



HMWC CPAs & Business Advisors
Celebrates 50 years

Part I

**“Formation and Development
of Reputation”**

Written by: Gerry Herter

HMWC CPAs & Business Advisors

HMWC CPAs & Business Advisors Celebrates 50 Years

Decade 1 – 1968-1978

Formation and Development of Reputation

In the 1960's, having served his country in the United States Air Force, a young Robert Sterman was learning the fine points of the public accounting profession while working at then national CPA firm, Seidman and Seidman (now BDO USA, LLP). The firm was a good fit for Sterman. Seidman and Seidman had entrepreneurial roots, grasping the vast potential of the newly enacted U.S. Federal income tax law in 1913, only three years after that firm's founding. Seidman and Seidman grew rapidly, further bolstered by opportunities forthcoming as a result of the enactment of the Securities Act in 1933 and the formation of the Securities and Exchange Commission in 1934. Today the firm has worldwide reach as part of BDO International.

Sterman had entrepreneurial traits as well. As if with an instinctive sense of the Manifest Destiny spirit of the prior century, Sterman followed the call popularized by fellow New Yorker, newspaper man Horace Greeley, "Go west young man, and grow up with the country." Sterman's journey took him all the way to California where he eventually settled and grew up with a newly emerging Orange County. Finding proactive methods for reaping the benefits of new state laws and burgeoning real estate development, Sterman's practice grew rapidly. Fast forward to 2018, the firm he founded now offers worldwide reach akin to that of BDO, through its membership in Integra International, an association of independently owned accounting firms from all corners of the globe.

In the early days when Sterman operated as a sole practitioner, his wife, Henny, provided secretarial and administrative assistance. Then in July, 1969, the budding firm's first accountant was hired: Jerry Higashi, a graduate of Woodbury University, who received his early experience at a regional CPA firm in Beverly Hills, California. Higashi, whose grandparents emigrated from Japan, spent part of his early childhood in a relocation camp with his parents during World War II.

Two significant events in the sixties provided the impetus for strong, rapid and sustained growth for Sterman's accounting practice. As Sterman once recalled, there was a time while he was practicing in a multi-office commercial building, when the building owner, whose management office was on the first floor, entered Sterman's upstairs office unexpectedly.

The building owner explained that for his company to obtain a general contractor's B license, the state of California required the applicant to have a net worth of \$10,000 and to submit a financial statement to the Contractor's license board indicating that. He informed Sterman that he wanted him to prepare the financial statement, and that he wanted the statement prepared "yesterday" which was his modus operandi. Sterman described his response this way: "I took my feet off my desk and complied." The building owner's name was George Argyros. From that day forward, Sterman became Argyros' loyal and trusted accountant for decades to come. A warm and close relationship of mutual respect for the gifts and expertise that each of them displayed, grew over the years.

As it turns out, George Argyros' company, Arnel Development Co., (now part of Arnel & Affiliates), is also celebrating its 50th anniversary in 2018. Back in 1968, George Argyros and Ken Nelson formed the company called Arnel Development Co. The "Arnel" is a combination of their last two names.

Another significant event took place in 1968. The State of California passed a profound and significant new law: the Moscone Knox Professional Corporation Act, California Corporations Code section 13400-13410. That act allowed physicians, dentists and certain other professionals to practice their profession through the legal structure of a corporation. Along with certain legal protections, this new structure gave rise to potentially beneficial income tax benefits. For a CPA like Sterman, who was well versed and passionate about tax law, and how best to use it to minimize a client's taxes, the new Professional Corporation Act was a godsend. After studying and analyzing the law, Sterman advanced the cause with the medical profession giving a talk describing how doctors could utilize the beneficial tax and pension provisions to enhance the business aspects of their practices. Soon, Sterman's phone was practically ringing off the hook as the word got out to physicians and dentists wanting assistance implementing the new law. At one point, later on, because of the success, Sterman found the necessity to put a note on his phone with the phrase "Say No!" written on it, since his burgeoning client load was exceeding his capabilities to serve. Hence the need to expand his staff to meet the demand.

Early in the decade of the 70's, Sterman hired Ernie Ortiz. Ortiz had been on the staff of the Internal Revenue Service, so his familiarity with IRS procedures proved helpful as the firm's tax practice grew.

Following his own advice, in 1972 Sterman incorporated the firm as Robert Sterman Accountancy Corporation. When Higashi passed the CPA exam and became licensed to practice, he became

Sterman's first partner in 1973, and the firm name changed to Sterman & Higashi Accountancy Corporation.

Before long, Ortiz was named a partner in June 1974. The firm name changed once again in July, 1975 to Sterman, Higashi & Ortiz Accountancy Corporation (SHOAC).

As the client list expanded and more new laws were passed through the 70's, the need to offer new services was apparent. The landmark Employee Retirement Income Security Act of 1974 (ERISA) brought worker protections by establishing minimum standards for private company pension plans. To monitor compliance, the Federal government mandated annual reporting on a new series of forms, anchored by the Form 5500, Annual Return/Report of Employee Benefit Plan.

ERISA created a whole new industry. Accountants were well suited for preparing government forms and advising clients on how best to work with the new law. Before long, SHOAC was advising clients on ways to optimize the amounts and deductions for pension contributions, while also preparing the 5500 forms. Toward the end of the firm's first decade, the volume of 5500 filings had magnified. To handle the load, CPA Marilyn Millare was hired in 1977 to perform compliance work for pension plan filings.

With the growth of the firm's clients, another service was often needed as well. Lenders that the clients went to for loans were now requiring audits of their financial statements. Not wanting to pass up the opportunity, SHOAC forged ahead performing the audits their clients needed. These were not just trivial little engagements. Clients having the audit requirement included a computer electronics company, real estate developer, carpet mill and hotel. The largest and most challenging was the American component of a Japanese motorcycle company, that forced the limited firm staff to travel the country taking inventory and utilizing computer programs from a national accounting firm to complete the job.

Acknowledging that the SHOAC partners' expertise was primarily in tax law, the firm recognized that to continue successfully in this service area dictated bringing on board a CPA with solid audit background. With that in mind, at the end of 1977 Gerald Herter was hired away from then Big 8 audit and accounting firm, Arthur Andersen, out of Chicago. Audits like those that SHOAC performed were typical of the engagements that were Herter's primary focus for the prior six years.

As the firm's first decade drew to a close, the personnel numbered nine, including the three partners, two CPA staff

accountants, two bookkeepers, an office manager, and a secretary/receptionist. The firm offices were located on Irvine Boulevard in Tustin, California, a good choice considering that the city was subsequently named one of “America's Top 25 Towns To Live Well” by Forbes Magazine in 2009.

Looking ahead, the next decade, 1978-1988 will see the establishment of traditions, which will help to define the firm's character and strengthen relationships among partners, staff, their families and clients.

