our substitute for sleep, became a little difficult to come by after the company cafeteria closed. I found that it could be made using hot water from the tap and the small packages of instant coffee kept at Signal—only the hot water wasn’t very hot. One member of the swing shift (Mark Walsh, who came in to help after working on his regular assignment during the day) brought a baby bottle warmer which, when placed in a cup of water, boiled it.”

Toward the end of Wednesday night another part of the job had to be reckoned with. That was getting the material over to the printer. Said Rudy: “First, models of the statements were sent to the printer for him to follow. Then, as fast as an assistant came up with a statement, it would be flipped over to the printer for typesetting. Proofs started to come back from the printer about noon on Thursday, and partner Howard Reuter and principal Howard Hankins were called in to help review them. Proofs were received by messenger, reviewed and corrected and on their way back to the printer, literally, before the ink was dry.”

If Messrs. Reuter and Hankins had just been doing proofreading, it would have been pretty high-priced help. Considering the need to spot corrections just as early as possible, it was a necessary investment. “Howard Reuter and I,” recalled Howard Hankins, “functioned as the Signal Branch of the Los Angeles Office Report Department. Also, in effect, we were making a concurrent concurring review. We were unfamiliar with the job, so every statement or footnote had to be complete for it to make sense to us. As each proof came in, we read it for sense, checked references within the statement, compared it to the previous proof or draft, and proved the figures. About four o’clock Friday after-

noon we had a proof of a complete proxy statement with which we were satisfied.”

The wonder was how so much order could have come out of so much chaos. Bob Runser said: “The rough drafts of financial statements, footnotes, etc. were gotten down on paper almost by ‘thinking out loud.’ Every schedule had more arrows and balloons than a Rube Goldberg invention.” Ron Kabot remembers “papers all over the place. One man was responsible for control of all drafts, but even so I would suddenly get the gnawing suspicion that I might not be working with the latest draft or proof.”

Friday, 12:00 noon

Ted Middendorf, still undaunted on his first assignment, said:

“The printer was running proofs as fast as people could edit, revise, and return them. By Friday noon the situation looked good. The final proofs were coming in.” Even so, the rest of Friday up to 10 p.m. was spent finalizing the drafts as they were being continually polished by the client’s people and reviewed by the principal and partners. Said Bill Roach: “This process was taking place in a room you would have to see to believe. I am still not sure how many partners and principals were in there, but the Air Pollution Control would have had a field day passing out violation tickets to smokers.”

Somewhere along the line it was decided, because of time exigencies, that Bob Whyte would be deputized to make the usual E.O. review prior to submitting the statements to the SEC, and this he did.

Friday, 10:00 pm

Then, so that there would be someone in Washington to handle any on-the-spot discussion of accounting questions, it was decided that he would go along with the client’s attorney. So, at 10 p.m., they departed from the printer’s with packages of the 50-page proxy statement under their arms, bound for Washington. The SEC, viewing the urgency of the schedule—proxies to be in the hands of Garrett stockholders on Tuesday—had

agreed to have a group come in to make its review on Saturday. Said Bob Whyte: "We had time for one quick pick-me-up before boarding the plane. Then it suddenly dawned on us that neither of us had had lunch or dinner that day—and when we got on board we found that the flight, being an overnight one, didn't include a meal. Whether it was the coffee (and sweet rolls) we did get, the effect of the innumerable cigars I had smoked, or the excitement of the situation, I don't know, but sleep proved impossible and the flight was spent in restless thrashing about in my seat."

With Bob Whyte safely though uncomfortably on the plane, all hands headed for home for a few hours respite, but "everyone was due back the next morning," said Rudy Greipel, "to give instant answers to any questions the SEC *might* raise or to provide any additional information they might require." Bob Runser reported thus:

Saturday, 8:00 am

"On Saturday, October 26, came a suspenseful lull in the drive. Two command posts were established; one at Signal's offices and one at the printer's shop. If the SEC required additional information, a call would be immediately directed from our emissaries in Washington to Signal's office. If the SEC requested a printing change to be made in the proxy statement, a call would be immediately directed to the printer's shop. Upon final clearance from the SEC the presses would roll en masse—the proxy statements were scheduled to be mailed to stockholders that Sunday evening. We all waited with bated breath."

Actually they had more than the SEC to be concerned about. Washington's Dulles Airport was fogged in and the plane didn't land until noon on Saturday. On top of that, there were no taxis or buses at the airport, because of the sudden influx of passengers when the fog lifted. Bob and the attorney rented a car, but being unfamiliar with Washington's streets, they took an hour and 20 minutes to drive the 40-minute trip to the Commission's offices. With the proxy statements finally delivered and Commission staff poring over them, the two couriers retired to a downtown hotel and the relief of a shower, a

change of clothes, and a solid meal. They returned to the Commission's offices about 3:30 p.m.

This was twelve-thirty in Los Angeles, where Rudy Greipel recalled: "All assembled were waiting tensely, reading and re-reading the final proof of the proxy statement for any error or omission which we might detect.

"The telephone rang! It was Bob Whyte in Washington. The SEC desired clarification on several minor points. After the information was supplied, we went back to waiting. Again the telephone rang! Bob Whyte was calling to tell us the SEC had no more questions. The proxy statement had been accepted. The race against time had been won."

Waxing eloquent as he looked back on these efforts, Howard Hankins concluded: "Service is not a canned commodity. It cannot be placed on the shelf and preserved. It must be fresh and alive and available when needed. In the Los Angeles Office we have learned to expect the unexpected." And Bob Runser recalled: "I can wonder how so much was done so fast, but the real story, which words cannot describe, is the teamwork and personal sacrifices that this effort required. We and the client's accounting people, the attorneys and Garrett's auditors were pulling together all the way."

But Ted Middendorf's recollection expresses best how they all felt at the time: "Went home and slept for twelve hours."

Epilogue

Where are they now, the cast in this performance? Most are still in Los Angeles Office where Rudy Greipel and Mark Walsh are principals, Ron Kabot and Ted Middendorf are senior accountants, and Tom Rowland is back on the staff after two years in the Army. Howard Hankins became a partner and is now in charge of the Orange County Office. Bill Roach moved over to an assistant controllership in a major Los Angeles electronics firm, and last August, Bob Runser accepted the position of vice-president, accounting, with a client—Signal Oil and Gas Company.

How about the merger? Stockholders of both companies voted overwhelmingly in favor of it, and in January 1964 Garrett became a wholly-owned subsidiary of Signal Oil and Gas Company.