Bush Name Helps Fuel Oil Dealings

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The old Petroleum Building in Midland, where George W. Bush had his oil company offices.
(By Susan Biddle – The Post)

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As world oil prices plummeted in the winter of 1985-86, George W. Bush faced the most serious crisis of his 11-year career as a West Texas oilman.

Spectrum 7, his exploration and development company, had reported a net loss of $1.6 million in 1985, due to the fast-deteriorating value of its holdings. As the price of oil fell from $25 to $9 a barrel, the firm was on its way to losing another $402,000 by mid-1986. Bush's company owed more than $3 million in bank loans and other debts with no hope of paying them off in time. His investors had disappeared.

On the cusp of his 40th birthday, Bush had two choices: Cut his staff to the bone, hunker down and pray for oil prices to climb before the banks foreclosed; or find a bigger company that was willing to scoop him up, debts and all. "I'm all name and no money," the son of the then-vice president used to say.

Bush's name, however, was to help rescue him, just as it had attracted investors and helped revive his flagging fortunes throughout his years in the dusty plains city of Midland. A big Dallas-based firm, Harken Oil and Gas, was looking to buy up troubled oil companies. After finding Spectrum, Harken's executives saw a bonus in their target's CEO, despite his spotty track record.

By the end of September 1986, the deal was done. Harken assumed $3.1 million in debts and swapped $2.2 million of its stock for a company that was hemorrhaging money, though it had oil and gas reserves projected to produce $4 million in future net revenue. Harken, a firm that liked to attach itself to stars, had also acquired Bush, whom it used not as an operating manager but as a high-profile board member.

"One of the reasons Harken was so interested in merging was because of George," said Paul Rea, a geologist who had been president of Spectrum 7. "They believed having George's name there would be a big help to them. They wanted him on their board."

The buyout not only rescued Bush financially but gave him the collateral for an investment a few years later in the Texas Rangers baseball team that eventually made him a millionaire. In addition to the seat on the board, he received more than $300,000 of Harken stock, options to buy more, and a consulting contract that paid him as much as $120,000 a year in the late '80s, when he was working full time on his father's presidential campaign.

It was one of the biggest breaks of Bush's life. Still, the Harken deal completed a disappointing reprise of what was becoming a familiar pattern. As an oilman, Bush always worked hard, winning a reputation as a straight-shooter and a good boss who was witty, warm and immensely likable. Even the investors who lost money in his ventures remained admirers, and some of them are now raising money for his presidential campaign.

But the story of Bush's career in oil, which began following his graduation from Harvard Business School in the summer of 1975 and ended when he sold out to Harken and headed for Washington, is mostly about his failure to succeed, despite the sterling connections his lineage and Ivy League education brought him.

Thanks to his and his family's ties to wealthy investors around the country, including prominent Republicans, Bush was repeatedly able to raise money to invest in oil drilling, especially when prices were booming and tax breaks were inviting in the late 1970s. But connections could not help with the tricky business of picking profitable holes to drill, and Bush never made a big score.

In fact, Bush lost money for most of his well-connected investors. At the same time, the management fees and other expenses he collected from them kept him in business and enabled him to buy oil reserves for his company's own account, including the reserves that eventually attracted Harken's attention.

Three times during his years in Midland, Bush was saved from financial trouble or stagnation by the appearance of new partners or financial angels who gave him a fresh start. One was a Princeton classmate and friend of James A. Baker III, who was to serve as his father's secretary of state; another was a fellow Yale man who shared Bush's love for baseball.

The third was Harken, which was to save Bush from humiliating failure but also create a target for later criticism. Reporters would scrutinize the deal as early as 1990. Led by then-Texas Gov. Ann Richards, Bush's opponent in the 1994 gubernatorial election, his political critics have asked whether Harken used Bush's name to obtain oil business. Even now, questions linger about a 1990 sale of Harken stock by Bush that was the subject of a probe by the

Securities and Exchange Commission.

When it was over, Bush's oil career had merely perpetuated the nagging pattern that marked his life until past the age of 40: Once again, he had followed his father's path but failed to achieve his father's success.

Fresh Out of Harvard, Into the Oil Business

The idea to move back to Midland came from Jimmy Allison, a family friend and publisher of the Midland paper who had run Bush's father's first congressional race. On the way to Arizona during spring break in his last year at Harvard Business School, Bush stopped off in Midland and his childhood friend Joe O'Neill met him at the airport. O'Neill himself had just moved back to Midland to be in the oil business, and it didn't take Bush long to decide that was where he wanted to be too.

"I was unencumbered in the sense of I was single and didn't have any possessions," recalled Bush, "and I wasn't tied to any plan that somebody had outlined for me. I got out there and it was clear this is the place I wanted to go."

That he would be imitating – or trying to imitate – his father, who had become a near- millionaire in Midland in the 1950s, never consciously occurred to him, Bush says. He says he saw it simply as an opportunity that caught his imagination after years of shuffling from one temporary job to another. To others, it was clear. "George was following in his father's footsteps," said Paul Rea, who befriended Bush early on and later teamed up with him.

His resources were minimal – about $13,000, he said – the remainder of a Bush trust fund that paid his way through Yale and Harvard. He started out as a free-lance "landman," someone who tries to turn a buck by researching the titles to mineral rights at county courthouses and then going door to door as a front man for an oil company interested in leasing those rights.

"Geologists decide where to buy the leases," Rea said. "Landmen deal with people. George was ideal for that."

One of the first people Bush contacted was Martin Allday, a local oil and gas attorney and family friend who promptly took George under his wing. Allday sent him to county records offices to learn the ropes with young lawyer-landmen in Allday's firm.

Bush organized his first company, Arbusto Energy Inc. ("Ar-boo-stow" is Spanish for Bush) in 1977 on the eve of a run for Congress and quickly put it to use as a credential for the political contest. But according to records on file with the Securities and Exchange Commission, Arbusto didn't start active operations until March 1979, months after Bush lost the race to Democrat Kent Hance. Bush opened a small office in Midland's aging Petroleum Building, the same structure where his father started out in 1950.

From there, Bush began looking for investors to launch the annual drilling funds that he proposed to set up for oil and gas exploration and drilling activities. The Bush name, family ties and friendships, Ivy League credentials and Wall Street connections proved invaluable. Most of the recruiting was done by his uncle Jonathan Bush, a prominent investment manager and broker who was also active in Republican politics and fund-raising.

Jonathan Bush said he offered to help. He'd been busy raising money as a one-man show for his brother George's presidential explorations under the name of the Fund for Limited Government and then became national finance co-chairman when the older Bush announced his candidacy on May 1, 1979. Not surprisingly, some of the father's contributors also wound up on Bush's list of investors.

"George was an easy sale," says Jonathan Bush. "I mean, the people that met him would say, right away, 'I'd like to drill with this guy.' ... He had run for Congress. He was an upstanding guy. They figured he knew what he was doing, but mostly they figured they'd get a fair shake with him. There were a lot of people bilking investors in the oil business in those days."

Fast-rising oil prices were another drawing card, jumping from about $13 a barrel when Arbusto got going that spring to $30 by the end of the year. Oil exploration companies and their investors were always hoping for a big strike – an "elephant" or big field that would make them immensely rich – but failing that, Jonathan suggested, they could still console themselves with a modest income from less-risky drillings in proven areas, in which Arbusto participated, along with the big tax write-offs then available.

"The only people who go into it are people that aren't going to miss the money," Jonathan Bush said with a laugh. If they could have "a shot" at a big payoff and still take "a huge write-off," they considered it a gamble worth taking.

Russell E. Reynolds (Yale '54), a prominent executive headhunter who was selected for the elite Whiffenpoofs ensemble by Jonathan (Yale '53), remembers Jonathan calling him up one day and saying, "I've got this nephew who lives in Texas. He's terrific, he's in the oil and gas business and he's looking for investors. Would you like to meet him?" Reynolds said yes and shortly thereafter, Bush stopped by Reynolds's Park Avenue office. "I thought he was one of the most attractive people I'd ever met – very classy, very smart," Reynolds said.

Reynolds put up $23,250 for Arbusto's 1980 drilling program and a similar amount in a later partnership. He doesn't invest in oil and gas ventures anymore. "I think I ended up getting back 20 cents on the dollar," Reynolds recalled, though the write-offs he got "mitigated the pain."

The roster of prominent partners in Bush's oil ventures could have been extracted from a business world's who's who: drugstore magnate and onetime New York Republican gubernatorial candidate Lewis Lehrman and Lehrman family trusts ($140,500 over a three-year period); George L. Ball, then head of E.F. Hutton Inc., a New York stock brokerage ($100,000); George L. Ohrstrom, head of a New York investment management company and scion of one of Virginia's richest families ($100,000); California venture capitalist William H. Draper III ($93,000); and John D. Macomber, chief executive of the Celanese Corp. and an old Yale friend of Jonathan's ($79,500). Draper became president of the Export-Import Bank under President Ronald Reagan and Macomber held the same post under President George Bush.

Not all were recruited by Jonathan Bush, who was paid commissions for his work. Ball, for instance, was enlisted by Barbara Bush's brother-in-law Scott Pierce, an associate at E. F. Hutton. Ohrstrom, who doesn't give interviews, said through his wife that he and Bush's father went to school together (they were four years apart at Greenwich Country Day). And Bush lined up others on his own, like Stephen Kass, a friend and classmate from Harvard Business School.

Kass said he knew oil investments were risky but recommended his stepfather put up $25,000 on behalf of the family. "It was money that was not essential for our family's well-being," he said. "We wrote the money off the minute we invested."

Great Access to Investors Despite Middling Performance

Access to the rich and famous, of course, isn't available to everyone. But Bush and his father see no reason to apologize for it.

"My father's name helped me attract early investors for my business," the former president said in response to written questions submitted by The Washington Post. "If my name did the same for 'W,' great! To keep political backers and investors happy, you have to perform. 'W' has."

In fact, Bush's performance was about average, at best. By 1985, Arbusto had drilled, or had taken part in drilling, 99 wells, hitting oil or gas about 50 percent of the time. "There's a lot of luck and a lot of science to oil drilling," Rea said. "Drilling is hit or miss. He didn't have the luck."

Most who invested lost money. By the end of 1984, securities filings show, Bush's limited partners had invested $4.66 million in Bush's various drilling programs but they had received cash distributions of only $1.54 million.

They also got $3.89 million in tax deductions thanks to generous federal laws covering the oil industry. If the investors were in the highest tax bracket (70 percent in 1979, sliding down to 50 percent in 1982), those deductions would have given them tax savings of $2.91 million.

Bush's company, 80 percent owned by Bush before a 1984 merger, did better than the investors. It put a total of $102,000 into the drilling funds and got back cash distributions of $362,000. From what the investors put up, it also took $216,000 off the top for management fees. With the addition of $100,000 in general and administrative fees (used to pay for travel, in-house legal fees, secretarial services and the like), Bush's company collected $678,000 in fees and cash distributions on an investment of only $102,000.

Bush has a more upbeat recollection than the balance sheets suggest. Before oil prices collapsed, he said, "I [was] slowly but surely building a solid, small producing company and I thought we'd developed a reputation as honest operators who worked hard [and], who gave people a fair shake.

" ... I'm not going to pretend it was any huge success at the time," Bush said. But "the story not told [by the balance sheets] is what prospects were being developed or what potential we had. ... I had some good leases in our inventory."

A Straight-Shooter Who Made Contacts

Despite frequent disappointments, Bush gained a reputation for straight-dealing, dogged effort and unshakable good humor. "There are people who live in $4 million homes, and have a yacht and then drill dry wells. That wasn't the case with George," said Kass, who visited Bush in Midland. "If you saw how George lived in Midland, no one could think he was living off their money."

Bush would hit the local bars and country clubs at night, but colleagues say his having fun was good business too. In Midland back then, "a lot of people liked to go out and play," said Mark Owen, a geologist who worked for Bush from 1980 to 1984 as vice president in charge of exploration. "That's how you make contacts. That's one of the reasons George got to know everybody in town."

Bush has acknowledged he drank too much in those days, but people who worked for him say that it didn't keep him from showing up at the office each morning at 8 and staying till 5 p.m. or often later.

Even though he wasn't a geologist, Bush "had a pretty good intuitive sense about the business," Owen said. "He had a real good feel for it.

And he was great at raising money, putting deals together." Bush would travel around the country, sometimes with Owen, sometimes by himself, looking for partners. "That, in my mind, was George's strength," Owen said. "He knew a lot of people."

James McAninch, who joined Arbusto in 1982 to take charge of production, said Bush at that point was operating about 15 wells in the Midland area in which he had a majority interest.

"George was a good operator – very honest and straightforward," McAninch said. "He hired you for what you were qualified to do. He didn't interfere. He turned you loose. He'd say, 'Man, it's your responsibility. You do your job, no problem.' ... He could make quick decisions too. ... He had enough savvy to ask almost all the right questions. And [months later] he'd remember what the answers were. He was very savvy about the oil fields."

Million-Dollar Transfusion for a Troubled Operation

That, of course, didn't save Bush from dry holes, and the constant search for new investors.

In 1982, he decided to raise more money by going public. But first, in January 1982, he got a generous $1 million transfusion from Philip A. Uzielli, a New York investor who paid that much for 10 percent of Arbusto's far less valuable stock.

It was a badly needed boost. Arbusto's balance sheets showed that at the end of 1981, it had little more than $48,000 in the bank and more than half of all its assets consisted of "accounts receivable," money owed to it by others. At the same time, the company owed almost $300,000 in bank loans and close to $120,000 to other creditors.

Bush said in interviews that he met Uzielli through Ohrstrom, though he can't remember how he met Ohrstrom. A partner in Ohrstrom's investment management company, Uzielli earlier had put up $50,000 for Arbusto's 1980 program in the name of Executive Resources Corp., a company then headquartered in the Dutch West Indies. Bush said he didn't know at first that Uzielli was also a Princeton classmate and friend of Baker, the manager of George H.W. Bush's 1980 presidential primary campaign, but was aware of it by 1982 when Executive Resources, now headquartered in Panama, produced the $1 million.

While it might seem that Uzielli was putting in more than the company was worth, Bush said the balance sheets didn't reflect "the unexplored potential ... all the reserves or all the leases we had."

"He's a sophisticated investor," Bush said. Uzielli, who could not be contacted, told an interviewer in 1991 that he "lost a lot of money. ... Things were terrible."

Bush's public drilling partnership made its debut in April 1982 under the name of Arbusto, but the "Bust" label the company had taken on may have hampered it. In what he has described as a "marketing" move, the vice president's son changed the name to Bush Exploration and in June issued a new prospectus.

The offering was still a flop. Bush sought to raise $6 million but he drummed up just $1,141,000, less than he'd raised privately in each of the previous two years. He said oil prices had been sliding a bit and drilling funds were losing their appeal. Tax deductions weren't as generous. (In 1985, the investors who did get in were offered 10 cents on the dollar to bail out.)

By 1984, the outlook was bleak. "We didn't find much oil and gas," said Michael Conaway, Bush's chief financial officer. "We weren't raising any money."

Then, as Bush's father was headed for reelection as Ronald Reagan's vice president, two investors from Cincinnati, William O. DeWitt Jr. (Yale '63) and Mercer Reynolds III, stepped in. Heads of an oil exploration company called Spectrum 7, they'd met Bush earlier, around 1982, at a luncheon arranged by Rea, their man in Midland. DeWitt's father, whose baseball career stretched back to 1916, had been owner of the St. Louis Browns and later the Cincinnati Reds and his love of baseball infected Bill Jr. Knowing what "a great baseball fan" Bush was, Rea decided the two should meet, and a lunch was arranged at the Midland Club atop the First National Bank Building.

DeWitt and Reynolds say they had never met Bush's father and were "not involved in politics in any significant way" at the time.

DeWitt said they stayed in touch with Bush in the months that followed and eventually decided a merger would be a good idea. They joined up on Feb. 29, 1984, in a stock exchange that left DeWitt and Reynolds with 20.1 percent each of Spectrum 7 and Bush with 16.3 percent (1,166,400 shares). Bush was named Spectrum 7's chairman and CEO with a $75,000-a-year salary and Rea was named president with $85,000.

"Arbusto and Bush Exploration were fairly unsuccessful," Rea said, but the Bush name was "definitely a drawing card."

"We wanted [Bush's] leadership abilities, and his operational ability which we didn't have," DeWitt said. "And he actually operated wells. We took parts of wells, we never operated wells."

Asked whether the fact that Bush was the vice president's son was an attraction, DeWitt said he did not think it helped them raise any more money than before.

"There was obviously some notoriety because of who [Bush] was, but it didn't open any doors for us," DeWitt said. "I mean our doors were already opened."

Rea remembers it somewhat differently. Bush's name "was definitely a drawing card" as they traveled around the country, talking to stockbrokers, looking for investors. "Sometimes 30 to 40 people would come," Rea says. "He would never mention his dad but there was always the possibility that he [the senior Bush] would become president. People wanted to come and see what young George looked like."

The merger with Spectrum carried Bush only another two years. Then, the stunning price collapse in 1986 "just dried up all exploration money," the lifeline of small independent companies. "We couldn't afford to continue doing what we were doing," Conaway said. "No one wanted to invest. ... Business as usual was not an option."

The only hope seemed to be finding another angel. Bush, Rea and Conaway started looking for small or medium-sized companies they might approach. Rea remembers they contacted at least one, in Pennsylvania, and were turned down.

Harken ended the search for them. The company had been taken over in 1983 by a group headed by a New York lawyer and management expert, Alan G. Quasha, who seems to have had a penchant for stars on his board. Hungarian-born billionaire George Soros was one; he was listed as the company's biggest stockholder (46.8 percent) in 1986. Representatives of Harvard University's endowment fund and a wealthy Saudi real estate magnate were given seats on the board in 1987.

Bush's name was one of Spectrum's obvious assets, but, according to Jeffrey Laikind, who was on Harken's board at the time, not the most valuable one.

Laikind said that in Spectrum, "we saw an opportunity to buy a company at an attractive price" for its leases and potential. He said Bush's name drew attention "much more" for the fact that he was "somebody who had been in the oil patch, somebody who had experience," although his status as the vice president's son was "not a fact you could ignore." He said the deal was all the more attractive because "we were able to do it for stock." No money changed hands.

The merger became final in September 1986, with Harken handing over one share of its publicly traded stock in return for roughly five shares of Spectrum.

Bush doesn't dispute the notion that his name may have been a factor, but he said, "It was really a reserve play ... an economic investment as well. ... I think you're going to find that a publicly traded company must have a better rationale than to be able to acquire just a person's name."

Full-Time Oil Days Over, Son Turns to Dad's Campaign

With the sale complete, Bush's days as a full-time oilman were over. He spent most of his time in the next two years working for his father's election campaign. He remained on the Harken board, and former board member Stuart Watson describes him as "a straight-arrow type ... very able and capable."

But four years later, his sale of his Harken stock prompted an SEC probe into whether he had engaged in insider trading. The probe centered on Bush's sale of all of his 212,140 shares of Harken stock for $4 a share on June 22, 1990, just before the conclusion of a second quarter that produced huge losses. The transaction was to net Bush $835,307, according to the "notice of proposed sale," signed and dated June 22, that Bush was required to send to the SEC as a member of Harken's board.

Bush said he made the move because he wanted to pay off a $500,000 bank loan he had obtained in 1989 to buy his slice of the Texas Rangers. "I didn't need to pay it off," he said in an interview. "I did it because I just don't like to carry debt."

Eight days after Bush's stock sale, Harken wound up its second quarter with operating losses from day-to-day activities of $6.7 million, almost three times the losses it reported for the second quarter of 1989.

The public didn't learn of this until Aug. 20, when the company, now known as Harken Energy, announced in a press release that its overall losses for the quarter, including non-recurring expenses as well as operating losses, totaled $23.2 million. Harken's stock had slipped to $3 a share earlier that month when Iraq's invasion of Kuwait stirred fears that it would endanger a potentially lucrative offshore drilling contract with Bahrain. On Aug. 20, the stock dropped to $2.37.

Did Bush know of the impending losses when he sold his stock in June? Federal securities law prohibits corporate "insiders" from trading "on the basis of" material information that is not publicly known.

Bush says he did not know, even though he had a seat on Harken's three-member audit committee as well as its eight-member board of directors. He said he had no idea Harken was going to get an audit report full of red ink until weeks after he had made the sale.

"I wouldn't have sold if I had," Bush said. "I got clearance by the lawyer [Harken general counsel Larry E. Cummings] to sell this stock. I was mindful that this transaction would be completely scrutinized. I knew the law and I sold at a time that I was cleared to sell."

Bush said he didn't seek a buyer, but was approached by a Los Angeles broker, Ralph D. Smith. Now retired, Smith said he had an institutional client who wanted a large bloc of Harken stock. Smith said he called other Harken officials before calling Bush on June 9, 1990.

"I had no takers until I got to him," Smith said. "It was just like a shot out of the blue."

Bush's lawyer, Robert Jordan, who also represented Harken in the SEC inquiry, said Bush and other board members were not informed until July 13, 1990, in a communication from Harken president Mikel Faulkner that "operating losses were incurred in the second quarter, which will be further quantified and explained." Even then, Jordan said, Faulkner did not provide details. Many companies project and announce expected profits and losses before the end of a quarter, but Jordan said this was not done at Harken.

Asked for a copy of the July 13 communique, or permission to inspect it, Jordan checked with company officials and said they would not allow it. He said Harken has "a policy of keeping internal documents private."

Before Bush's stock sale, Harken's audit committee – Bush, Watson and another Harken director, Talat Othman – met on June 11 with Faulkner and auditors from Arthur Andersen & Co., Harken's accountants. Jordan, however, said the committee "did not discuss operating losses that might be coming up, because that would be in the realm of conjecture and speculation." The minutes of the meeting, Jordan said, "show that."

Asked for a copy of the June 11 minutes or permission to inspect them, the company, through Jordan, again declined to make the records available. Jordan said company officials felt that granting the requests would put them on "a slippery slope."

Before giving Bush clearance to sell his stock, Jordan said that company counsel Cummings "checked with Mr. Faulkner at least and maybe others" to see if there was "any material, undisclosed information out there that would prevent the sale." The answer was no, Jordan said.

Faulkner, a certified public accountant who used to work at Arthur Andersen and who has spoken frequently with reporters over the years, declined through Jordan to be interviewed. So did Cummings.

The SEC investigation was launched in April 1991 when it found that Bush apparently failed to submit notice of actual sale of the stock (as distinct from the separate "notice of proposed sale") until eight months after the deadline. Bush said he is sure he did, but the filing couldn't be found.

The inquiry became an issue in the 1994 governor's race when Richards, the incumbent Democrat, challenged its thoroughness, calling it "at best, incomplete, and at worst, a coverup."

Bush was prepared, having obtained a letter from a top SEC official, associate director for enforcement Bruce A. Hiler, a year earlier.

Dated Oct. 18, 1993, three weeks before Bush announced his candidacy for governor, the carefully worded letter was addressed to Jordan and said that "the investigation has been terminated as to the conduct of Mr. Bush, and that, at this time, no enforcement action is contemplated with respect to him."

Bush took that as vindication. "The SEC fully investigated the stock deal," he said in October 1994. "I was exonerated." Supporting Bush, the head of the SEC's enforcement division, William McLucas, went beyond the letter and stated publicly that "there was no case there."

Hiler, however, was more cautious. His statement said it "must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff's investigation."

How thorough the SEC inquiry was remains unclear. Jordan said Harken provided investigators with "thousands of pages" of documents, including the June 11 minutes and Faulkner's July 13 communique. Investigators interviewed Cummings, stockbroker Smith and a member of the Arthur Andersen auditing team, but they did not talk to Faulkner or any other officers or directors of Harken.

In an interview, McLucas said the investigation was handled "the same way we would handle any inquiry as to [insider] trading or delinquency in reports," but such matters are usually not accorded high priority.

Staff researchers Madonna Lebling and Margot Williams contributed to this report.

Back to the top

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