

THE \$700 million MAN

Robert Hefner Is One of the Few Men
Alive Who Can Tell You What It Feels Like
to Lose $\frac{3}{4}$ Billion Dollars
By John Sedgwick

Robert A. Hefner III sits sipping wine by the pool that is the center point of his luxurious, art-filled mansion in Oklahoma City. Hefner, an independent natural-gas producer, has recently been struck by one of the greatest personal financial losses in history – in the vicinity of three-quarters of a billion dollars. But Hefner says he has been strengthened by the experience: “I’m a survivor.”

About us we hear the dulcet tones of Debussy playing over an invisible sound system. As if it is no more than a curious fact, Hefner tells me about the spectacular rise and fall of his net worth. “I plotted it out a little while ago and it went like this.” He extends a hand out into the night air and sweeps it slightly upward. He suddenly thrusts it nearly straight up over his head. Then he makes a dramatic whizzing sound, and the hand plunges down toward the stone floor by the pool. “There’s no question I lost a whole bunch of money.”

Insiders at Hefner’s GHK Companies place the loss at \$700 million, a shift from \$400 million positive to \$300 million negative. But Hefner himself dismisses such talk as hopelessly vague when applied to gas holdings tucked away miles under the ground and to highly leveraged loans

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Robert Hefner, here dwarfed by a natural-gas drilling derrick, is a man who takes risks. He gambled with the oil crisis in the 80s and lost – millions.

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that he will never repay. “You can theorize about positive numbers and negative numbers, but I don’t believe in either one,” he says. “All that is real is that my net worth will be diminished by a little more than an order of magnitude.”

However it comes out (Hefner is still negotiating with his creditors), his GHK Companies, in which Hefner is the major remaining partner, have taken one of the wildest boom-and-bust roller-coaster rides in Oklahoma, if not U.S., history. Yet, as a primary player in the Oklahoma deep-gas market – he is called, in fact, the “father of deep gas” – Hefner in a sense laid the track that left him so low.

“I have worked my entire life for a dream,” Hefner says. That dream was to exploit the tremendous natural-gas reserves he believed lay three to five miles – “deep gas” is below 15,000 feet – under the red clay plains of western Oklahoma in a broad field, laid down 100 million years ago, called the Anadarko Basin or, simply, The Deep. But then Hefner tried to capture all of the dream by drilling still

more and deeper wells. The market collapsed, and he was left with serious problems. The worst thing about his fall, he says, is that he saw the collapse coming. “I could have gotten out, but I didn’t. Now I just say to myself, *You stupid son of a bitch!*”

Although he has been in the gas business since 1959, Hefner made the bulk of his fortune in a year and a half starting around 1980 when deregulation and other factors began making the gas alternative to foreign oil look mighty attractive.

Gas prices, which had been limited to 22 cents a thousand cubic feet, shot up like the gas itself exploding up Hefner’s drilling pipes, and soon reached an astronomical \$10 per thousand cubic feet. In 1982, he appeared on the Forbes Four Hundred list with personal assets listed at \$150 million.

It was soon the Forbes 399. “Hundreds of thousands of people came into the industry for the quick buck, and everything was bid up,” says Hefner. He neglects to say that he was the one who first lit the burner by making bold claims for the deep-gas potential. The price of leases went from \$100 an acre to \$10,000.

Then the national recession created an energy glut that forced gas prices to

Hefner dreamed of exploiting reserves 15,000 feet below the earth. When his dreams went deeper, Hefner went under.





Louise Good, left, a 1930s movie star with son Hefner; and below, Hefner aboard his yacht, the Anadarko, named for the basin where he drilled his deepest gas.

below \$3, slackened demand, slowed down bill payments to as long as 120 days, and jacked up interest rates on the loans used to finance the boom. The wild scramble to get in turned into an even wilder scramble to get out. Short of cash and woefully overextended, many businesses started to go under.

Hefner might have survived if it weren't for the collapse of one bank that had positioned itself at the very center of the boom, the Penn Square Bank. Just a little bank in an Oklahoma City shopping center, the Penn Square took as its motto "growing with energy," which reflected the general uproar of the boomtimes. Despite its small size, it took money from larger "upstream" banks like Continental Illinois, Seattle First National and New York's Chase Manhattan, and funneled it to drillers at a dazzling rate.

Hefner was a major client of Penn Square Bank: "I figured that if anything happened, the upstream banks would come in and take over." But Penn Square's liabilities greatly outweighed its assets. The comptroller of the currency moved in to close the bank down on July 5, 1982. Hefner yanked out \$25 million in deposits just before the bank closed. "I knew then that it was over."

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One of the marvels of the whole miserable affair is how little it appears to have affected him – spiritually and even materially. He still has his beautiful 10-room house, a private plane (although he did have to cut back from the \$2.5 million Westwind II jet to a \$500,000 Saber Liner), a mountain retreat in Aspen, Colo., a horse farm in Versailles, Ky., and a major interest in a stallion named Storm Bird, offspring of the famous Northern Dancer, who may be worth \$40 million if put up for syndication.

For someone who has just been through the financial wringer, Hefner, 49, looks remarkably well. He drives a Mercedes convertible, and he looks right behind the wheel with the top down, his mane of sandy hair flopping madly in the breeze. Rather than take a nap when tired, Hefner goes for a run. In his office



at GHK, he works at a stand-up desk. On those rare occasions when he does sit down he perches on the edge of his seat, as if ready to spring.

When, in one conversation, I dwell too much on Hefner's lost fortune, he brings me up short. "My god," he says, "you make it sound as though I'd just *died*. Life is a process, and true wealth doesn't have anything to do with money." He discovered this truth in the climactic year of 1982 when everything was falling around him. In April, his best friend, Tom Heritage, was killed in a crash of the company helicopter. "Tom was the younger brother I never had," says Hefner. "His death made me realize that some losses are permanent, others merely temporary."

Hefner admits he was a little apprehensive when he first sensed he was riding for a fall. Expecting a harrowing time ahead, he decided to toughen himself up physically. A broncobuster in his youth, and still a skier and polo player, he took up a daily 6 A.M. aerobics program and joined the company soccer team.

With a smile, he tells me a dream he had in the midst of the turmoil. "I was sailing out into space," he says. "The earth was *way* down there below me, and all of a sudden I became aware of this great being. It was God, I guess, and He had a four-by-four in His hands, and He cracked me with it right in the forehead, and He said, 'Take *that* and see if you come out here again!' Well, that woke me right up and I just laughed."

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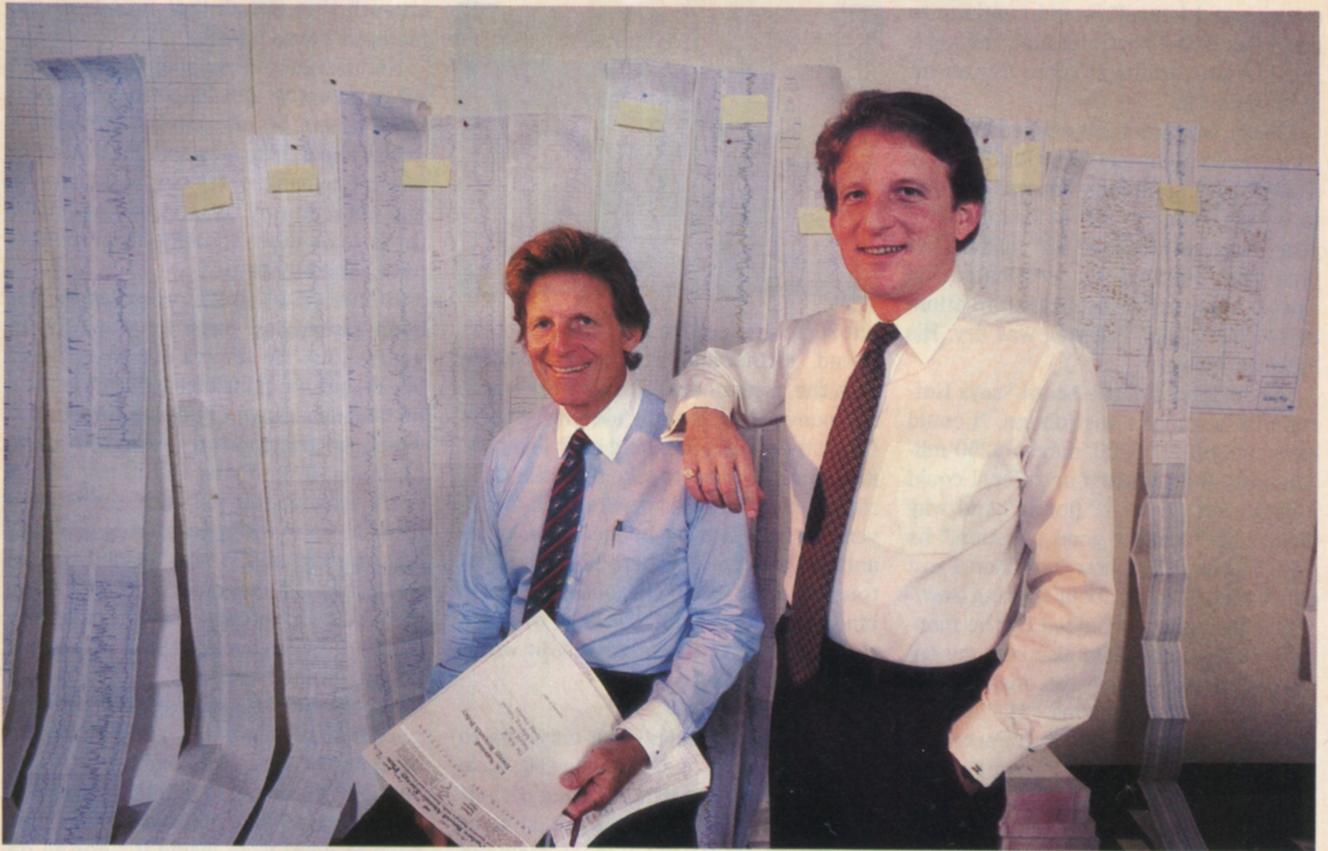
The dream was right on the money, for Hefner has made a career of going alone to dangerous limits. He has held the record for the deepest well in history, and

he hopes to be one of the first civilians to fly in the NASA Space Shuttle. Twice divorced, and chairman and major owner of the privately held GHK Companies, Hefner has always made a great deal of his independence. His grandfather, the original Robert A. Hefner, got into the oil business during the big strike at Spindletop in 1901. Robert A. Hefner Jr. stayed in the oil business and expanded his father's oil fortune. While the present Robert A. Hefner puts great stock in being the third in this august line – the roman numeral III adorns his belt buckle, shirt cuffs, and bedspread – he made a daring departure by going into the gas business. Oilies, as they are termed locally, have always seen gas as little more than a nuisance to be burned off when they are drilling for the crude.

As a geology student at the University of Oklahoma, Hefner became determined to show that gas was in fact far more, that hidden deep within the capstone of granite at 15,000 feet in the Anadarko Basin lay tremendous reserves of gas, enough to rival the nation's oil production in BTUs. By all conventional wisdom, that was poppycock.

Hefner believed differently. Remote as the Anadarko Basin is, Hefner had a feeling for it that was based on extensive geological studies, but also grew out of something more mystical. "I know the Anadarko better than anyone," he says. "I can *see* it. I see it in three dimensions, actually four, because I see how it changes over time." He could see porous rocks down there that could hold the highly compressed gas at those depths. He could also envision the sophisticated technology, some of it employing NASA safety measures, that could bring it up. So determined was he to show the merits of his case, he didn't even care about the profitability. Not until 1967 did he assemble the backing to drill a well deep enough that might decide the issue. To contain the enormous pressures of gas so far below, drillers had to raise the biggest wellhead ever, so big it looked like a misplaced NASA tower. In drilling through nearly five miles of rock and

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BRIAN R. WOLFF

sediment, they wore down 100 diamond-hard drilling bits and laid in over 600 sections of 40-foot steel tubing. The well took two years to sink. It became, at 24,454 feet, the second deepest in the world. And it hit gas in quantity, the equivalent of 3 million barrels of oil.

Although Hefner proved his point on the geology and the technology, he was foiled by the economics. Because of the price controls, Hefner was unable to produce enough gas to pay for the \$6.5 million well. Rather than wallow in this frustration, Hefner took on the Washington policymakers. For the next eight years, he testified repeatedly at Congressional committees, buttonholed administration officials, and wooed journalists at smoked-salmon-and-chocolate-mousse press conferences. He argued that natural gas freed the nation from a perilous dependence on foreign oil. “He was the champion of the gas cause,” says Bill Tal-



Top, Hefner and his son, Robert Hefner IV, a geologist, in the office. Above left, the pair at a birthday party. Above right, Hefner and his daughter Catherine, a 27-year-old artist, aboard the *Anadarko*.

ley, president of a petroleum consulting firm called the RAM Group Ltd. “He was all by himself out on the forefront.” The work paid off in 1978 when President Jimmy Carter signed the Natural Gas Policy Act deregulating deep gas.

Soon after the act went into effect, the price of gas started to rise. “So everyone

said, ‘Let’s go *drill* that stuff!’” reports Talley. And an astonishing seven out of 10 times, they hit gas. For typical fields, one out of 10 was considered average. The Anadarko Basin proved to be far from typical, just as Hefner had believed all along. Although it could cost \$10 million to reach the 15,000-foot threshold for deep gas, wells were paying off their investments in a matter of days. In 1981, Hefner had an interest in 1 million of the 7 million acres being drilled – 275 deep wells and 195 shallow wells altogether.

In retrospect, it appears there was something a little crazed in Hefner’s drilling. For despite the skyrocketing costs and plummeting profits, he continued to sink wells, pushing out into less favorable lots and down to greater depths. In this he must have been spurred on by his deep faith that the Anadarko would not fail him and that the price and consumption of gas, which he



Left, Hefner keeps his body finely tuned. Below, Hefner aboard the *Anadarko* with David Kennedy, his partner in GHK, Kennedy's wife Phyllis and son Andrew.



so treasured himself, would continue to rise. "Gas is the beautiful fuel," he says. Later he kept drilling to try to stay ahead of his creditors.

Finally, when he most needed it, his instinct for the deep gas failed him. On July 6, 1981, GHK spudded what was planned to be the deepest well in history. Two years later, at a cost of \$25 million, the pipe had reached its destination in what is known as the Arbuckle formation, 31,441 feet deep. The well was dry. His luck had run out.

"At the height of the boom," says Hefner with a trace of wistfulness, "I could have sold off for \$200, maybe \$250 million cash. If I'd wanted an offer, I could have gotten one in 48 hours." And why didn't he? "That's a good question," he says. "I wish I had now, but then I just didn't want to think about starting over."

Besides being entranced by the money, though, Hefner had also become enamored of The Deep — too enamored in some observers' opinions. "He just got *way* carried away," says Bob Parker Jr., chief operating officer of Parker Drilling, currently one of GHK's largest creditors. "He was buying acreages without caring where they were or how much they cost, paying the highest prices and taking the

shortest leases. He was *way* too exposed." Hefner himself does not disagree with the assessment. "Banks were pushing money at us, literally bidding us away from other banks. Looking back I can see it was pretty dumb to take the risk I did. I risked everything I'd worked for for 25 years. I should have hedged it, sold off and put my money where nobody could touch it. But I believed I should stand behind everything I did. Trouble was, the system said, 'If that's what you want, *here's what you get.*'"



Hefner is by no means the only one to lose. Auctioneers in Oklahoma City have been working overtime selling off not only the gas rigs and drilling equipment but also the Mercedes-Benzes, diamond rings, private planes, and Impressionist

artwork that are all that remain of the methane men's millions.

Hefner himself has been able to stave off bankruptcy and hang on to his personal assets by offering his creditors a deal: Take a little less and get it now, or take me to bankruptcy court and hope to get your money, less legal expenses, three years down the line. The creditors have generally settled.

Hefner *likes* this house that he has been assembling piece by piece for 10 years now. He shows me the classic books and the paintings with pride. And he takes me down to see his wine cellar, which he transported practically beam by beam from Paris. But these things don't really matter to him. He says that a tornado once whipped up when he was out running, and it was headed toward the house. All he could think of to save were a few photographs, two paintings, and his address book. Happily, the tornado passed the house by.

"If you measure success the way most people do, by numbers and things, it looks to me a lot more like failure," says Hefner. "It puts such a limit on you, ties you down to just managing what you have to keep from losing it." For all his material assets, Hefner has long believed

Cutting Your Losses

Not many of us have as much to lose as Robert A. Hefner III, but anyone who has ever invested — in a business, stock, real estate, or whatever else — has probably had the unpleasant experience of watching an investment plummet in value. And while most investors prefer to think about how to get in on something big, it can be even more important to know when to get out of something bad.

Many investors, however, have a strong psychological aversion to taking a loss, notes Kenneth L. Kosyk of IDS/American Express. The struggling entrepreneur especially has invested not only his money, but his time, energy, and ego. Letting go may be the smart move, but it can be emotionally impossible.

"In our culture, self-interest and ego can combine to force entrepreneurs to struggle on beyond any hope of salvaging the business they started," says Thomas P. Murphy, head of the venture-capital firm Partnership Dankist. Difficult as it may be for them, Murphy says, such entrepreneurs must step back and dispassionately evaluate their chances of survival.

The same principal applies to buying stocks. You may become attached to a particular stock for emotional reasons — for example, you work for the company, or your favorite uncle gave you the tip. But if it ceases to meet your investment objectives, you should be prepared to sell.

Real-estate investing can lead to even stronger emotional involvement. "You have

to learn the discipline of real estate investing rather than just finding a place that you like," observes Carl D. Peterson of Merrill Lynch Realty. If the investment loses value or the tax benefits have been exhausted, then it's time to start thinking about getting out.

Financial planner Kosyk offers this advice: First, don't keep all of your money in only one investment — be sure to diversify. Second, evaluate your investments in terms not of their history but in terms of your current circumstances.

Investing money is a lot like investing in a relationship with another person, say the pros. When your return begins to falter, it's time to re-evaluate, and perhaps move on to something more productive.



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Hefner stands in the study of his lavishly decorated home in Oklahoma City. The painting behind him is a trompe l'oeil work by the late John Beadle, a friend who designed the art for him.

in the value of intangible assets. Maybe this is why he was so drawn to gas in the first place: For all its power, it cannot be seen or smelled and it is almost infinitely expansive. He has long felt that "energy" has deeper implications than numbers on a gas meter. He believes it is etymologically linked to other large and significant concepts beginning with e, like enthusiasm, ecstasy and eternity.

As if to underscore his pleasure in the insubstantiality of things, Hefner has decorated many of the walls of his house with trompe l'oeil paintings by an eccentric English painter named John Beadle. One painting completes in illusion the top of a highboy that hadn't quite filled one wall; another, in his study, presents a bookcase filled with Hefner's favorite books and a bust of Einstein, who, of course, proved the relativity of energy and matter. And his favorite is painted

over his dining-room table: a Montgolfier-like balloon bearing a balloonist who waves at the diners as he rises up into the sky. Hefner liked it so much he had it redone on a set of dinner plates.

"I'm an artist more than I am a scientist," Hefner notes in a revealing moment. "A good explorationist has to be. We take scientific disciplines — geophysical tools, physical characteristics of rocks, satellite pictures — and create an image of the earth that's below the one we see. We envision what's down there, then we sell that image. We must make it so attractive that someone is willing to spend a tremendous amount of money

on it. In that regard I can say I've sold my art for more than Picasso."

So, in the end, Hefner was not chasing the gas itself so much as his idea of the gas. And that's still pretty much intact, even if he has lost a fortune in the cause. He is confident that gas will rise again, and he with it. "Okies are a pretty resilient group," he notes. Hefner takes particular satisfaction in the geophysical calculations of Dr. Cesare Marchetti and Dr. Nebojsa Nakicenovic of the International Institute for Applied Systems Analysis in Austria. They have plotted the world consumption of energy since the middle of the 19th century, and they show it proceeding in a series of remarkably smooth parabolas from wood to coal to oil; now, in the early 80s, the upswing of gas is just beginning to show. If Hefner profits from it once more, so much the better. He does a quick calculation, based on the most conservative estimates of the reserves for the Anadarko basin, to show that GHK's share of the profits from continued drilling through the end of the century could be at least \$4 billion. If, that is, the price of gas comes back up and he can persuade creditors to bank on him again, a subject on which petroleum experts are divided. One of them compared Hefner's task to swimming up a waterfall.

For the short term Hefner has found another cause to pursue — China. He believes that China would do best by developing its own gas reserves to meet its increasing energy needs, rather than turning to expensive foreign oil. Hefner plans to be the one to make it happen, and to take his cut.

So, after his net worth has slid three-quarters of a billion dollars, what has he really lost? "A little power," he says. "This has really cost me my influence with some politicians. And it's cost me some time." But then he brightens. "It certainly helps to have my heritage. All four grandparents lived into their 90s, so I figure I've got 40 more years of productivity, and 50 more years of life." He looks up at me. "Of all the things I have, I prize my future and family most highly." ♦