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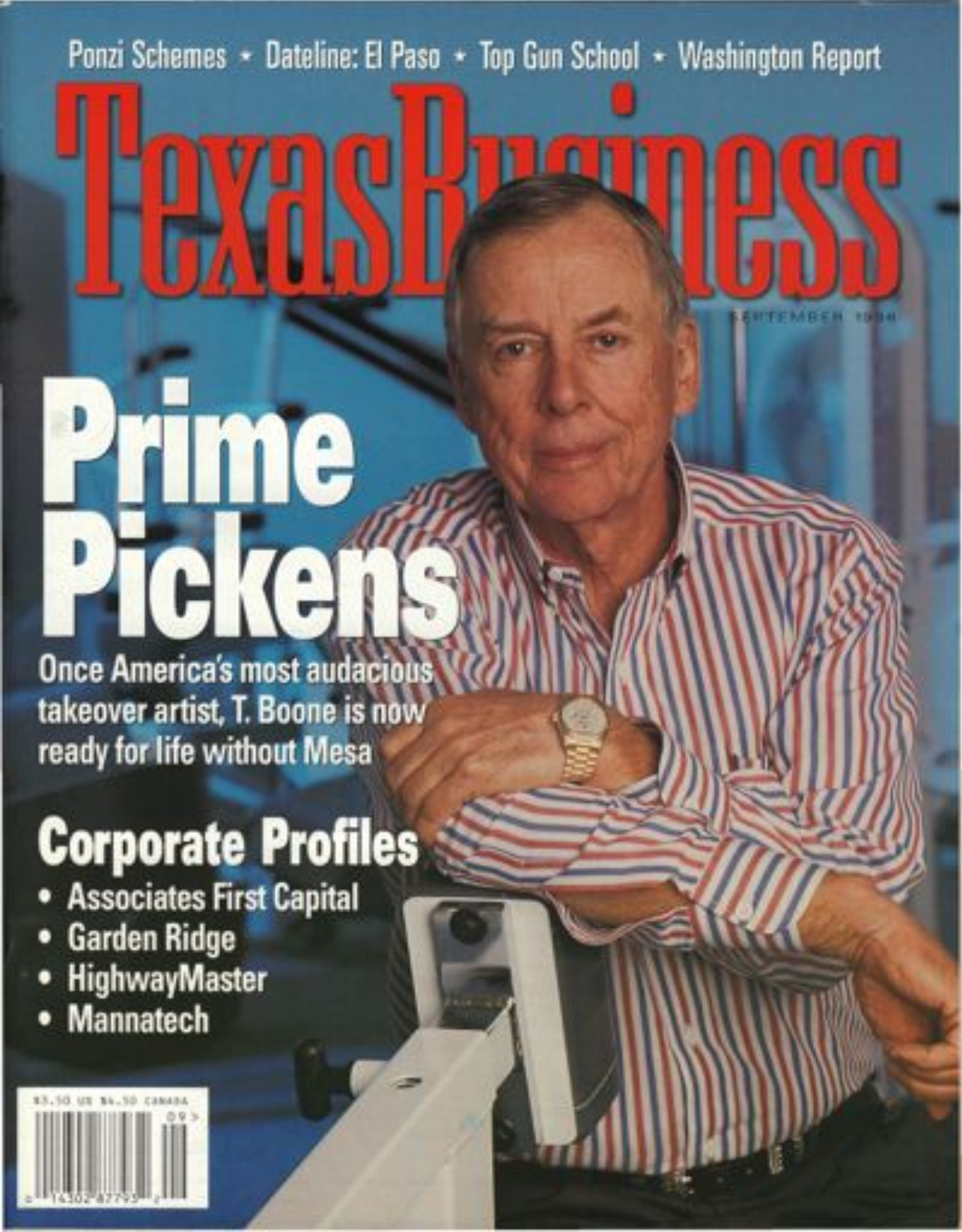

Prime Pickens

Once America's most audacious takeover artist, T. Boone is now ready for life without Mesa

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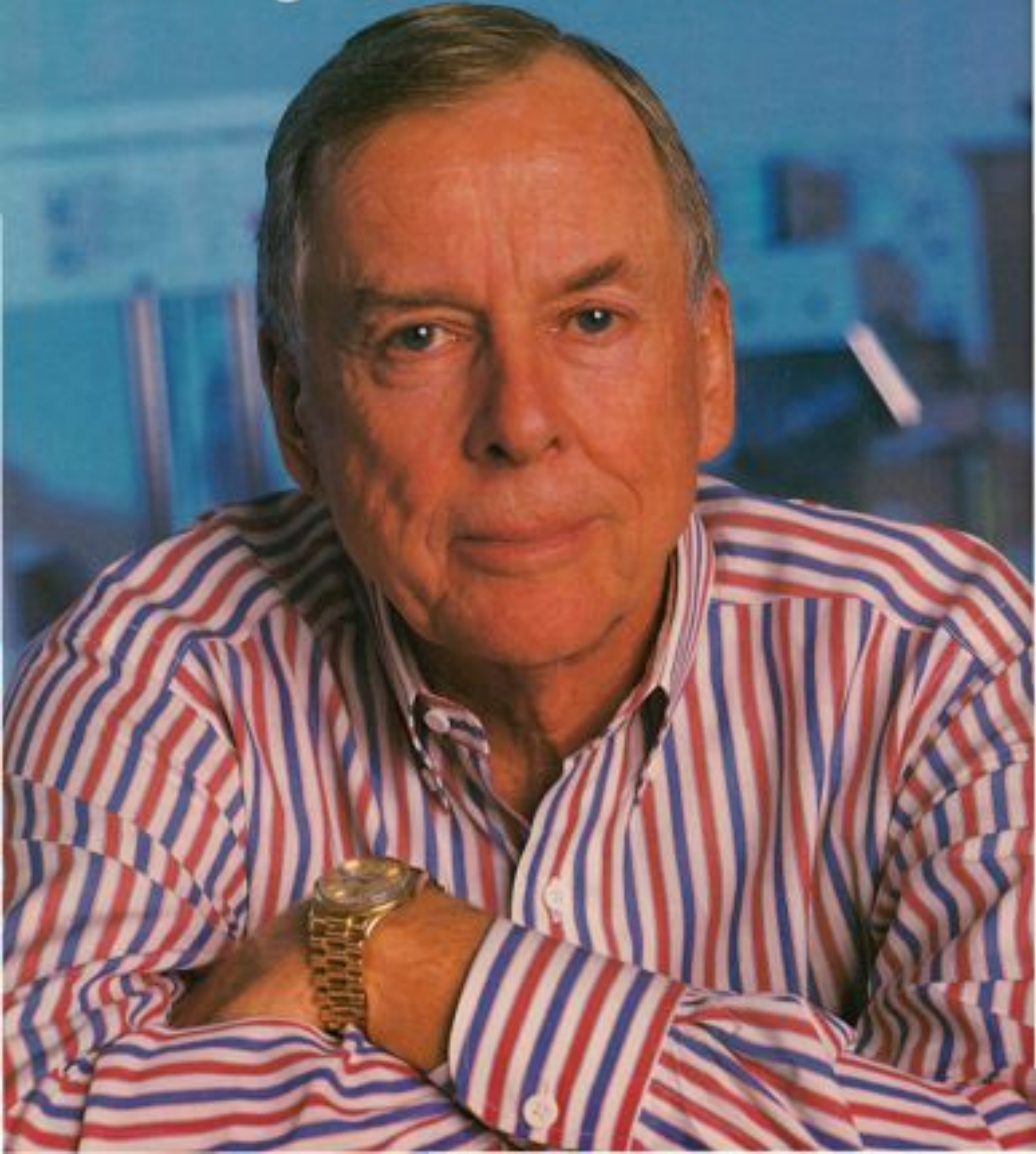

By Jim Henderson

It was not the happiest day in the life of T. Boone Pickens Jr.

The wolves had crashed through the front door of the Williams Square West tower in Las Colinas, eaten their way up to the fourteenth floor, and were gnawing at the glass panes across the front of Mesa, Inc. Pickens' back had been to the wall before, many times, but this was different. His ammo was spent and the exits were blocked.

October was crawling dry and brown across the prairie below his window and the scenery on his computer terminal was even more forlorn: natural gas, Mesa's lifeblood, was trading at $1.61 per thousand cubic feet. For years he had been gambling that the price would return to the glory days of the 1980s, when it bumped against the $3 level, but it never happened. Mesa was deep in debt, under siege, and Pickens was as alone as he had been 40 years earlier, when he started the company in Amarillo with a $2,500 promissory note and a trunk full of maps.

A small but powerful band of dissident shareholders, led by one of his former executives, was trying to wrest the company from him, put it up for sale and, maybe, reap a quick profit along the way. Lawsuits were flying and an ugly proxy fight was brewing. In his heart, Pickens knew the game was up, but he was determined that he, not a pack of muscle-bound speculators, would write the script for the last act.

He picked up the telephone and placed a call to Fort Worth, to Richard Rainwater, a financier whom he had known for many years and one who "knew the quality" of Mesa's reserves. Pickens said he wanted to talk.

"I've been waiting for this call for three years," Rainwater said.

The following February, the two men met in Tucson, Ariz., where Rainwater was recharging his batteries on a desert resort. They talked for two hours, roughed out the terms, and early in March the deal was done. With a $265 million commitment, Rainwater would effectively gain control of Mesa, acquiring 33 percent of new Mesa stock for $2.26 a share, about 25 percent below the market price on the day the deal was announced.

Rainwater's cash infusion would do two things: It would push the wolves back from the foyer, at least for a while, and it would head off the takeover attempt. Pickens would lose control of Mesa, but to the investor of his choice. When Rainwater informed him a month later that he wanted a new CEO for Mesa, Pickens was neither surprised nor bitter.

"I agreed with him," Pickens says. "I was 68 years old and it was time for me to move on. There really wasn't a problem."

It was an inglorious denouement, but one rich in irony and intrigue.

As America's most audacious takeover artist in the 1980s, Pickens did more than anyone to alter the traditional relationship between corporate management and shareholders. "Boone changed the world," *Fortune* magazine eulogized last July, when his reign at Mesa was done. "Like it or not—like him or not—the business landscape that exists today is one that he had no small role in painting."

What goes around comes around... but not always how you might think.

Yet, in keeping Mesa intact and surrendering it to Rainwater, rather than allowing it to be seized by the takeover artists within his own stockholder ranks, he lapsed into the management behavior he had once denounced with persuasive eloquence: poison pills, golden parachutes, legal warfare against stockholders, all the abominable windmills he had tilted against when he was the renegade trying to annex, or force reform upon, the Goliaths of the oil industry.

Pickens will argue that the irony is not pure, that the corporate management he assailed in the 1980s were like lethargic tenant farmers, occupying the land and working it without passion because they owned little or none of it. They couldn't identify with stockholders because they weren't stockholders themselves. If they owned a piece of the companies they ran, it was often a token stake. Their interests were salaries and perks, not equity value.

"I have always been Mesa's largest stockholder," he says, sitting in his office the day before a holiday, dressed casually and still keeping a close eye on the computer screen displaying the trading prices of natural gas on the New York Mercantile Exchange.

"Through the crash I was a non-seller. I didn't jump and run. I stayed until we had worked out the problems and recapitalized the company. I am still a large shareholder and a director of the company."

If there is a final irony, it is that on one torrid summer day, the price of natural gas contracts is flirting with levels it has not seen since the mid 1980s—upwards of $2.70 a thousand cubic feet—and oil prices, which had recently bounced to as high as $25 a barrel, are still in the $20 to $22 zone. Likewise, Mesa's stock is showing signs of strength, trading well above $5 a share. That's a far cry from the $65 a share it brought in the boom times, but an improvement over the $3 lows of a few months ago.

Pickens' gamble on higher energy prices—he borrowed heavily to expand the company's reserves for the past several years, and not coincidentally distribute $1.1 billion to shareholders between 1986 and 1990—may yet pay off for Mesa. But it won't pay off for him, not in the way he had hoped. Someone else will run Mesa now.

T. Boone Pickens, in his book *Boone*, says he has been called "a corporate raider, a greenmailer, a communist, even a piranha, by men at the top of much larger corporations with whom I have battled." Pickens built Mesa Petroleum into America's largest independent oil company, a journey, he says, that makes for an "exciting, unlikely, sometimes painful story."

Few regrets, save one

If there is anything that Pickens seems to regret about the past 40 years it is that small window of his working life through which he is most often viewed, the years from 1982 to 1986, when he was rattling the cages of corporate titans with his hostile takeover moves.

"Reporters always want to focus on those three or four years and ignore everything else we have done," he says. "We started out in 1956 with zero production. By 1996, we had produced the equivalent of 500 million [barrels of oil]."

True, for a guy from a small town in Oklahoma to strike out on his own a few years after college and proceed to build America's largest independent oil company was a remarkable story. He made major finds in Canada, the North Sea, and Australia. He squeezed oil and gas from overworked fields and drilled in places others avoided. Interesting, but nothing like the mid-'80s.

Those were the years that saw him on the cover of national magazines, testifying before Congress, staring down CEOs of companies 100 times larger than his. Those were the years when the "Good Ol' Boys" of corporate America feared him as much as they despised him. *Forbes* magazine called him a "bloodsucker" and the Business Roundtable (made up of the CEOs of the 200 largest corporations in the country) solicited $50,000 from each member for a war chest to be used against him. Accusations of greenmailing—the practice of taking a large position in a company, rattling a saber or two and then accepting a large settlement (a premium price for one's stock) were frequent.

The term "corporate raider" was practically coined for him, and he has spent the better part of a decade trying to rid himself of what he considers slander. He devoted six chapters of his 1988 autobiography, for example, to explaining, for those who still didn't get it, his moves on Cities Service, Gulf Oil, Phillips Petroleum, and UNOCAL—and a few other chapters to reproach the "small collection of corporate executives who would use the engine of American commerce for their own narrow ends," CEOs "cut off from the real world," the highly paid "bureaucrats and caretakers" posing as CEOs, "men who had never made any money on their own [and] hadn't made much for their shareholders, either."

As Mesa grew, he was invited into that loosely knit club of the corporate elite and, after observing the clan at close range for a while, concluded that too often management was preoccupied with self-preservation and perks—country clubs, hunting lodges, vacation retreats and private airplanes.

Pickens had a notion that was radical, even screwy, some believed, for its time. "Corporations are owned by stockholders. It is the job of management to make money for them—as much money as the resources of the company will allow. The stockholders hardly benefit," he noted in his book, when an executive's wife uses the company plane to take her dog to the veterinarian.

He began to assess management based on the relationship of a company's stock to the underlying value of its assets. "A concern should sell for at least the value of its assets, and something more if it has good management," he wrote. "If a company has poor management, the price of the stock will suffer, usually selling substantially below the appraised value."

By 1968, Mesa had $13 million in assets, revenues of $6 million, and gas reserves of 62 billion cubic feet. That was the year Pickens launched his first hostile takeover, setting his sights on the Hugoton Production Company, which owned a major part of the Hugoton field in Southwest Kansas, then the largest known gas field in the United States. The company's gas reserves: 1.7 trillion cubic feet.

But Hugoton was not replacing its reserves, was receiving an "inferior" price for its gas, and its stock was undervalued relative to its assets. How much it was undervalued became clear when Pickens offered to buy the company, exchanging a share of Mesa stock for each share of Hugoton. That caused the value of outstanding Hugoton stock to leap from $77 million to $137 million in a few weeks. Mesa got Hugoton and the stockholders saw their investments nearly double.

That transaction elevated Mesa to the big leagues and taught Pickens that large companies with lethargic management and undervalued stock were inviting targets. There was no shortage of poorly run oil companies to go after, he decided.

T. Boone Pickens spends much of his time explaining and defending the period through which he is most often viewed, the years from 1982 to 1986, when he was rattling the cages of corporate titans with his hostile takeover moves. "Reporters always want to focus on those three or four years and ignore everything else we have done," Pickens says. "We started out in 1956 with zero production. By 1996, we had produced the equivalent of 500 million (barrels of oil)."

Nearly 15 years later, when he began buying stock in Cities Service with the aim of adding it to Mesa assets, the task was not an easy—nor should it have been. Like other major oil companies, Cities Service was riding the crest of huge price increases brought about by OPEC. It had assets of $6 billion, while Mesa's were one-sixth of that. But, as was the case with Hugoton, Cities Service's reserves, though vast, were steadily declining, and efforts to replace them were uninspired. Many majors in those days were content to live on the cash flow that came with $35- and $40-a-barrel oil. If stockholders bothered to point out that the company's assets were not being maximized, they were likely to be ignored.

At the time, Cities Service stock was selling for about $35 a share and obviously worth much more. To defeat Pickens' hostile takeover, Cities Service found a "white knight," or friendly buyer. Occidental Petroleum acquired the company for $4 billion, or $53 a share. It was a victory for the shareholders and for Mesa. Shortly before the Occidental deal, Cities Service offered Pickens $55 a share for his stock. When it was apparent to him that he could not acquire the company, he accepted the offer and went back to Amarillo with a $30 million profit.

Takeover moves, even when they fail, can be very profitable, but Pickens didn't take the largest profit he could have made. He did sell his Cities Service holdings at a substantial profit, but could have made more by holding on for a few more weeks. Throughout, though, he insists that making a windfall gain wasn't his objective. Rather, it was to acquire the company to give shareholders more value for their investment, but he simply couldn't match the offers of the major companies Cities Service courted to be its "white knight."

Therefore, when he began building his stake in Gulf Oil the following year, he publicly announced that he would not accept any offer from the company that did not apply to all stockholders equally. "We will not sell our holdings back to Gulf," he told a meeting of Gulf investors in New York.

But, then, his intentions were different this time.

"I never tried to take over Gulf Oil," Pickens says. "We tried to get them to be more efficient. We wanted management to do something for the shareholder, to get the price up."

Gulf was the sixth largest oil company in the world in 1983. It had assets of $20 billion, 40,000 employees, and $30 billion in annual revenues. Rather than take it over, a feat he considered impossible, Pickens had another plan.

Mesa's operations in the Gulf Coast were bleeding red ink and the company needed a quick $300 million. "We knew one place that afforded that opportunity—the major oil companies, whose stock sold at a fraction of their book value. They had been undervalued for 50 years in the marketplace," Pickens wrote in his book.

By taking a large position in Gulf Oil, he figured, he could force the company to restructure and, thus, "create substantially higher value for all stockholders." Mesa, of course, would benefit like all the others.

When the smoke from that battle cleared, Gulf had not restructured, but it was absorbed by Chevron. The $13.2 billion deal was, at the time, the largest corporate merger in history and added $6.5 billion to the value of stock held by Gulf's investors.

Pickens and his group walked away with $760 million of that cash windfall, enough to convince him that acquisition was preferable to drilling. Oil and gas prices were softening, exploration costs remained high, and reserves were getting harder to find. Better to go

From left, T. Boone Pickens explains to former President George Bush, now-Governor George W. Bush Jr. and Robert Mosbacher, former secretary of commerce, the benefits of natural gas-powered vehicles.

drilling on Wall Street than in the oil patch.

Emboldened by the Gulf deal, Pickens went after Phillips Petroleum, the company that gave him his first job after he earned his geology degree from Oklahoma State University. The upshot was that Phillips recapitalized and thwarted Pickens' advances, but the company stock shot up by $15 a share in three months, adding an extra $2 billion to its total market value. Mesa picked up $89 million of that.

Pickens had one more fling with hostile takeovers—that of UNOCAL, on which he doubled what he had made from the Phillips deal—and then it was over. In 1986, oil prices, which once had hit $40 a barrel, plummeted to below $10. Gas prices, too, drifted into the bankruptcy zone—into the $1.40-a-thousand-cubic-feet range—and the oil patch looked like a graveyard.

That four-year era of aggressive courtship had made Pickens a hero to stockholders but a pariah to executives he had jolted into a new concept of corporate governance, the reality of the shareholder as owner. It was the period that would define, for better or worse, Pickens' 40-year passage through American corporate life.

Would he do it again? "I think," he says, with an uneasy smile, "I would do the Gulf deal and not the others."

Biting the hand that feeds?

One of Pickens' key lieutenants during the takeover frenzy was David Batchelder, an accountant he hired in the late 1970s and groomed for more exciting chores than counting beans. He quickly became Pickens' most valued aide, learning the methods of takeovers so well that he would one day turn them against his old boss.

In 1987, Batchelder had grown weary of Amarillo and wanted Pickens to move the company to Southern California. Pickens declined, and Batchelder resigned as president of Mesa Petroleum, which had essentially become an investment vehicle following the transfer of oil and gas operations to a limited partnership in 1985, and set up his own investment banking firm in La Jolla.

Pickens brought in a tight-fisted manager, Paul Cain, to run the company, which he moved to Las Colinas in 1989, while he retreated into an activity in which he had scored notable successes in the past—trading commodity futures contracts. He had learned the ins and outs of that high-risk business by trading cattle and corn futures during the Panhandle's feedlot boom of the 1960s.

But now he traded energy futures—crude oil, gasoline, and heating oil. Over the next 10 years, those gambles would earn more than $140 million for Mesa.

"That is the reason we were able to hang in as long as we did," he says. "Paul knew operations pretty well and could keep costs down. I concentrated on making that [futures] money and then tried to move in the direction of marketing our gas for a higher price by getting natural gas into the transportation fuel market."

It became apparent that it would take a long time for natural gas to catch on as a car and truck fuel—too long to bring Mesa out of its slump. And even the income from futures wouldn't solve all the problems.

The company's debt was too large. After the collapse of 1986, commodity trading wasn't the only risky game Mesa played. In the belief that gas prices were certain to rebound, the company borrowed heavily to continue expanding its reserves. Pickens had always believed that allowing reserves to dwindle was nothing more than the gradual liquidation of a company. Mesa also continued to make generous annual payouts to shareholders.

In 1995, Mesa's reserves were at the same level they had been four years earlier, meaning the company was well-positioned to benefit when, and if, prices went back up. But the company was $1.2 billion in debt and, if prices didn't budge, Mesa might not survive another two years.

"We would have hit the wall in June of '97," Pickens says. "We knew we had played the string about as far as it could go."

By selling some smaller properties, reducing the work force from 1,000 to 400, and renegotiating some debt terms, he bought a little time. But Mesa's future was still tied to gas prices, and they were going nowhere. Moody's Investors Service reckoned that the company was in danger of default on its debt.

About that time, Pickens' former protégé David Batchelder saw what he believed was an opportunity. Mesa was hurting. Its stock was limping along at about $5 a share and Pickens was vulnerable to a takeover. Batchelder steered two of his billionaire clients—Dennis Washington of Missoula, Mont., and Marvin Davis of Denver—and several lesser investors into Mesa stock.

After leaving Mesa, Batchelder had

helped Washington acquire a construction company by first making a modest investment and then forcing it—by threats of a takeover—to merge with one of his other companies. He used the same methods to help a group of investors gain control of a retail company, install new management, and increase the worth of the company by 50 percent in a year.

He took aim at Mesa, apparently, with the same play in mind: either to force management to sell the company or restructure it in a way that would drive its stock price up. If their purpose was to make money for themselves and all stockholders, then the deal was poorly conceived and analyzed, some industry sources believe.

Batchelder's group acquired nearly a 10 percent stake in Mesa, buying in at about $5 a share. They had no intentions of acquiring the company—no offer was ever made to the shareholders—but sought control of the board of directors. Exactly what they would do then is unclear.

Mesa was not a Cities Service or Gulf Oil. It had no bloated payroll, no egregious inefficiencies, no sub-par prices, no undervalued stock.

Its finding costs—what it spent to develop new reserves—were among the lowest in the industry and its stock price closely tracked the book value of the company. In short, Mesa's weakness was its debt and, absent a run-up in gas prices, there was little room for a quick fix.

Batchelder and one of his associates, Dorn Parkinson, were given a seat on the Mesa board and used those positions to advocate selling the company.

Pickens says he had already tried to find a buyer for the company or some of its major assets, such as the Hugoton field, but, to no great surprise, there were no takers at the price he was asking. "We put it up for sale at the bottom of the market," Pickens says.

Batchelder, then, had brought investors into a company that no one wanted to buy and a company whose debt could not be erased merely by belt-tightening and executive shuffling. Worse, gas prices were drifting back below $1.50 and, after efforts to sell off major assets had failed, Mesa stock was trading at around $3 a share.

The inevitable suits and countersuits were filed by management and the dissident shareholders. Pickens, meanwhile, threw up the defenses he had encountered during his takeover years. Back in the '80s, he had said, "Poison pills are unacceptable, period, because their purpose is to protect management."

On the ropes in 1995, Mesa's board concocted its own poison pill, a plan that would allow shareholders to buy stock at half price if any party acquired more than 10 percent of Mesa's stock. Watering down the value of the stock in that way would discourage Batchelder's group and allow the company to continue selling assets—maybe even the entire company—without distractions that Pickens believed would eventually cost shareholders money. It was a suicide defense because Pickens, as Mesa's largest stockholder, would have bled more than most.

In September 1995, Mesa and the dissidents settled their lawsuits (Mesa had sued Batchelder's group for failing to disclose to the SEC the true extent of their holdings, and they sued Mesa to invalidate the poison pill). In effect, the settlement endorsed the company's strategy and outlined several "qualified" transactions that were available. But the warfare continued, although as Pickens initiated talks with Richard Rainwater the dissidents appeared to lose some of their passion.

Eventually, they bailed out entirely, possibly selling their stock for as little as $3 a share. Batchelder, citing terms of the settlement, declined to be interviewed, but some industry sources say the failed raid on Mesa may have cost his group as much as $15 million. Had they stayed in a few more months, they might have broken even. After the Rainwater deal was consummated, Mesa's stock rose 20 percent, partly because of the infusion of cash but also because natural gas prices were trading at their highest level in years.

Pickens is aware of the perceived contradiction between what he had preached in the '80s and what he practiced to save Mesa in the '90s, but he maintains that the circumstances were dissimilar: yes, the roles were reversed, but he was not just management battling large stockholders, he was a large stockholder, too, and an owner with as much as or more at stake than anyone else.

"I've made my mistakes, but there has been a lot accomplished here, even during the tough period. We cut everything down to the core business...We peeled off the stuff around the edges. Usually, you sell your best properties and end up with the dogs. We sold the dogs and kept the best properties."

—T. Boone Pickens

"I've made my mistakes," he says, "but there has been a lot accomplished here, even during the tough period. We cut everything down to the core business. We were able to hang on to the three big pieces—Hugoton, the West Panhandle, and the Gulf of Mexico. We peeled off the stuff around the edges. Usually, you sell your best properties and end up with the dogs. We sold the dogs and kept the best properties. We got recapitalized and Mesa still exists."

After surrendering the helm of the company he founded, Pickens may go back into the oil patch and start over, looking for oil and gas. He has thought often of Canada, where he once turned a $35,000 investment into a $600 million gain. Or he may trade commodity futures or start another company of some kind.

Mesa was one of the first companies to have an in-house health club for employees and Pickens appears to have put it to good use. He is more agile and energetic than his age would suggest and he gives no thought to retirement.

"I'm going to work," he says. "I enjoy working. I enjoy making money. My hours are going to be exactly what they've been for the last 45 years." ★