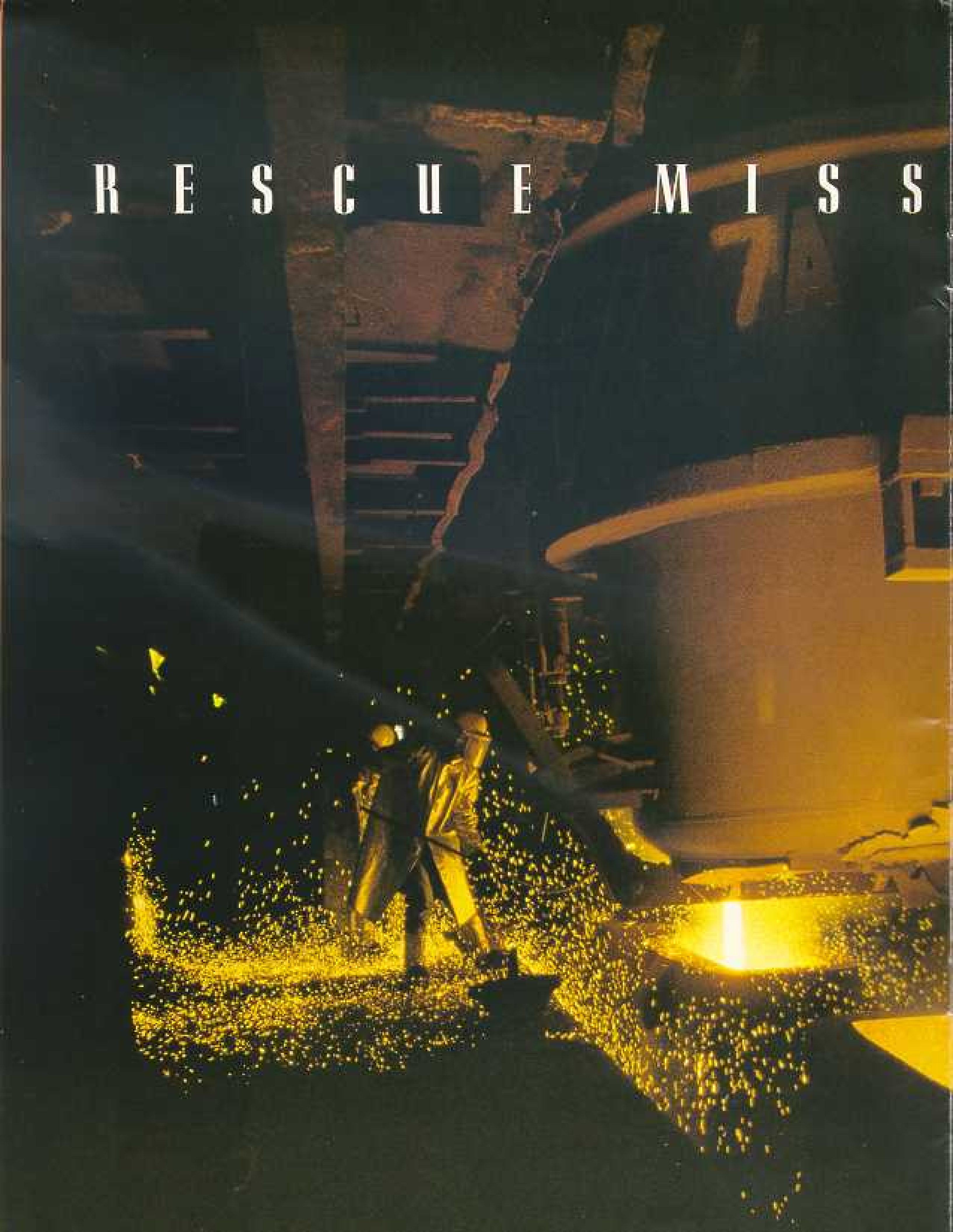
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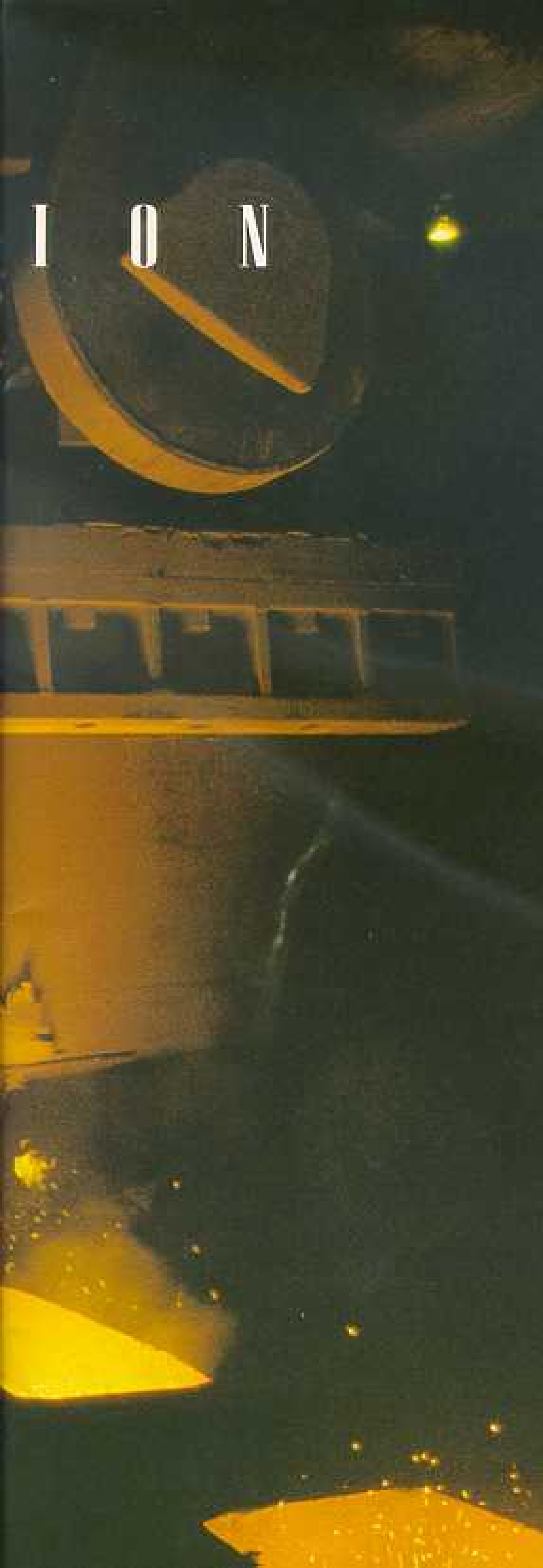

I O N

Pillsbury, Madison's Joseph Cannon set out to persuade Utah entrepreneurs to buy the doomed Geneva Steel plant from USX and retain him as their lawyer. Instead he launched a successful crusade to save the plant and its 1,500 jobs and ended up as president of the company.

It is a bright September morning in Orem, Utah, and Joseph Cannon—lawyer, Mormon, and now steel plant president—is enjoying the fruits of his year-long, faith-driven labors. Clad in steel-toed boots and hard hats, Cannon and a dozen plant managers gaze at ten-ton slabs of molten metal that come booming through the finishing mill, a 20-foot-high line of roaring black machinery. E.B. "Bud" Patten, the broad-shouldered, gray-haired plant manager, has tears in his eyes. "This is a real emotional day for us," he shouts over the din. "This mill hasn't run in fourteen months and three days."

SUSAN ADAMS

Patten is referring to a six-month-long work stoppage by the steelworkers and then the idling of the plant by its former owner, USX Corporation, putting 2,200 employees out of work. "Six months ago we thought there was about a 1 percent chance this would run again," says Patten, who was once a bishop in the Mormon church. "We thought we were all dead, and now we've been resurrected."

Patten's religious metaphor is appropriate. That the plant, known as Geneva Works, is running at all is, in fact, a kind of miracle.

Geneva is running again and providing much-needed jobs in the community because 38-year-old Joe Cannon—until recently a partner in the Washington office of San Francisco's Pillsbury, Madison & Sutro and now of counsel to the firm—pursued a seemingly insane venture: the $40 million leveraged buyout of a failing steel mill at a time when the American steel industry was in deep trouble. An environmental lawyer who had never done a business deal in his life, Cannon found himself transformed from an intermediary into the deal's key player. ▪

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As recently as July 31 of [last year] Geneva Works and the jobs of some 1,500 rehired workers looked to be dead in the water. Amid ultimatums and deadlines, a tense drama of delicate negotiations was played out, reaching a climax that involved Utah Senator Orrin Hatch, USX corporate chief David Roderick, and scores of lawyers, executives, bankers, and accountants

Joe Cannon doesn't fit the part of the big-time leveraged-buyout deal-maker. Plump and cheerful, he peppers his conversations with "golly" and "jeepers" and projects a casual, disarming style not usually associated with the mastermind of a risky, high-stakes takeover Cannon says he never dreamed of becoming a businessman, let alone the head of a steel mill. The limits of his ambitions were always confined to the law Recalling when he became a Pillsbury partner in 1985, he says, "My whole life—since I was young—I'd always wanted to be a partner at a major-league law firm "

A 1977 graduate of Utah's Brigham Young University Law School, Cannon decided to practice in Washington, D C "I really like Washington—power, fame, and glory," he says. After stints in the D C offices of Philadelphia's Morgan, Lewis and Bockius and then Houston's Andrews & Kurth, Cannon in 1981 joined the Environmental Protection Agency, where he worked his way up to head the air division. In 1985 he moved to Pillsbury's growing, forty-lawyer environmental group.

His years in the capital did nothing to dampen Joe Cannon's American heartland style or weaken his strong ties to his Mormon faith. He belonged to one of Washington's Mormon networks, a group of government officials and professionals who maintained a community of fellowship far from the religion's natural center in Salt Lake City He was a member of a Mormon congregation in Vienna, Virginia, the same one Orrin Hatch belongs to (In fact, Cannon substituted for the senator when he was unavailable to teach his usual gospel doctrine class.)

Cannon kept up his close ties to Utah, too, where he'd been born into an old family of Mormon leaders (His great-grandfather was the state's territorial delegate to Washington.) He knew Utah's economy was faltering and that thousands of workers, many of them fellow Mormons, were out of work Among the businesses and industries in trouble was Geneva Works. As an EPA regulator, Cannon had once toured the mill in Orem, a small city 50 miles south of Salt Lake City Orem is near Brigham Young University, where he had spent seven years as an undergraduate and as a law student There was a closer connection as well While he was at school, his wife had worked as a secretary at Geneva "The plant," Cannon likes to joke, "actually put me through law school."

Over the years, Geneva Works had played a strong role in Utah's economy. At peak capacity the plant provided 5,000 of the most highly paid hourly wage jobs in the state—plus at least that many positions in allied industries. But Geneva was an economic anomaly: What was a full-fledged steel mill doing in Utah, far from major waterways and supply sources?

Built in the early 1940s by the U S. government to supply steel to West Coast defense industries, the plant had been located in the Utah mountains to place it beyond the range of Japanese bombers. In 1946 USX—then called U.S Steel—bought Geneva Works but never bothered to modernize the aging equipment. Still, the mill was well maintained and the work force was among the company's most productive. Over time, though, the plant evolved into a steel-industry dinosaur.

By the mid–1980s, the mill's future looked particularly bleak. Hurt by the influx of foreign steel, Geneva's profits declined along with those of the rest of the American steel industry The main buyer of Geneva steel was another USX plant in California, but that market was scheduled to dry up In 1985 USX had entered into a joint venture with a Korean concern to modernize the California facility. Geneva's steel wouldn't be needed after the project was completed in 1989 But closing the Utah plant would mean massive cleanup costs—estimates ran as high as $30 million—and considerable political damage for USX at a time when it was struggling and needed a sympathetic ear in Congress.

One of the concerned USX executives was Phillip Masciantonio, a vice-president in the company's environmental affairs division Looking for advice from someone who had ties to both Washington and Utah—and to Geneva—Masciantonio thought of Joe Cannon, whom he had come to know during Cannon's tenure at EPA. In February 1986 Masciantonio put in a call to the Washington lawyer

Cannon immediately understood the potentially devastating effect Geneva's closing would have on his home state. He volunteered to tap his Mormon business network. Says Cannon: "What I thought is, I'll call up some entrepreneurial types out in Utah, they'll buy the steel plant, and I'll be their lawyer "

But Cannon's solicitations to potential buyers met with instant rejection They refused even to consider investing in Geneva. "Everybody said they thought it was the most idiotic idea they'd ever heard," Cannon recalls with a chuckle. But he received a more optimistic response from several steel industry consultants he knew through his work at the EPA. If managed properly, they told him, the plant had the potential to make money.

Joe Cannon turned to his brother Christopher, then an associate solicitor at the Department of the Interior Only fifteen months apart in age, the two have always been close, though they offer a sharp contrast in attitudes and styles While Joe had headed straight into a legal career, Chris instead had attended a year at Harvard's business school, then tried buying and running a trucking company before becoming a lawyer

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Susan Adams is a writer for THE AMERICAN LAWYER This article is republished with permission from the December 1987 issue of THE AMERICAN LAWYER

Chris was a frustrated entrepreneur at heart, and as he talked with his brother he recognized in Geneva Works another chance to make it in business. He urged Joe to acquire the plant himself, volunteering to form a team with him. Even if they couldn't make a go of Geneva, Chris was convinced that purchasing the mill for its real estate value, scrap metal, and machinery would be a wise business move.

At first the idea seemed outrageous to Joe. He was no businessman. In nine years as a lawyer, he had gained only the most rudimentary experience in transactional work. But if he didn't act to save Orem's steel mill, who would? Using the information they had gathered from consultants, Joe and Chris mapped out rough financial projections on a chalkboard.

"It was a decision on two levels," Joe recalls "There was a heavy emotional component here . . . [but] I don't believe you can do a deal just for charity The deal has to make sense "

The more Joe and Chris thought about it, the more the deal did make sense There were several ways Geneva could become a profitable enterprise One way was to remove corporate restrictions. USX distributes its overhead throughout its properties, and the brothers believed Geneva was bearing a disproportionate share In addition, to avoid competition with its other plants, USX limited Geneva's market to the western states All that would end when the plant was in private hands. More important, the Cannons intended to cut costs across the board—mainly by negotiating a new union agreement and lower-cost contracts with local suppliers.

PHOTOS / JOHN SNYDER

JOSEPH CANNON

The projections looked promising, but Joe hesitated. For one thing, there was his growing practice "I thought, gosh, now I'm a partner at Pillsbury," he recalls "I never really faced the decision of leaving Pillsbury to do this," he says. Instead he thought, "Maybe I can put it together and do the dealmaker part of it and somebody else will manage it "

Joe Cannon's uncertainty about his role at the firm was to continue for many months. Meantime he took decisive action: At a meeting in Pittsburgh in June 1986, the Cannon brothers reached a tentative agreement with USX to pursue the sale of Geneva Works

The action presented Cannon's firm with a novel question. Pillsbury had no policy to guide a partner undertaking a leveraged buyout as to how he should bill his time. On his own, Cannon decided to record the hours he spent working on the deal and bill it to the new corporation as partner-hours. Cannon won't say how much his final bill totaled, but a Pillsbury partner who worked on the deal says it ran into six figures The firm's total bill, including Cannon's time, amounted to more than $250,000 says the partner Cannon himself did not take any direct cut of the firm's fee.

Most deal sponsors collect a payment from the acquiring company, but it is unusual for a lawyer/sponsor to allow his firm to collect the fee In the view of Pillsbury chairman George Sears, however, Cannon's billing arrangement was entirely proper "We viewed it not as a fee at all," he says "It was just lawyer time put in by Joe Cannon. . We are not in the business of rendering business advice as distinct from legal advice "

Serious negotiations on the buyout didn't get under way until last January—six months after the Cannons' initial meeting with USX The Cannons had submitted a contract offer in late summer of 1986, but USX cut off negotiations after a company-wide work stoppage began that August By the time the Cannons and USX were talking again, the buyout of Geneva had become even riskier

The plant, for one thing, was no longer in operation The work stoppage had lasted six months, and during that time USX reached a fateful decision about its Utah plant: Geneva would not come back on-line when the stoppage ended, and the contract with the California plant would be shifted to a Pennsylvania mill USX, though, would temporarily maintain Geneva in an idle state, leaving open the gas flow that powered the coke ovens—at a cost, it claimed, of $100,000 per day. Once the gas was shut off, returning the coke ovens to operation would be prohibitively expensive.

Instead of a straightforward leveraged buyout, the Cannons were now looking at a proposition that was almost equivalent to starting a new business They no longer had a secure buyer for much of Geneva's product And they suddenly found themselves under intense time pressure Keeping the plant idle was costing USX $3 million a month. If no deal was reached soon, the corporation made it clear, the plant would be closed down permanently

Despite the turn of events, Joe and Chris Cannon pushed ahead. By spring they had incorporated as Basic Manufacturing and Technologies of Utah, Inc , and assembled a board of directors and a formidable team of lawyers, bankers, and accountants, many of whom were linked not only by dealmaking skills but also by the strong bonds of community and the Mormon faith.

A key figure was Robert Grow, then a real estate partner in Salt Lake City's 41-lawyer Kimball, Parr, Crockett & Waddoups A mentor of Cannon's at Brigham Young law school, 38-year-old Grow led a Kimball, Parr team the brothers had retained during the preliminary negotiations with USX back in 1986 The team was to play a central role in the transaction

When Grow took on the Cannons, though, he accepted what was then an extremely risky wager Most large law firms that represent purchasers in leveraged buyouts arrange for a lesser fee if the deal falls through Instead, Kimball, Parr accepted another arrangement: full fee if the deal closed; nothing if it didn't

True, the work could mean hundreds of thousands of dollars for Kimball, Parr (the firm eventually collected more than a half-million dollars). But Grow insists his commitment to the project sprang from his Mormon roots and his sense of responsibility to a state his ancestors had helped settle.

Others were driven by similar ties. Dallas Bradford, head of the Cannons' accounting team from Arthur Andersen & Co., is a Mormon whose relatives had worked at Geneva. Like the lawyers, the accountants had agreed that payment would depend on the deal's completion Even C James Bode, Jr., a non-Mormon who led the investment banking team from Denver-based Boettcher & Company, Inc., says he found himself caught up in the buying group's fervent enthusiasm

Several prominent members of the community were tapped to serve on the board. Among them were Kent Larsen, a former name partner at Kimball, Parr and president and chief operating officer of Prudential Federal Savings & Loan, one of the state's largest S&L Associations, John Scowcroft, an independent consultant who works to bring high-technology jobs to Utah and who is the former head of Deseret Management, Inc., the Mormon church's investment arm; and independent steel consultant Louis Ringger, a Swiss engineer who was the senior manager at Geneva for 30 years.

Another member of the board was Constance Lundberg, who left her post as Geneva's regular outside counsel to join the buying group. Now a professor at Brigham Young's law school, she provided a kind of emotional center for the acquiring group For Lundberg—the only member of the negotiating team who actually lived in Orem—buying Geneva turned into a moral crusade

"I felt driven to get the plant running " Lundberg says, her eyes filling with tears as she recalls the hardships visited upon Orem when Geneva was idled. "From the day the plant closed there was never an empty bed in the spouse-abuse center The child-abuse problems were just phenomenal The increase of alcohol abuse. The increase of drug abuse You had all the indications of a community under stress "

The first lenders the Cannons and their group approached turned down the Geneva deal The prospects changed in late June, though, after Kimball, Parr partner James Cannon (a distant cousin) succeeded in negotiating a contract for BM&T with the steelworkers union Union leaders knew that BM&T was the idled workers' only hope for future employment—if the deal went through—and they made substantial concessions in both wages and benefits, accepting in return a profit-sharing arrangement By slashing the work force of the new Geneva, BM&T stood to save more than 30 percent a year— $12 million —in labor costs alone

Several weeks later—in mid July—BM&T secured a commitment letter from the merchant banking group of Houston-based First Texas Financial Corporation to finance Geneva's $58 million purchase price. Appropriately, the early contact at First Texas was with vice-president John Romney, a Mormon who shared the BM&T group's concern for Utah

With a July 31 deadline looming, both First Texas and the BM&T team worked feverishly to nail down the deal. To conduct its due diligence, First Texas retained three law firms. Regular counsel Butler & Binion of Houston worked with local counsel in the Salt Lake office of Denver's Holme, Roberts & Owen, while Washington, D.C 's Beveridge & Diamond handled the environmental aspects.

On the BM&T side, six partners and four associates from Kimball, Parr worked on the closing, with one partner and five associates from Pillsbury providing assistance particularly on the environmental portion of the deal. "It was a mammoth task," recalls Kimball, Parr partner Scott Loveless "A plant of this magnitude has thousands of contractual relationships and legal issues "

On July 28 a USX team lead by Francis Adams, a vice-president in the steel division, flew to Salt Lake City prepared to close the deal at the Kimball, Parr offices, the command post for the buyout A sense of optimism was in the air. Two days later, it abruptly vanished.

ROBERT GROW

The letter First Texas had signed in June included a standard, though important, stipulation: The financing was dependent on the completion of due diligence to the satisfaction of the bank's loan committee Working on an unusually tight schedule, the lawyers simply ran out of time. When the deadline arrived with questions still unanswered, the committee decided that the deal was too risky.

Late in the afternoon on July 30, a Thursday, First Texas phoned from Houston to announce that the loan committee had vetoed a portion of the bridge financing

"I remember actually getting the telephone call and thinking, this is Kafkaesque," Cannon says "This is something unreal that is happening here." When the initial shock wore off, Cannon rebounded. "We were going to go not until we died but until somebody killed us," he says Within an hour, negotiations resumed with Adams and his USX team, and by mid-evening a new financing agreement was reached that would give USX much less money up front. Everything now depended on an okay from USX's Pittsburgh headquarters. Adams promised an answer by next morning

Discouraged by the collapse of the deal, Constance Lundberg had left around dinnertime "The day the financing blew apart was one of the darkest days of my life," she recalls The next day, Friday, she drove past the plant on her way back to Kimball, Parr. "The parking lot was full of people who were waiting to get their physicals," she says. "They thought they were going back to work the next day. I cried all the way to Salt Lake "

Lundberg's spirits didn't lift when she arrived at Kimball, Parr The reply from Pittsburgh was blunt: no deal. USX would not accept a reduced sum up front, Adams told Cannon, and he conveyed a chilling ultimatum: Unless BM&T came through with the agreed-on $33 million in bridge financing by Monday at 9 a m., USX would shut off the gas at Geneva, effectively closing down the plant for good

Adam's news wasn't all black USX was willing to grant a ten-day extension, but only if BM&T came up with $1 million, nonrefundable, to cover the cost of keeping the plant idle for that period "I tried to find someone who'd be dumb enough to give me a million bucks, " Cannon recalls "But no one would lay a check on the table for a million dollars unless they could be sure the deal was going to close "

Friday, as it happened, was Cannon's birthday. He had turned 38 His wife and five children were waiting for him to come home and cut his birthday cake But Cannon was closeted at Kimball, Parr trying to salvage the deal By Friday afternoon he realized that he needed help from someone with major clout He put in a call to Senator Orrin Hatch

Hatch, a Republican from Utah, wanted to see Geneva saved. Along with Utah's other senator, Jake Garn, and Representative Howard Nielson, he had already called on USX chief David Roderick to express support for the sale of the plant to BM&T. Once Hatch got Cannon's call, he galvanized himself into action—more action, in fact, than Joe Cannon had sought On Saturday Hatch pulled USX Washington representative Earl Mallick off the golf course and requested a meeting with Roderick as soon as possible. The CEO was unavailable Buying time, Hatch met with Adams on Monday. At that meeting, the senator exercised all the clout he could muster

"I wouldn't let them off the hook," Hatch says, recalling the meeting with relish "I said, 'this can't be shut down until I chat with Mr Roderick ' . . I frankly said, 'It's owed me I was the only one in my delegation who didn't badmouth you ' " He was referring to Garn's blast at USX when the company idled the plant. Hatch won a reprieve for Geneva.

On Wednesday—August 5—Roderick flew to Washington, and the senator got his meeting It didn't go well at first "He was upset because this had fallen through," Hatch recalls. "I made it clear these fellows had pulled a miracle to get it together so fast " In the course of an hour and a half, the senator pressed Roderick to give the Cannons an extension—and to reduce the $58 million price

Joe Cannon had not asked Hatch to renegotiate the purchase price. All the lenders Cannon had dealt with agreed that $58 million was fair The liquidation value of the plant alone, according to Cannon, was worth more than that amount. In fact, Cannon said he had pleaded with Hatch not to push USX too far. "Truly, I said to him, 'Senator, just get us the extension,' " recalls Cannon "'Don't bug these people by trying to renegotiate the price for us ' "

But in Hatch's view, $58 million was just too high a price to pay for Geneva Works, and he believed he was in a position to bring it down "Frankly, [the Cannons] made some mistakes," Hatch asserts

Hatch prevailed. When Roderick called the senator back the next morning, he agreed to an astonishing cut of $18 million—a one-third reduction in the purchase price. The Cannons, according to the new agreement, would pay a total of $40 million for the plant, with $30 million up front plus a 2 percent royalty up to $10 million on gross revenues Finally, the closing deadline was extended to August 31. Any reservations Cannon might have had about the unauthorized negotiations on the purchase price gave way to relief and gratitude.

But time was tight. BM&T had only three weeks to pull together a new group of lenders—First Texas was interested in doing only a portion of the deal. The lenders' counsel would need time to complete their due diligence, and their loan committees would have to give their approval Then, too, the lenders would need to "marry-up"—settle all the tricky intercreditor agreements

Once again, the pace at Kimball, Parr turned frenzied, though now Joe Cannon and everyone else could see that the tenor of the transaction had changed With a labor agreement and a new contract with USX in place, lenders were more eager to do the deal Word was reaching the steel market that Geneva was about to come back on-line "Our phone was ringing off the hook from people who wanted to buy steel from us," Cannon says.

Three more lenders joined the deal, along with three more law firms St Paul-based ITT Commercial Finance Corp. relied on in-house counsel, and Washington Square Capital, Inc , of Minneapolis, tapped regular counsel Winston & Strawn of Chicago and retained Salt Lake's Poole, Cannon & Smith as local counsel A third lender, Union Carbide's pension fund, turned to New York's Kelley Drye & Warren. Thirty-five outside lawyers crammed into Kimball, Parr's offices for the last two days of the closing. From the morning of August 30—a Sunday—until late the following day, work on the deal continued without pause.

On Monday morning the pace grew frantic. The lenders had yet to sign the crucial inter-creditor agreement. First Texas had last-minute questions about USX's indemnification of the plant By lunchtime, these matters were settled At 3:30 in the afternoon, the money from the lenders arrived by wire in Salt Lake City At precisely 4:21 p m —uncomfortably close to the 5 p m. deadline when USX was to shut off the gas at the plant—Joe Cannon handed a certified cashier's check to Adams

By early evening, after three hours of signing documents, the buyout was done, and most of the weary dealmakers headed home Exhausted and exhilarated, the Cannons still had one more thing to do that evening. At midnight joined by Bud Patten, they went out to the plant gates to welcome the first shift of steelworkers as they returned to the mill "That was the capstone to this whole deal," says Joe. "I wouldn't have missed it for the world "

Cannon is sitting at his

desk at Geneva Works "Welcome to 1962," he says with a laugh, indicating the drab dated design of his spacious office with its olive green and burnt orange color scheme. It's a long way from Washington's K Street, but Cannon seems to have successfully transformed himself into a steel executive. His salary, he says, roughly matches what he received as partner compensation at Pillsbury —about $200,000

Some aspects of the adjustment are tough for Cannon After the buyout, Pillsbury chairman Sears gave him a choice: of counsel status or resignation. If Cannon took the first option, Pillsbury would not handle Geneva's work Sears determined that from a malpractice standpoint, Cannon's position as the company's major shareholder, chairman of the board and principal officer would make it difficult for the firm to represent Geneva If Cannon resigned from the firm, though, Pillsbury would take on Geneva as a client

On October 1, Cannon went of counsel, but he is not entirely satisfied. "I love a lot of the lawyers at Pillsbury and I'd like to use them," he says. And he finds it difficult to juggle the demands of Geneva with those of his practice. At Pillsbury, Cannon managed a large book of business—more than $1 million, according to a partner. Although he is transferring clients to other partners, he must fly to Washington, San Francisco, or Los Angeles at least twice a month to service firm business. Cannon intends to give this arrangement a few months and then reevaluate

CHRIS CANNON

Robert Grow, on the other hand, made a clean break with Kimball, Parr in October when he took the post of Geneva's general counsel. Kimball, Parr will continue to handle local work for Geneva.

For Chris Cannon, a dream has come true. In his new role as a co-owner of Geneva and its executive in charge of developing new industries and joint ventures, he has found his place as an entrepreneur.

As for Geneva Works, Joe Cannon says sales are ahead of projections. The steel market took an upturn about six months ago, and Geneva is riding out the prosperity. "I don't want to be overly optimistic," says Cannon, "but I feel pretty good that we're going to make our projections and have enough money left over for profit sharing for the workers."

Considering the hurdles Joe Cannon managed to surmount, optimism about Geneva's survival seems justified. But then, the way Robert Grow sees it, the plant may have a spiritual edge on the rest of the industry Recently, a large piece of machinery broke down just two weeks after the plant had gotten a replacement for it. If the new machine hadn't been available, Grow says, the mill would have had to shut down temporarily. "I don't believe it was coincidence, completely," says Grow From the outset, he says, "I always knew that if we worked at it hard enough, the way would open "