

Larry Nichols

Served as Devon's CEO since 1980 and assumed the company's chairmanship in 2000.

Chapter 1 - 1:24

Introduction

Announcer: Devon Energy is a leading independent energy company engaged primarily in the exploration, development and production of natural gas and oil. The company's operations are concentrated in various North American onshore areas that extend from the Canadian Arctic to the Gulf Coast in the United States. But let's go back to the beginning. John Nichols, the father of Larry Nichols, went to work as a public accountant in Oklahoma City in 1936. The tax knowledge he gained while working for several oil and gas companies helped him create the world's first oil and gas drilling fund registered with the Securities and Exchange Commission. It changed the way drilling programs were funded in this country until Congress restructured tax laws in 1986. In 1971, father and son co-founded Devon Energy and Larry Nichols assumed the company's chairmanship in 2000. Prior to Devon Energy, Larry served as a law clerk to both Associate Justice Tom Clark and Chief Justice Earl Warren of the United States Supreme Court. Devon is the only U.S. energy company to be listed among the Fortune 500, the Fortune World's Most Admired Companies and the Fortune 100 Best Companies to work for. And it all started with four and a half employees and a shared receptionist. Larry Nichols tells the story for Voices of Oklahoma made possible by those who believe in preserving Oklahoma's legacy one voice at a time on VoicesofOklahoma.com.

Chapter 2 - 6:02

Partnership is Formed

John Erling: My name is John Erling. Today's date is October 26th, 2011. Larry, would you please state your full name, your date of birth and your present age.

Larry Nichols: John Larry Nichols. July 6th, 1942, which makes me about 69.

JE: Where are we recording this interview?

LN: Oklahoma City, in the offices of Devon Energy.

JE: Where were you born?

LN: Oklahoma City.

JE: Let's talk about your mother. Tell us your mother's name and maiden name and where she was from.

LN: Mary Davis was her maiden name. She was born in McAlester, Oklahoma. She turns 95 in a couple of weeks.

JE: Can you describe her for us? What kind of a personality does she have?

LN: She is alive and well and kicking. In fact, I took her to the OU football game last week. She is an avid fan of football. Surprisingly, she is very much a vibrant, engaging person.

JE: Your father's name?

LN: John Whiteman Nichols. He was born in Ardmore, Oklahoma. My parents met at OU when they were both students.

JE: How would you describe your father's overall personality?

LN: My father was an overall very engaging person. He was a true salesman and pioneer, visionary and entrepreneur. He truly loved business. He loved doing deals and he loved being creative.

JE: So both of them had outgoing personalities and wanted to be engaged in their community and that type of thing?

LN: Yes, absolutely.

JE: Your father went to OU. Did he work his way through college?

LN: He did. He described hitchhiking from Ardmore during the Depression to get to OU. They would go up to the state highway and hitchhike to Norman from there. He had a variety of jobs in college as most everyone did in that era.

JE: How was your father introduced to the oil and gas business?

LN: My father graduated with a degree in accounting. He became a CPA. He was doing accounting work for an oil and gas firm, and a variety of other firms. He worked for a small accounting firm and got to know the oil and gas business through the accounting era and got the idea of going out and starting his own oil and gas business.

JE: So a very significant thing happened—he created the world's very first oil and gas drilling fund registered with the Securities and Exchange Commission. Talk to us about that—how he started it and how it was structured.

LN: He was working with one of the lawyers, Ken McAfee, the father of McAfee & Taft, one of the large law firms in Oklahoma City, who realized at the time that a wealthy person could deduct intangible drilling costs, which was not widely known at the time. He had this idea of registering the program with the SEC, just to have a means to describe it to

investors. Investors in those days had a 90 percent tax rate with no alternate minimum tax, so if you could return a modest return to the investor who's going to pay 90 percent of that to the federal government, then it was a very viable economic enterprise. The first letter they sent to the SEC, the SEC sent back a letter that said, "Sorry, we don't think this is a security and we don't think that you have to register it." But they wanted to register it so that it would win some credibility, that an outside group had looked at it and approved the structure and approved the statements that were in there. They finally persuaded the SEC to approved it, which shows you how the world has changed. Now people will do anything not to have arms of the federal government involved in their business. And conversely, the federal government would use, particularly these days, any lever it could to have control over what you're doing.

JE: Then he has a gathering of people who could be interested in this. He had to sell it to groups.

LN: He had to sell it to groups. He made trips to California and met with movie stars. He made trips to Pittsburgh and New York City and met with the industrialists of the era. Basically if they believed the tax structure worked the way they said it did, then they invested. If they didn't believe that, they probably didn't. So he had a blue chip group of investors at the time that invested.

JE: Phillip Armour was one of them?

LN: Yes. They were leaders and founders of large corporations as well as some of the movie stars of the day.

JE: I would imagine they would have to bring their tax people to the room and ask if this guy was crazy or find out what was going on here.

LN: It was all about the tax lawyers and the tax accountants looking at the structure.

JE: We can point to that because it changed the way America's oil fields would be developed.

LN: Absolutely. As that structure became accepted in the investment community, other firms started doing that and by the mid-1980s people were using exactly the same structure that my father pioneered, were raising well over \$2 billion a year in these drilling funds to fund drilling operations in the United States.

JE: Because they were sheltering themselves more from tax they could return more to the investor?

LN: Exactly.

JE: So he and F.G. Blackwood built a large regional oil company in the 1950s and 1960s?

LN: Yes, there were four partners actually. My father provided the financial and accounting expertise to the partnership. "Blackie" as everyone called Mr. Blackwood was the petroleum engineer. A man named Bill (inaudible) in Dallas, Texas was the geologist, and

John Fisher who was the Chairman and CEO of Ball Corporation was really the financial godfather of the group. They started this partnership in 1950. All four of them continued to be partners for all of their lives. They all remained married. We have added the second generation to that partnership that was formed in 1950—it's still alive and well with members of all four of those founding partners now serving as general partners. It's very rare in the United States. I think the average life of a partnership is three and a half years and here we've got a partnership that started in 1950. It has survived with four families being partners and we still respect and do business with each other and enjoy it very much.

Chapter 3 - 4:52

Why Devon?

John Erling: But it was in 1970 that he founded Devon Energy Company?

Larry Nichols: Yes, it was 1970 and 1971. Of course, during the 1960s the oil and gas business went through a real drought, where the price of oil was stuck at \$3 a barrel and costs were up and natural gas was not of much use. They sold most of the assets out of that partnership, retaining one major asset in New Mexico. Once they sold all of those, that partnership really ceased to do business in the early 1960s. My father went on to do a variety of entrepreneurial things from owning a TV station in Beaumont, Texas and interests in banks here in Oklahoma, radio stations and movie theaters in Hawaii. The most interesting thing at least from my perspective was an oil well supply business in Libya, which at that time was run by King Idris, long before Qaddafi took over. That led my father to get introduced to English merchant banks and Swiss bankers and people of that sort. He recognized that there were many Europeans who had a desire to invest in the United States. Because of the security of the United States, some of the European countries, particularly the Scandinavians were talking about opposing currency controls that would restrict your ability to take currency outside the country. It's hard to believe in this era of globalization that someone would do that, but that was the facts of the era of the early 1970s. Most importantly, they wanted to invest in the oil business because they thought there would be an appreciation in the price of oil, but they did not want to take the risk of drilling oil and gas wells. So he had the idea of starting a new company that would raise money in Europe that would be focused on buying and producing oil and gas properties in the U.S. He persuaded me to come join him. I really had not intended to do that, but he persuaded me. I said, "Okay, I'll do that for a couple of years." I thought

I would get some practical business experience and here I am all these many decades later.

JE: Your father was unique in that he had a very salesmanship type of personality and he knew accounting and he was able to use that combination to sell all of these companies.

LN: In no way did my father fit the typical stereotype of an accountant.

JE: Why the name Devon?

LN: Well, my father had sold most of those businesses. One that had generated a tax loss carry-forward and they had named it with a totally unlikely name of OKAY, which really just came from-what are we going to call this and someone said, "I don't know-call it whatever." But it was just a shell company that had a tax loss carry-forward. We were in London raising money for the very first part of our business-actually, my father and I have slightly different versions of this story. His version is that we were looking at a map of England and he was going down a list of counties. Of course, the lawyers told us we had to come up with a name and it had to be better than the silly name we were using. We were looking at the map and going over the counties and finally he got to Devonshire. I said, "Well, Devonshire, that's where the geologic age, the Devonian age was named. It was the type of rock for that geologic formation-so there is a tie to geology and to oil and gas, admittedly a bit strained. We decided to call it Devon, which was a shorter version of the name and no one could mispronounce it-so we named it Devon. My recollection is that we had that conversation at a bar on the end of the park after a long day of meeting with investors and I suspect they are both probably true.

JE: Were you thinking of the oil business at all?

LN: No, I had done the typical zigging and zagging that people do in their youth. I had a geology degree from Princeton. I had then gone to law school at the University of Michigan. I had clerked at the U.S. Supreme Court for Chief Justice Earl Warren and Justice Tom Clark. I then worked for the office of legal counsel at the Department of Justice, which was basically the Attorney General's Office at the tail end of the Johnson Administration and the first couple of years of the Nixon Administration. I was ready to move on and was interviewing at all of the law firms in Washington, D.C. planning to stay there and practice law in D.C.

JE: So was it a phone call?

LN: Yes. Well, you know he'd been planning the idea at Thanksgiving and summer vacations and finally got serious. In fact, when he finally made an offer I said, "Dad, I can make more money than that practicing law here in Washington." He made a comment that only a father can make. He said, "Larry, I don't really think you are worth that much." (Laughter) I said, "Well, Dad, that may be true but..." So he begrudgingly matched the offers that I had from law firms. Of course it wasn't much money then. So I moved here and started work.

Chapter 4 - 7:28**Supreme Court Clerk**

John Erling: I want to come back to some of what you just shared with us, but let's start out with you and your education. What was the first school you attended here in OKC?

Larry Nichols: I went to Nichols Hills Grade School and then in the 7th grade moved to Casady, which I graduated from in 1960.

JE: Then you went on to Princeton. Why did you choose Princeton?

LN: I wanted to go away to school. It was sort of an assumption that my parents and I had always had that I would go somewhere. I applied to Princeton and Yale and got in to both. I went up and looked at them and liked the way Princeton looked and went there.

JE: You received a geology degree?

LN: Yes.

JE: So there had to be this interest in oil and gas business?

LN: I started out with an early concentration in economics. I got a job one summer between my sophomore and junior year working for an SMU geology professor out in west Texas. He was a true Renaissance man. I spent an entire summer with him in Texas hiking and being outside while all of my friends had boring jobs as bank tellers or whatever. I really loved it. I went back to school and changed to geology—having no real plan in mind at the time.

JE: Then your law degree comes from the University of Michigan. Did you just apply to a bunch of law schools?

LN: No. I had spent four years in the Ivy League and I enjoyed that but I wanted to go to law school outside of the Ivy League. I talked to a lot of my friends and acquaintances about what the best law school was outside of the Ivy League and at that time Michigan's name came up more times than any other name, so I applied there and went there.

JE: You clerked for Justice Tom Clark. What kind of personality did he have?

LN: I only met him once. That was more of a technicality than a reality because he was retired and I really worked for Chief Justice Earl Warren. He was a delightful person. He had five law clerks and he would take all five of us almost every Saturday out to the University Club. We would work all Saturday morning and then we would go have lunch with him and discuss with Earl Warren the affairs of the day. He was an avid baseball fan. I had great pleasure in talking to him about his career in politics as Attorney General in California and his experience of being governor there for a long time. He was a fascinating man. He was unlike anyone I have ever known. He had a real capacity to relate to people. You could see how he got elected so many times. He could walk by your desk, stop for a few seconds and say hello and you really had the feeling that you had

visited with him for 10 or 15 minutes because he really seemed engaged during those few minutes. He wanted to know how you were doing and how you were coming along on a project or some research that he had you doing. Then during the course of the week we met with him with some regularity.

JE: He had a charismatic personality?

LN: Totally charismatic. At that time my father was doing business in Libya. One of his business partners was actually on the Supreme Court in Libya. In a small country like that, they actually don't have the separation of powers that we do. That justice wanted to come meet Earl Warren the Chief Justice of the United States. So my father called and I talked to the Chief as everyone called him and he cleared it with the Department of State. At the appropriate time John Nichols from Ardmore, Oklahoma arrived with three or four people of Arab descent at the Supreme Court and were ushered into the media room of the court. My father, while he was proud that I was at the Supreme Court, he was a fairly conservative fellow. He wasn't just super-keen that I was working for Earl Warren. You know, there were billboards that were up at the time around Oklahoma that said "Impeach Earl Warren". Of course Earl Warren walks into the room, immediately identifies the Oklahoman in the room and says, "John, how are you? So good to see you! Larry is doing such a great job here!" He totally won over my father because he gave these Libyans the impression that Earl Warren and John Nichols were buddies from way, way back. My father changed his mind about Earl Warren right then and there.

JE: Another three years you clerked for then Assistant U.S. Attorney William Rehnquist who later became Chief Justice?

LN: Yes. Bill Rehnquist was a true lawyer's lawyer. He was a true craftsman of the law. Unlike anyone I ever knew, he was a real student of the Supreme Court. Bill Rehnquist had read every book that had ever been written I'm sure about any Justice that had ever served. He was a student of constitutional law. He didn't use it much in his practice in Arizona. It's truly amazing to me that he became first a Justice and then a Supreme Court Justice, because he did not seek power. One instant that has always stuck out in my mind...the Majority Leader in the Senate had called one week asking for some information. He was going to call Friday afternoon for the answer on this research that we had done. Bill Rehnquist came into my office and said, "The Senator is going to call. He hasn't called yet. Larry, you did all of the research. I promised my son I would go watch his basketball game and so I am going to go. So when the call comes in from the Majority Leader of the Senate it will go to you." I said, "Good." But the fact that someone in Washington would put going to his son's basketball game ahead of impressing and getting to know and dealing with a ranking member of the Senate, is unknown or rare in Washington. I got the call and it was simple to answer because I had done all of the research-but that was the

kind of person that he was. For someone who did not seek power, to end up with that power I think is a really great story.

JE: It is. Let's remind ourselves now, you are how old?

LN: I was 25 or so.

JE: To be that young and be around these great men had to leave a big impression on you. There had to be things you drew from them?

LN: Oh, I did. You could compare Bill Rehnquist's behavior with behavior of some other people you would see in Washington at the time—elbowing or clawing their way to the top, or trying to—and just ask yourself, which one would you rather emulate? It's a pretty simple answer for me to give.

JE: Yes. You were a busy guy then in 1970 and 1971—because in 1972 you were married?

LN: Yes. When a new back to Oklahoma City, within a short period of time I got married, bought a house, bought a car and shortly thereafter had a baby. Sometimes I'm asked, "How did you find moving back to Oklahoma City?" I can't answer that in abstract because it was moving back and getting married to a woman that I had dated for almost four years in Washington, D.C.

JE: So you met Polly in Washington?

LN: Yes. Actually, her parents were friends of my mother. My mother and her mother were in each other's wedding in McAlester, Oklahoma. I dated her for sometime in Washington without actually realizing that. I knew they were friends but I didn't realize how close. That probably would have jinxed the whole deal, if I had known that. In fact, when I moved to Washington I had an aunt that sent me a letter that said, "Do you remember meeting Polly back in the 7th grade?" (Which I didn't.) "Here's her name and phone number—call her." So I did.

JE: Do you have siblings?

LN: Yes, I have one sister and one brother.

JE: What are their names?

LN: Betty Street and Kent Nichols.

JE: And you have children?

LN: Yes, I have two children—Tyler and Sally, who each have kids. My daughter Sally has two girls and my son Tyler has two sons.

Chapter 5 - 5:07**April 19, 1995**

John Erling: About Polly—it was April 19th, 1995, the date of the Oklahoma City Bombing that Polly was working in The Journal Record Building, which was just across the street from the Murrah Building. She was working as the executive director of the Oklahoma Foundation of Excellence. You were working just a few blocks away. Tell us about that moment when you knew that this incident had happened—what you thought and what you did.

Larry Nichols: Well, I was sitting in my office and suddenly heard this loud explosion. You could feel the concussion and you knew this was something out of the ordinary. You knew this was not a car backfiring or a truck or an airplane or a sonic boom. You knew something was happening. Like everyone else in the office, I stood up and looked around. Someone yelled that they could see smoke coming from the north of our building. I went and looked out there and sure enough there was a big cloud of smoke. It looked like there was a tire on fire or something like that. Everyone was thinking what it could be. Was it a filling station or what was there that could catch fire? No one could think of anything. At about that time, I got a call from one of my wife's colleagues—totally hysterical—she said that she was on the way to the hospital. I didn't know which hospital and I didn't know what had happened, but you can just sort of guess that Saint Anthony's Hospital would be closest and that would be where people would be going, although it could have been Presbyterian. So I just ran to the car and drove there and you could see the early responders coming in. There were all kinds of emergency vehicles coming into downtown OKC, which I circumvented to get to the hospital. She was incredibly lucky. Her carotid artery had been severed a little bit. There was a hole in her esophagus. She had stumbled out of her office and a Marine medic who had served as a Marine medic in Vietnam saw her and crammed his fist into her throat. He had enough medical training in Vietnam to know what to do. He was a big, strong guy and he picked her up and carried her down three flights of stairs. The first doctor to arrive saw her condition and pulled people off of the first ambulance who had bloody wounds, but they were superficial. He recognized her wound was not superficial, but was life threatening. They got her on the first ambulance and when she got to the hospital, one of the state's leading thoracic surgeons was still in surgery and just coming out. They called him and said don't leave your operating room because we have one coming up. So his team was organized and ready. If any one of those events had not happened, she probably would not have made it.

JE: She probably had glass all over her body?

LN: There were some minor wounds, but mainly it was a piece of flying glass that cut her

throat. In fact, you could go in the office there at the Journal Record Building and see these big shards of glass the size of your hand that were embedded in the walls, bookcases and doors from the explosion and one of those nicked her on the way by.

JE: So as bad as it was it could have been worse for her?

LN: Yes! She could have died like a lot of other people did.

JE: So then there had to be a lot of rehabilitation?

LN: There was a really long first day because the doctor said, "All of the nerves that run your body go right thorough your throat and I don't know which ones may have been injured and which ones may not. So the worst case is she may be paralyzed from the neck down, we don't know. We will wait three or four hours and find out." As it turns out, the one chord that she lost was one of her vocal chords, but you could never tell that. She speaks totally normal today. She can't yell, and at cocktail parties if it's loud she can't project her voice loudly for a long period of time without getting a little hoarse.

JE: Here we are 16 years later and she's basically fully recovered?

LN: She's perfectly fine, yes.

JE: Your faith had to be tested during all of that?

LN: It was very traumatic.

JE: You have faith because I noticed in your lobby you have a Bible and the cover of it is God's Word for the Oilfield.

LN: Yes.

JE: That makes a statement when somebody walks into your company's lobby right there.

LN: Well, we all have to have faith to get through this life.

JE: Right. Has she gone through the Oklahoma City Memorial?

LN: She has had leadership positions in the Memorial and she has given tours and she has been intimately involved in that for a long time. In fact, one of her cousins was killed in the bombing, so it's a part of our life.

JE: When Timothy McVeigh was executed, was that a day that you remember? Were there certain feelings?

LN: Not really. I didn't feel any better or any worse. There's no real vengeance. I didn't regret that justice was done but I got no joy or relief from it being done.

JE: Elsewhere on this website, I interviewed Stephen Jones who defended Timothy McVeigh. Did you know him going into all of this and understand what his role was? That everybody needs a defense?

LN: I knew who Steve was, but I did not know him well.

JE: So it was not an issue with you that somebody from Oklahoma was defending him?

LN: No. Everyone is entitled to a lawyer and needs a lawyer and Timothy McVeigh got one and justice was done.

Chapter 6 - 10:33
Early Devon Growth

John Erling: In the early days of Devon, when you came back, how many employees did you have and how did you begin?

Larry Nichols: We started with four and a half employees. We shared a receptionist with another firm, so we were a tiny outfit.

JE: How did you begin to grow? Was that through acquisitions?

LN: Yes. The plan was to buy producing oil and gas properties. We bought our first one, an interest in five fields that we closed in September of 1971.

JE: What was that?

LN: The Currie Smackover Field in Texas.

JE: What kind of money are we talking about for that first acquisition?

LN: Oh, we borrowed more than a million dollars and raised about \$1.2 million. It took us a good part of a year to get that done.

JE: You and your father were out securing funds for this?

LN: Yes. Flying all around Europe raising the money and borrowing from a bank in Dallas, the Republic National Bank at the time.

JE: That had to be a big deal for you to make that first purchase.

LN: Yes, that was a big deal, but it wasn't enough to make the company survive. We bought a small one in 1972 and then a larger one, a \$25 or \$26 million dollar acquisition in 1973.

JE: I am going to jump ahead—in 1981 you acquired the first interest in the San Juan Basin in New Mexico?

LN: Actually, the San Juan Basin in New Mexico is the field that my father discovered in 1950. So we had a small interest in that named Blackwood Nichols. When coal-bed methane became attractive, Devon had taken over operations of that partnership and we realized that the technology was changing and that Devon and Conoco and Burlington Resources were the three firms in 1988 that realized you could figure out a way to get gas out of these coal formations.

JE: When you mention new technology, are you talking about horizontal drilling?

LN: No.

JE: What was that procedure then that was new to that era?

LN: Let me tie those two together. What we realized during that period was a real learning experience. When we were building up our interests in the San Juan Basin we really saw two things. One, unlike what most people thought, that all of the oil and gas had been discovered of any size of consequence in the United States—we realized that new technology was teaching us how to get oil and gas out of old fields in old areas, and that

there was a real opportunity there. The second thing we saw was that the majors were not paying very much attention to the United States. We saw that we could compete with companies like Amoco, a large company—but we would see an opportunity in San Juan Basin at the same time Amoco would, but by the time that proposal had gone through their bureaucracy all the way up to Chicago and then all of the way back down, we would have already done the deal. They were small little deals, but we could just move a whole lot faster than some of the large, bureaucratic companies of the day, like Amoco.

JE: Were you banking that new technology would come about? Or you knew it was in line so that it would help?

LN: We knew it was there for coal-bed methane and that made us think that there's got to be technology that continues. We did not know what it would be or when it would occur, but technology has resurrected the oil and gas business decade after decade after decade. You can go back in time when I was taking one of my first courses in geology, one of the professors cited a governmental study that was right after WWI that said all of the oil and gas in the world has been discovered and it's in irreversible decline. Every decade or so, some professor or some government study predicts the inevitable decline. President Jimmy Carter did it—we had discovered all of the natural gas that there was and therefore we needed to regulate this commodity as it goes away. For literally 100 years that has been disproved time and time again. In 1978 when we decided to go public, we looked at what was happening in coal formations. We had this belief that new technology would evolve and that if we were attuned to it, that Devon could be one of the leaders in taking that new technology and building a good-sized company with it.

JE: That's pretty admirable, banking on new technology. Did you have to sell that idea to investors?

LN: Well, at the time it was easy to sell because Devon was drilling rapidly and they could see what we were doing as a small company in coal-bed methane. Some believed it would be long-term, and others didn't.

JE: Would you call yourself a gambler?

LN: No, I wouldn't call myself a gambler.

JE: These moves that you made weren't major gambles—they were well-thought-out plans.

LN: Since we were buying oil-producing properties and we were drilling for oil and gas in a conservative way, we did not have an over-leveraged balance sheet, so we weren't betting the ranch on something that did not yet exist.

JE: What year did you go public?

LN: We went public in 1988.

JE: So in that period of time, in the late '80s and early '90s, you made some acquisitions in that period leading up to this first major acquisition?

LN: Starting in 1971 we did our first acquisition. We did small drilling deals at the time. We did some public drilling funds from 1978 to 1982 or 1983, when we had the crash. We then looked around the world in the late 1980s and saw the technology coming to the San Juan Basin. We saw that the majors had left the U.S. We saw the opportunity to do some consolidation. At that time there were 400 publicly traded oil and gas companies in the United States. I have never found any other industry that had 400 publicly traded entities—not then and not now. I have never found anyone who can tell me where there were 400. The reason those companies had gone away...banks were no longer making loans to those entities because of the depression we had in the mid-1980s. The public drilling funds and income funds that my father had started in 1950, the tax underpinnings for those had gone away with the tax reform act in 1986. So you had this morass of 400 publicly traded companies and a lot of smaller ones that their financial source of revenue had been severely damaged and as we saw this new technology with the coal-bed methane and believed this new technology would come along. We actually have done acquisitions as a private company. If we go public then we would have greater opportunity to do acquisitions as a public company. So we went public in 1988. As a small company on a good day, we had a market cap of \$75 million. We were told by investment banker of the day that if you get to be about \$200 million you will really be there. I was never really sure of what “being there” was. Of course that number (200) now you had to have gradually increased over the years and today we are a \$25 billion market cap company.

JE: What kind of money was involved in that Hondo Oil and Gas Company purchase?

LN: That was a major acquisition. We were looking for opportunities in the Permian basin. Hondo was formed by Robert O. Anderson. Anderson was one of the former CEOs of ARCO-Atlantic Richfield, who bought some properties with him and formed that company. The transaction was a little more than \$100 million. We worked on it for a considerable amount of time and it doubled the size of the company.

JE: Here's a real simple question, how do you make an approach on a company like this, or any of the others that we will talk about? Or, do you hear it in the business that they are for sale? How does that simply begin?

LN: Most of the time it begins with personal knowledge and personal contacts, which I worked very hard to develop. If you wait until a company hires an investment banker and they shop it to the world—it's awfully hard to do a competitive deal. If you look at all of our acquisitions, you can see a common thread where companies who were partners don't get along. A company like Mitchell, which we did decades later, where George Mitchell and his colleagues had developed a new technology that most people did not recognize was there, and the management team of Mitchell was all 65 years of age ±year.

So you could look at that company and think, they either have to create a whole new management team and raise a lot of money to develop what they've worked on, or they need to sell the company. We think we can tell them what we can do and merge them into us as a merger. We let them continue to be shareholders. George Mitchell is still a major shareholder today of Devon, and he participates in the upside of what we have and what they have.

JE: But part of your model was not to carry much debt?

LN: There have been a few times in our life that we got leveraged, by our plan was to get out of that as fast as we can. The real learning experience for that was in the early and mid-1980s, we had ended up with a large acreage position in Western Oklahoma that actually led to probably the only difficult board meeting we ever had. We had one of the hottest plays at the time, in 1981 or 1982—Deep Anadarko Basin. In fact, there was an article in *Forbes* magazine that described how each of the major oil companies had really gotten big at some time in the past with one field or one area. How these companies had had one idea that had catapulted them above the crowd. The article then described the Deep Anadarko Basin and the upside there. It concluded with this great analyzing thought that there are some major companies in the making in the Deep Anadarko. Several of our directors arrived with visions of stardom in their head about how they were going to be directors of a major company called Devon in the making. The first thing we had on the agenda was a sale I have a major part of what we had in the Deep Anadarko Basin. We had bought it for something like under \$170 an acre and we were selling it for \$5,200 an acre, plus 50% back-end after payout. So 50% of the profits on any future successful well, we would get. That struck us as a no-lose deal, and as everybody thought about it, they realized that that was the right thing to do. We sold that and paid off the debt that we had. Of the eight transactions we made to various companies who had way overpaid in our view for these assets, seven of them went bankrupt. I'm sorry it happened to them, but I'm glad it wasn't us, because we took that and paid off all of our debt, when the crush came in 1983 or 1984 and 1985, we had 0 debt. There have been a few other times when we levered up, but it was only when we had a very clear and very precise planned with a very short time fused to get out of debt.

Chapter 7 - 2:09**Kerr-McGee**

John Erling: Acquisitions we have talked about-were you facing competition where others were nibbling as well?

Larry Nichols: There's always some competition out there. There was now that we viewed as formidable, but there's always competition.

JE: In 1994, you purchased ALTA Energy Corporation for \$66 million?

LN: Yes.

JE: In 1996 the Kerr-McGee Corporation, I believe your largest acquisition, which was for \$250 million. Talk about that acquisition a little bit.

LN: My attention was drawn to Kerr-McGee through some comments they had made in the press. I studied their reports and realized that in their entire annual report, there were only six or seven sentences about their North American onshore position. The rest of it was all offshore and international, which was the focus of the company as the CEO described their focus. They weren't paying any attention to the North American offshore. It was like so many other companies that we have bought in the past-where they became enamored with their international business and ignore these really attractive assets that they were using as a cash cow on shore. So we approached Kerr-McGee and said, "We'd like to buy your interest in what you have in the United States." They said, "Let's throw in our small position in Canada." It was a \$250-million transaction that was part cash and part stock. They became a large shareholder of Devon and we merged their interest into Devon and took over and developed those assets.

JE: Did they get some seats on your board?

LN: Yes. They got three seats on the board for a period of time.

JE: Did you ever meet Dean McGee?

LN: I did know Dean McGee. In fact, his daughter was in my class at Casady, so I knew Mr. McGee and his wife Dorothea. You did not dare bring his daughter back late or Mrs. McGee would let you know that you shouldn't do that.

JE: Did you date her?

LN: I had a couple dates with her yes.

JE: So he was definitely Mr. McGee. But Senator Kerr you never met?

LN: No.

JE: You were obviously quite young knowing Mr. McGee, but wasn't he the quiet one of the two?

LN: He was a quiet icon. Occasionally, in the early days as Devon I would be leaving around noon on Saturday after working Saturday morning and I would see Dean McGee pulling out of his parking lot at the same time.

Chapter 8 - 8:24
More Acquisition

John Erling: We have Northstar Energy Corporation, a \$2 billion company—you make that purchase—how did that come about?

Larry Nichols: We ended up with this position in Canada although we had never really focused on Canada. But suddenly we had this position in Canada that we had gotten from Kerr-McGee. We studied Canada and realized that all of the things that we had been thinking about in the United States were equally true in Canada. There was lots of opportunity because of new technology. There was a very large group of independents. In fact, the United States and Canada are unique in the world in that we are the only two countries that have ever had a large number of small privately traded and publicly traded companies—independents. England and Australia have had a few, but none like the United States and Canada. So we've got the same consolidation could take place there. We didn't see the majors playing a major role so we realized all of the circumstances in Canada were equally true as they were in the United States. We then realized that lots of other American companies had moved into Canada and had not done very well and three or four years later would sell out. We didn't understand why that was, but we studied that. We quickly realized that the answer was fairly simple. The typical United States company would move up there and buy a Canadian company and immediately move an American up there. You know good old so-and-so from Midland, Texas would go up there and run it, which offended all the Canadians. They would move a few other key players up to Canada to supervise the Canadians and all of the important decisions would be made back in Houston. The smart people at the Canadian companies would tend to leave very quickly. So we needed to either expand in Canada or get out, so we decided to give it a go. We found a company that had the right assets—Northstar. We not only wanted good assets, but we also wanted a good team, because when we closed the transaction and announced it, we told the Canadians there that this was going to be run by a Canadian management team. No one from the United States was going to come up and have any management role. We explained that we were going to delegate a huge amount of the management decisions to the Canadian management team that had been running it. In fact, since then, that has remained absolutely true. It is still run by a Canadian team. We've never sent anyone up there from the United States to take care of it and in fact, we left the name Northstar for a long period of time. One of the things we had seen other U.S. companies do, is on the day of the announcement, tell people they were working for a new company with a new name and then ask them if they were happy. Well, they were not happy. So we did not do that. We told them that they would keep their Canadian named Northstar and that was perfectly fine with us. Gradually, over time, when we bought Anderson, the employees out

there wanted to change the name to Devon Canada. I said, "If that's what you want that is okay with me. But that's got to be a decision that you make, not us."

JE: So Northstar was in 1998-

LN: Right.

JE: And that places you in the top 15 U.S.-based independents?

LN: It probably did.

JE: So we have some major, major growth. Are you having fun yet?

LN: Yes! (Laughter)

JE: In 1999 you acquired PennzEnergy Company for \$2.6 billion?

LN: Yes, that was that transaction. Pennzoil at the time was a small, integrated company. The small, integrated companies have gradually faded away. In fact, by now they've almost all faded away because it's a tough model to be integrated and competing with the larger companies like Exxon. Pennzoil divided itself into two companies. One was their exploration and production business, which we really liked because we saw areas in West Texas and New Mexico where drilling would get right up to their border and then stop, because they, as I said earlier, like so many companies at that time, were casing things internationally and ignoring their U.S. properties. But they separated themselves into that business and into a separate business of their yellow can oil business that we didn't know anything about and didn't want. Once they separated that it was very possible for us to do a transaction. So that in effect happened on December 31, and the first week of January, I was meeting with Jim Pate the chairman of the company to see if an acquisition didn't make sense.

JE: We're talking about \$2.6 billion. Before that are you selling some of your acquisitions to get you to this level?

LN: Whenever we do a transaction we always would take the properties at the bottom end of the portfolio and upgrade them. It didn't amount to a lot of money. At that time, we were about a little over a \$2 billion company so it more than doubled us. Some of our directors patted me on the head after one board meeting, as I was getting excited about this and said, "Larry, don't get too excited because we don't think you can do this. We don't think we can do this. But, you know, we don't want you to be depressed when it fails." I said, "Okay, I won't." But we were able to pull it off.

JE: Then in 2000 you merged with Santa Fe Snyder Corporation and that was 3.5 billion in cash? That's pretty stout.

LN: Yes. It was the same strategy. They were chasing a lot of international assets and ignoring the ones in the U.S. Santa Fe Snyder was very similar to Pennzoil in terms of structure. We had actually approached Santa Fe Snyder several years before that and they had said that they liked the idea of a transaction, but they wanted to be the surviving company

and running it. They had grand plans for where they thought they would go. In the several years that had passed since we had first talked, those plans had not materialized and they were willing for us to effectively acquire them.

JE: In 2002 you talked about how you acquired Mitchell Energy Development for \$3.5 billion—didn't that put the Barnett Shale in North Texas into play for you?

LN: Yes. There is an interesting story there because George Mitchell had tried to sell that a couple of years earlier in 1999. They had hired Goldman Sachs and peddled it to every company there was, including us. We had sent our engineers down to Houston and they had concluded that they didn't think that the technology that Mitchell was working on would work. Every other company came to the same conclusion and it was a failed sale. No one tried to buy it. After we did Santa Fe Snyder I was looking at some of the Mitchell material and saw that some of their production was in fact rising. I got our team back together and said, "Go find out why it's rising." I called George Mitchell and said, "We'd like to have another look." There was some grousing among our engineers who said, "We've already looked at it and it doesn't work." We send them back down there and they came back and said, "It does work." He had refined it enough and made some changes so that the hydraulic fracturing in a small area would work. The technology that they had was fairly limited geographically. We had the idea of taking the method of completing wells and drilling horizontal wells, which Mitchell had tried to do, but failed. So we were going to combine two technologies—our own technology of drilling horizontal wells, plus the hydraulic fracturing that he did, and if that worked it would open up a very wide area in the Barnett Shale. In fact, that technology of combining the two has transformed the oil and gas industry, not only for getting gas out of shale formations but getting oil out of various formations too.

JE: So you credit George Mitchell with the hydraulic fracturing and the horizontal drilling?

LN: No, they pioneered the hydraulic fracturing and figured out how to do that. We combined that with horizontal drilling, something that he had not then able to do.

JE: Horizontal drilling had been out there?

LN: Horizontal drilling had been a technology that people had used, but they had never been able to combine the two.

JE: I noticed in horizontal drilling, John Eastman of Long Beach, California became the pioneer when he and George Failing of Enid, Oklahoma saved the Conroe, Texas oilfield—so we have an Oklahoma connection to horizontal drilling?

LN: Yes, horizontal drilling has been used for generations. There are oilfields out in California that drilled out into the ocean using horizontal drilling, but it was combining in being able to hydraulically fracture a well that had been drilled horizontally that no one else had figured out how to do.

Chapter 9 - 6:16
Hydraulic Fracturing

John Erling: Can you explain a little bit about hydraulic fracturing and what happens?

Larry Nichols: It's very simple. Historically, before hydraulic fracturing, we had been able to produce oil and gas out of formations that have porosity and permeability. They have oil and gas in them, but they are like sandstone-like a sponge. It's in porous formations like a sponge that we have historically drilled oil and gas out of. Now shale has a lot of gas in it, but it is so tight. If I make my analogy with a sponge, if there was water in it, the pores fit so tightly together that it had no permeability so nothing could flow out. So to get the gas out, you have to figure out a way to crack that rock because it's too tight. What hydraulic fracturing does very simply, is under great pressure, use water and a little sand to crack that rock. You apply great pressure to the shale and it cracks and you inject sand into that rock to help keep the pores open. It's hydro. It's fracturing the rock with water.

JE: Breaking it?

LN: Breaking it with water.

JE: That's as simple as we can get it.

LN: That's fundamentally what it is—it's very simple.

JE: Then the gas comes out?

LN: Once you fracture the rock the gas comes out.

JE: How do you capture that?

LN: You fracture the formation and it flows into the well bore and you produce it.

JE: The practice of hydraulic fracturing has come under some scrutiny hasn't it? There have been concerns about environmental and health and safety. It has been suspended in some countries as a matter of fact.

LN: It is the most amazing thing to me. It shows the level to which the environmentalists will stoop. No one has ever been able to find a single well anywhere where hydraulic fracturing has caused a problem. Not one. The technology actually for both horizontal drilling and fracturing has been used for more than 60 years. There is not a single well in the world where there is any documentation that hydraulic fracturing caused any problem to water and yet they are constantly raising that problem. I've testified before Congress a couple of years ago and others have done the same thing. The EPA has been challenged by testimony to show us a well where it's caused a problem. No one can show the well. The newspapers can give us anecdotal evidence, but whenever anyone investigates it, it's always caused by something else.

JE: Because this interview is an audio time capsule and there are going to be students listening to this in 10 or 15 or 25 years from now. To make it current here, I have a

newspaper, the *Tulsa World* dated October 21st that says, "The EPA plans rules for fracking water."

LN: Right.

JE: That shows how current this issue is.

LN: It's totally current. The environmentalists have been very successful in raising concerns about that. It's an interesting story. The drilling of oil and gas wells in the continental U.S., has since the beginning of time been controlled by state government. The states have control of that. Some years ago when people started first trying to get the EPA involved, there was this remarkable outpouring by both Republican and Democratic governors who said, "What a minute." The governor of Wyoming said, "Show me a well in the state of Wyoming where our state regulators have not done an adequate job or a perfect job of protecting this. Show me the well in Wyoming where there has been any problem caused by hydraulic fracturing." No one ever did, but the drumbeat has been kept on by the current administration because they want the federal government to have that control. So you see the EPA trying to get into the act and controlling what state governments have done a totally adequate job of doing.

JE: They are on a schedule it says in this article to develop standards for wastewater discharges produced by natural gas extraction. Standards for coal-bed methane are expected for 2013, so they too face-

LN: The EPA really doesn't have any authority. It's interesting to see how that has evolved. They first tried to pass legislation to control hydraulic fracturing itself. The federal government has no authority to do that. All of the states, both Republican and Democrat have challenged their authority to do that. So the EPA gave up on that technique and has then shifted over to the disposal of water and air emissions as a way that they can control wells. If you want to control drilling in the United States and you are at the federal level-the federal government controls offshore and they control certain federal lands that are mainly in Wyoming and New Mexico, but the federal government doesn't have any control over all of the drilling that is done in all of the other states. That has frustrated some people in Washington who want to stop drilling in the United States. There has been legislation proposed-the chairman of the House Natural resources Committee proposed legislation a couple of years ago. He's from West Virginia and he is very tied to the coal industry. He proposed legislation to in his words, "have a pause in natural gas drilling." He tried to stop it, but that didn't go anywhere. But since they don't have that power in Washington, if the EPA can find a way to control drilling then they will have a lever to do what some of the environmentalists in this administration want to do, which is stop oil and gas drilling.

JE: We are talking about the Obama Administration, for the sake of history. Under the

Republican George W. Bush, was there a whole different attitude?

LN: Well, there wasn't a problem. Again, show me the well where hydraulic fracturing has caused a problem. The problem is manmade by raising the concerns about hydraulic fracturing to give the EPA a lever to try and have control at the federal level that they don't have now.

JE: Is there more of a risk with fracking for natural gas and oil than the vertical drill?

LN: No.

JE: So investment-wise there is no greater risk?

LN: No.

Chapter 10 - 4:35

Barnett Shale & Bakken Shale

John Erling: We talked about the Barnett Shale. That is significant here because it's not too far from us. What area does it cover in Texas?

Larry Nichols: Oh, it covers 10 counties north and west and south of Fort Worth and actually under Fort Worth.

JE: This could be the largest reserve of any onshore natural gas field in the United States.

LN: It is right now. Now, the Marcellus in Appalachia could become larger.

JE: The challenge has been difficult for you down there then because it is in urban areas?

LN: We elected not to go in urban areas. It's just too costly and there are too many problems in urban areas. We have concentrated our acreage acquisitions primarily outside of urban areas.

JE: I noticed that the Barnett Shale was named after John W. Barnett in the late 1800s. They named a local stream Barnett Stream and then they noted this thick, black, organic, rich shale near the stream and so the shale was named Barnett Shale. Little did they know what it was holding-

LN: Absolutely.

JE: How many wells are you operating in the Barnett Shale?

LN: We operate a little more than 4,000 wells. We are producing 1.2 or 1.3 billion cubic feet a day, which is probably the largest amount any single company produced from any field in the country. To put that in perspective, that little over 1Bcf a day, our total country is producing about 60Bcf a day, so it's a major natural resource for the country.

JE: Do you have many undrilled locations?

LN: We have more than 4,000 undrilled locations.

JE: You can decide when you want to drill and when not to depending on the market?

LN: It's one of the game changers for the natural gas industry. Historically, our challenge has been to find relatively small fields. So if you went to a utility and wanted into a enter into a long-term contract, they would want to know where the gas is coming from and you would have to say, "some place we are going to discover in the future," and they would not be interested in entering into a contract and nor would we, because to say for 10 years that you know where the gas is coming from—we haven't been able to do that. Now you can look and I use the Barnett Field as an example—if a utility wanted to enter into a 10-year contract with Devon for 1.5 billion cubic feet a day, a meaningful amount of gas relative to total amount of gas consumption in the United States, we could show them exactly the wells that we could drill in the future to deliver that gas to them.

JE: This is producing many jobs in Texas isn't it?

LN: It's producing a lot of jobs in Texas and North Dakota and lots of places in this country.

JE: Speaking of North Dakota, I was going to mention that because that's my home state, we have the Bakken Formation in North Dakota. I don't sense that you are there?

LN: We are not there. We were focused on other fields at the time. That's a great field that's using a lot of the same technology like horizontal drilling, but doing it in an oil environment rather than a gas environment.

JE: How does the Bakken Formation compare to the Barnett Shale in size?

LN: Well, it's oil, so I don't really have those numbers off hand, but it's a major oil resource and it's indicative of, if the government would allow us, the resources that we can develop in the United States. Oil production peaked in the United States in the 1970s. I and I think others thought until recently that it was in irreversible decline. A little blip when the Alaska production came on...but now for the first time, serious students of the industry are predicting that the peak oil production in the United States is in front of us and not behind us, which is a thought that I and others would have laughed at not that many years ago.

JE: As an aside to show what money can do to smaller communities, we talk about fracturing, it probably had fractured some relationships I happen to know in North Dakota, because there were some families who were affected by the wealth and others who were left out. They would meet in the coffee shop and talk about how one guy hit it big and another did not. So it has probably even broken some relationships because some hit and some didn't when you bring it right down to the nitty-gritty of how it affects people?

LN: It does. Greed and envy are bad human motives, but it has for everyone including those that may not have benefitted—everyone in those communities and those states that are affected are benefitting, because it's injecting a huge amount of revenue into the tax

system and into the schools and highways. So they personally may not have benefitted in their own checkbook, you can look at North Dakota or New Mexico or Oklahoma, everyone benefits from the wealth that's created there.

Chapter 11 - 6:32

Natural Gas - Wind - Solar

John Erling: You are in a number of states and I will just mention them and maybe you will have a comment. Devon is now in Wyoming, can you tell us about how many employees you have there or how many wells? Are there unexplored wells in Wyoming?

Larry Nichols: We don't have that many employees in Wyoming. It's an important state to us, but it's not a huge count as far as people. I don't have a count of the wells in my head.

JE: Is Montana a big state for you?

LN: It's not that big for us. Our major states are of course Oklahoma, Texas and New Mexico and a little in Wyoming. We have exploration going on in Louisiana and Ohio and Michigan and a variety of states where new opportunities are developing. Of course, Canada has its own opportunities.

JE: In Oklahoma, is there room for a lot more exploration in our state?

LN: That's the interesting thing about technology. You look at the number of wells drilled in western Oklahoma, or the number of wells in the Permian Basin in west Texas and you would have thought surely all of the oil and gas there had been discovered. Or you can look at the Barnett Field, a field that is literally under Fort Worth—you think of all the oil and gas people in Dallas and here is a field that is literally a stone's throw from their downtown. So, all of these fields as new technology comes about are finding new ways to get oil and gas out of areas that you would have thought five or 10 years ago are fully depleted and that will happen again in the future.

JE: So then are you still counting on technology that is not in use yet, that would make it even easier?

LN: Absolutely—particularly on the oil side—the amount of oil that is still left in fields that we don't know how to get out now...

JE: There is a lot of natural gas out there that has not been captured, but as consumers we have to begin to use it in various ways. What do you see for the future for natural gas?

LN: The main future for natural gas in the short-term is going to be for utilities. Most people don't really know where electricity comes from. They think the tooth fairy delivers it

late at night. But 40 to 45 percent of our electricity is generated by coal, 20 percent is generated by nuclear and 20 percent or so comes from natural gas. A very large portion of the coal-fired plants in the country are about 40 or 45 years old. They are very old and very inefficient and very polluting because of when they were built. As those old plants reach the end of their economic life. Then a utility has a choice of spending several billion dollars adding scrubbers and trying to retrofit a plant that is inherently old and near the end of its economic life, or building a new, modern, gas-fired plant that produces less than half the greenhouse gases. They are going for the newer natural gas option almost all of the time. You can see that around the country. There is hardly a week and certainly a month that goes by when some utility somewhere doesn't announce that their next plans are to tear down this old coal-fired plant and to build a new gas-fired plant.

JE: There is a competition between coal and natural gas. Is there a place for coal as we talk about wind and solar?

LN: Absolutely. If you look to the future, in the next 20, 30 or 40 years, unless there is some new, radical discovery that no one has in mind now, we are going to be using the same fuels that we are using now. The ratio may change a little bit to shift in favor of natural gas because we have it and it's cheap and for the first time ever it's abundant. So coal loses market share, but could we run this country entirely on natural gas? No way. We need coal, nuclear, natural gas and oil.

JE: What about wind and solar? How do we look at those in the future?

LN: Wind and solar are nice little niche fuels that have a very limited potential. Wind has its own environmental problems in that these windmills whack a large number of migratory species out of the sky. There was one in Pennsylvania that I read about last week where they found a lot of endangered bats that had been killed by one of these wind turbines. So they do have their environmental problems and they are serious. But the main problem that wind has is that it doesn't blow all of the time. As we know here in Oklahoma the wind comes and goes with great rapidity. So whenever you see a wind plant, you almost have to have an offsetting natural gas plant. Why natural gas? Because you need a fuel that in the words of the utility people is dispatchable, something that you can turn on and off very quickly. As we all know from our gas-fired stoves at home, you can crank up the heat from natural gas very quickly. So with wind you need a second power source to use so that when it isn't blowing, which is most of the time, you are relying on some other fuel. So we don't really view wind as much of a competitive threat at all. There are only a few places where there is enough wind continually to justify an economic plant and even then they require federal subsidies that make them competitive.

JE: T. Boone Pickens, whom I have interviewed elsewhere on this website, of course has

been a proponent of wind energy, capturing wind from Texas up through North Dakota. When you hear him talk about that, do you think that's viable?

LN: You must have talked to him a while ago because he has abandoned that. He has sold a lot of those wind-fired plants and has shifted over to natural gas.

JE: So he is no longer promoting wind?

LN: Not very much, because the economics just don't work.

JE: So he jumped on that idea before he figured out the economics of it—because he was heard on every network and he was out there promoting it.

LN: He did. He promoted it quite a bit until he realized that it just doesn't work. Now, there's a role for wind, but if you are in the natural gas business you don't feel threatened by it. Solar has even more serious economic problems and that requires major subsidies for that to work. We use solar and there is a place for solar. We use solar panels to run some of our remote oil and natural gas operations, where it's too remote to justify stringing an electrical wire. So solar particularly in remote locations has a real use.

Chapter 12 - 3:27

Energy Independent

John Erling: With all of these forms of energy that we have talked about, is there a time that the United States will be independent from foreign oil?

Larry Nichols: During my entire career, I would have said there is no way that the U.S., or if you broaden it to North America to include Canada, there is no way that we could become energy independent. In the last year or two, for the first time in my life, I've begun to wonder about that. When you look at the oil sands up in Canada that we now know how to produce, and you look at the benefits of horizontal drilling that have really changed the whole economy of our business, opening up places like the Bakken Shale that you mentioned earlier, or the Permian Basin or all the natural gas. I'm not sure I could say that we'd become energy independent, but we could certainly move the needle dramatically if we really got at it to make ourselves substantially less dependent on some of those more dangerous parts of the world that we rely on now.

JE: This is coming from you in the business, you are saying yes, we possibly could, and yet we hear politicians say that we need to be more dependent on our own sources of fuel, but that is not a sure thing is it?

LN: Oh I think we can improve our stature a lot. Who knows with technology—I wouldn't want

to say that we can't become energy independent if we put our mind to it. If we embrace the development of oil sands and coal and oil and natural gas and these resources that we have—rather than chasing things that are politically trendy that don't work—I mean look at all of the money that our government has spent on companies that were involved in some green enterprise or another that had no sound financial backing and no scientific backing and they are going bankrupt right and left.

JE: Is it possible that there could be another discovery in the United States? Or have we discovered all the oil and natural gas fields and we just haven't extracted it?

LN: It's inconceivable to me that there will not be a discovery of new technology, the history of the world tells you that. I mean look at the discoveries we have done with telephones and TVs and all of our communication and computers. We had one of the first computers in the late 1970s and it was a big clunky thing that did virtually nothing. You and I now have hand-held devices that will do more than that. Any iPad or iPhone or whatever, once it gets to be about three or four years old it's old technology and you throw it away and get the new one.

JE: So here we are in 2011 and somebody listening to this in 2035—

LN: —will snicker.

JE: Right. And states who thought that surely they were not an oil and gas state may become one?

LN: Look in the last two years at North Dakota who did not view their state as an oil state at all.

JE: They had some oil, but not to the degree that they are (aware of) now.

LN: No, they are about to become the third largest oil producing state in the country.

JE: You hold interests in nearly 1.3 million onshore acres, with more than 2/3 of it undeveloped—is that figure accurate?

LN: I think it's a lot larger than that if you include Canada.

JE: So holding all of these undeveloped gives you that good position for the future because you are ready to drill when the market calls for it.

LN: Oh yes. We are constantly looking for new areas where you can take evolving technology and apply it to both new and old areas.

Chapter 13 - 3:26**Devon Pride**

John Erling: With all of these forms of energy that we have talked about-is there a time that the United States will be completely independent from foreign oil?

Larry Nichols: During my entire career, I would have said that there is no way that the United States or if you broaden it and say North America to include Canada, there is no way that we can really become energy independent. In the last year or two, for the first time in my life, I've begun to wonder about that. When you look at the oil sands up in Canada that we now know how to produce, you look at the benefits of horizontal drilling that have really changed the whole economy of our business opening up places like the Bakken Shale that you mentioned earlier, or opening up the Permian Basin, or all of the natural gas-I'm not sure I could say we've become energy independent. But we can certainly move the needle dramatically if we really got at it to make ourselves substantially less dependent on some of those more dangerous parts of the world that we rely on now.

JE: This is coming from you in the business. You are saying yes, we possibly could and yet we occasionally hear politicians say we need to be more dependent on our own sources the fuel, but that is not a sure thing is it?

LN: Oh, I think we can improve our stature a lot. Who knows with technology-I wouldn't want to say that we can't become energy independent if we put our minds to it. If we embrace the development of oil sands and coal and natural gas and these resources that we have, if we embrace that rather than chasing things that are politically trendy and don't work-I mean look at all the money that our government has spent on companies that were involved in some green enterprise or another that had no sound financial backing and no scientific backing and they are going bankrupt right and left.

JE: Is it possible that there could be another discovery in the United States? Or have we discovered all oil and natural gas fields and we just haven't extracted it?

LN: It's inconceivable to me that there will not be a discovery as new technology-the history of the world tells you that. Look at the discoveries we have done with telephones and TVs and all of our communication and computers. We had one of the first computers in the late 1970s and it was a big clunky thing that could do virtually nothing. You and I now have handheld devices that can do more than that. Any iPad or iPhone or whatever-once it gets about three or four years old it becomes old technology and you throw it away and get the new one.

JE: So here we are in 2011 and somebody listening to this in 2035-

LN: will snicker.

- JE:** Right, and states that thought that surely they were not an oil or gas state may become one?
- LN:** Look in the last few years at what happened in North Dakota—they did not view themselves as an oil state at all.
- JE:** They had some oil, but not to the degree that they are experiencing now.
- LN:** They are about to become the third-largest oil-producing state in the country.
- JE:** You hold interests in nearly 1.3 million onshore acres with more than two thirds of that undeveloped. Is that number accurate?
- LN:** I think it's a lot larger than that if you include Canada.
- JE:** So holding all of these undeveloped acres gives you that good position in the future—you're ready to drill when the market calls for it.
- LN:** Oh yes. We are constantly looking for new areas where you can take evolving technology and apply it to both new and old areas.

Chapter 14 - 4:15

Skyscraper

John Erling: Your outlook for oil and natural gas prices 10 or 20 years down the road—what do you think? Are they going to make it easier for people to want to invest in producing?

Larry Nichols: I am 100% convinced that, as I said earlier, this world is going to be run on oil and natural gas and coal and nuclear with little niche fuels like wind and solar playing their role for a long, long time to come. Someone has to make a new invention in how you store electricity in batteries or whatever. Natural gas not only is primed to take over coal's role in running electrical plants, but it also is ideally positioned to make inroads in fueling cars and vehicles. It's already being used in a lot of fleets. The bus system of Washington, D.C. is proud to run on natural gas. They take them back to a central refueling station and refuel them. There are now refueling stations all up and down the interstates, so you can't buy a car and do that now, but that will come. We are already seeing some shift there, so oil and natural gas are well-positioned for a long time.

JE: So in 30 years, there will be natural gas stations happen down the Will Rogers Turnpike?

LN: Long before then I think. We are already experimenting around just in urban areas with having stations where you can fill up not just with gasoline, but with natural gas too.

JE: Your company has given a lot to the community. I think in 2004 Oklahoma University announced Devon's \$10 million lead gift for the engineering facility known as Devon

Energy Hall. At the time, it was the largest corporate gift in OU's history. That was a major contribution to our state and to the industry. You must feel good about that.

LN: It does. It's obviously used by the student as a classroom building and it's educating all kinds of engineers, including petroleum engineers. We are proud to have played a role in that.

JE: I should point out that your father died August 3 comment 2008-before the building was completed, but this was following his wishes of course.

LN: Absolutely.

JE: And now you are building tall buildings?

LN: We have gradually been running out of space. We are now in five buildings in downtown. We are scattered all over in buildings downtown, which is very inefficient, so we are building a new complex. It will be both a skyscraper as well as a lower building that has quite a few square feet in it too.

JE: Well it is 50 stories tall and the states largest skyscraper. It is scheduled to open in 2012?

LN: Yes, we will start moving in, in March of next year. It should be finished by June or July of next year, 2012.

JE: I'm quite certain you didn't set out to build the state's largest skyscraper, but it just worked out that way because you needed that space?

LN: That's exactly right. We told the architects that we didn't care how tall it was and that wasn't the goal. As one of them said, "Height is fleeting, beauty lasts forever." We wanted to build a building that was adequate for our needs and would really be a fun place to work. After all, our employees and all of us work a lot of hours in the office and we wanted a place that was fun and engaging and they would be proud and eager to work in. We hope that's what we've built. The size of it was really a very simple matter of math. We looked at our employee headcount here in Oklahoma City and then forecasted out in each department what each department's needs would be over the next five or 10 years to come up with a number of bodies that we needed to have room for. We then asked an outside firm, whom we've worked with in the past in space planning to study our offices in Houston and Calgary and elsewhere and come up with the ideal square footage, per floor, that would work best for us and would be the most economic. They came up with around 28,000 square feet and then you just do the math. I was a little bit surprised that it got that tall.

JE: What is the address of the new building?

LN: Actually, we haven't picked the address yet. We are on four different streets and we haven't landed on that. (Laughter) But I think most people will be able to find it! (Laughter)

JE: Yes. Was your father aware of the new building that would serve as your headquarters?

LN: No.

JE: He didn't know that that was going to come into play?

LN: No.

Chapter 15 - 4:22

Future Prices

John Erling: I have another headline here about oil prices. To make this current, it's dated October 25, 2011, which was just yesterday. It says, "Signs of growth send oil prices up. Benchmark crude back above \$90."

Larry Nichols: Oil is volatile. There are three things that drive the price of oil and natural gas. One is the weather worldwide, particularly for oil. The second is the economy worldwide. Oil is influenced by whether China is booming or whether Europe is in recession. Thirdly, it's influenced by politics worldwide, as Libya just had the problem that they have had and they're off-stream—is the United States encouraging or discouraging oil? All of those three things: the economy, the weather and politics have a huge impact and drive the price of oil and natural gas. Predicting all three of those at any one moment in time is next to impossible because you never know. That is going to lead to volatility in those commodities for a long time to come.

JE: Right now Norway is a very wealthy little nation because of its offshore drilling. You were offshore at one point, when did you decide to divest your company from offshore and just be right here in North America?

LN: Several years ago, as we saw the incredible portfolio that we were developing in natural gas in the United States onshore, we saw that that technology could also open up oil areas that one had previously thought were mature and as we saw our ability to economically develop the oil sands in Canada—we looked at all that opportunity and realized in 2008 when the recession came that we had to starve all of those because we were committed to these long-term projects in the Gulf of Mexico and internationally, that were assuming a lot of front-end cash and not generating short-term results. Because of the growth in opportunities that we saw in North America, we realized that the risks and returns were a lot more attractive in onshore North America versus offshore. Working on the edge of technology there, not knowing that the BP problem would occur and the administration would shut down drilling there for a year. There are challenges in dealing with a variety of corrupt countries internationally in Africa

and elsewhere. When you just compared the risk and the reward, we realized that we had really exceeded our own wildest dreams of developing resources in onshore North America. We decided to sell everything we had in the Gulf of Mexico and everything we had in Africa and China and elsewhere. We decided to sell all of that. We told Wall Street we thought we could sell it for about \$4-\$7 billion and we sold it for \$10 billion. And after the problems in the Gulf of Mexico, we were delighted to be out of the Gulf of Mexico because we can create a much better return for our shareholders with a lot less risk developing things in western Oklahoma.

JE: How fortunate!

LN: The timing was exceedingly fortunate.

JE: I know you put a lot of brainpower in your engineers do as well, but it must be instinct that plays in some of this?

LN: I've heard the analogy about fishing—you know the moment a fish bites a hook is luck. But it took a certain amount of skill and planning to get that fish hook in the right place at the right time, to give yourself an opportunity for luck to happen.

JE: Wall Street seems to like you. People on television like Kudlow and Cramer half very complimentary remarks about Devon and you. Do you enjoy doing interviews? You do a good job at it and you represent the company well, but it must feel good to know that these guys like you?

LN: Well, that is comforting although there are easier ways to start the morning been doing a live, nationwide interview at 6 AM central time sitting on a metal post with a thing stuck in your ear so you can hear them. There's an easier way to wake up. But no, that is true. We are a good, solid long-term play. There are always some short-term smaller companies that Wall Street will chase and some of them make it—we used to be one—and some of them don't.

Chapter 16 - 6:04

Devon Invests OKC

John Erling: You have been very involved in Oklahoma City in many ways. I think recently the Myriad Gardens were refurbished?

Larry Nichols: Yes.

JE: You put how many dollars into that project?

LN: In doing our project it was really a fascinating experience. In getting ready to build our

building, we invited both architects and landscape architects into town. I would give them a little tour of downtown. We would walk through the central business corridor, the Myriad Gardens and Bricktown so that they could see the context in which they were going to do their work. Visit after visit, any time of the day or night you would walk through the myriad Gardens and there's no one there. You would walk over to the Bricktown Canal and there would be a lot of people walking up and down the Bricktown Canal. These people really opened my eyes to the fact that while Oklahoma City did a very good job with the MAPS programs and building new buildings like the Ford Center or in redoing old buildings like the Civic Center where the symphony and the ballet are held. We have done a good job with buildings and building the Bricktown Canal, but our streets and parks were in miserable condition. It was like an old, comfortable pair of loafers that were quite comfortable to you, but really were held together by duct tape. Myriad Gardens in particular was surrounded by berms with no visible entrances. You couldn't see the botanical tube as you walked around it. I remember standing on the corner where the Colcord Hotel is with one of the landscape architects. We were standing there looking at the Gardens. He said, "Where's the entrance? All I see is a berm. I looked down these two streets Sheridan and Robinson-I don't know how to get in. And Larry, you tell me that there's a botanical tube inside that's very interesting, but I can't see it." I came down here one Saturday and drove around the entire perimeter looking in. There were only a few places that you could see inside. One of the attorneys at McAfee & Taft, Frank Hill had the idea of creating a TIF, tax increment financing, where we would take all of the tax dollars that Devon was going to spend over the next 20 or 30 years and do a TIF with those so that those tax dollars would be spent in the downtown corridor redoing all of the public streets and all of the public parks and all of the sidewalks. We then realized that if we were spending those dollars it would take 20 years to get it done. Well, that seemed like a real long time. So Devon made a loan to the city of \$95 million so that we could do it all at one time. Our loan will be paid back by our own tax dollars, so we are willing to assume the credit risk, but it gave the city the opportunity to do the Myriad Gardens at one time and not do what you have to do on federal highways. Look at I-35. It's been under construction between here and Dallas all of my life and it probably will be for all of anybody else's life. It's always under construction. To go into the entire downtown area and say, "We're going to tear this place up-but in two or three years we're going to have it done." It was a great joy a couple of weekends ago to open the Myriad Gardens and see the young kids there playing in the new children's fountain. The squeal of the young kid is all the reward a person needs. They are honest-if they don't like something they will let you know. But if they are squealing and having fun, you know that too.

- JE:** I know you've helped the community, but would this be one of the kingpins for you?
- LN:** Yes. I mean, the ability to redo downtown. What Ron Norick did in starting MAPS, but for that, we probably wouldn't be here—we would have moved probably to Houston. So to help move the ball forward...you can go back—we talked about Dean McGee—a true leader in this community and Ron Norick is another leader. To take what they've done and move it down the road a little bit is something that Devon has been able to do. You can see it in just the number of people in the Myriad Gardens that for the last 30 years would not have been there.
- JE:** Ron Norick is someone else that I have interviewed and you can find his interview elsewhere on this website. Have you been able to tell him that had it not been for him and MAPS that you would have moved to Texas?
- LN:** He's a friend of mine and I can absolutely say that. If you lived in Oklahoma City in 1988, 1989 and 1990, this was a pretty dumpy, rundown place. We would not have been able to attract people here. In the early 1990s after we did Pennzoil, it was difficult for us to attract people here. Now we have people who are very delighted to move to Oklahoma City because of all the truly remarkable changes that have happened in the city starting with the various MAPS programs and continuing with the Devon TIF and our own building that is dramatically changing what downtown Oklahoma City looks like.
- JE:** I don't know if I mentioned the amount—the \$750 million amount attached to your new headquarters—is that a correct figure?
- LN:** Right.
- JE:** Imagine the economic impact that has for downtown Oklahoma City.
- LN:** We are (inaudible) a little over \$1 million a day through that project. There are 1,200 people that show up not show up for work to build that complex. I must say that what Sonic has done in taking over the old Kerr-McGee Center, and redoing that—there's some real visionary work there. This growth has made it possible for companies like Continental Resources, that needed to leave Enid because of their need to hire people, to land here in Oklahoma City to the betterment of all of us. Ten years ago they would've passed right over Oklahoma City and gone down to Houston.
- JE:** Here we are in 2011. You are now leading you Oklahoma City's Alliance for Economic Development, where you are the chairman—this will consolidate and coordinate business in Oklahoma City?
- LN:** Yes, the Alliance plays a role in providing a one-stop shop for someone who wants to deal with government. They can go to one place and figure out the various places they need to go. It complements what the Oklahoma City Chamber of Commerce is doing through their economic development programs in downtown Oklahoma City. There are a variety of organizations that are playing complementary roles to help grow this place and

they are doing a great job of it.

JE: Have you been asked or have you ever considered running for public office?

LN: No. I'm flattered, but I've got a full-time job now.

JE: But you've been asked I would imagine?

LN: Oh, some people have suggested that.

Chapter 17 - 5:52

Reflection and Advice

John Erling: Looking back and so students can hear you reflect, when your father called you back in 1971 did you have lofty goals for the company at that time?

Larry Nichols: It always tickles me when somebody says, "When you founded the company what was your vision?" In all honesty we had no vision at all other than figuring out how to survive for the next year and how to make payroll. There was no grand goal at the time. Particularly during the 1970s it was merely looking at the opportunities that we had to move the ball a little bit forward. By the time we went public in 1988, then we really were beginning to think more about a long-term vision. As I said earlier, where you look at the need to consolidate the morass of 400 publicly traded companies into larger companies—our vision was, and it's proven to be true, that there would be a handful of companies that would emerge that would be large by the standards of the day, that would be very efficient and very well run and very well-capitalized and would really move oil and gas development in North America forward. We thought we could play a role in doing that since we had acquisitions experience and drilling experience. We had more of a coherent vision by the time we got 1988 and went public. It's proven pretty much on target, but in the early days in 1971 and 1972 it was—where can we find another deal to stay alive?

JE: When you made some of these acquisitions, you must have done some early on with trepidation. Did you ever have sleepless nights?

LN: No. Particularly in the early days when we sort of lived on the edge of going broke, I didn't view it as a long-term career for sure. I always thought if this doesn't work, I'll go back and do what I had planned to do which was practice law. That faded away sometime during the 1970s, but you know when you're in your 30s you are fearless.

JE: Right. Did you ever make some bad deals?

LN: A couple a small ones, but we did those when we were private and I'm not going to tell you about those. (Laughter) They weren't really bad—they were ones that just didn't make

much money. They were ones that you wished you didn't do, but we didn't do any that crushed the company.

JE: Was your father your major mentor or example or are there other names of people that you looked up to?

LN: My father by far and away was my mentor.

JE: Was there any historical figure that influenced you as you read about their lives?

LN: Well, I learned a lot from Bill Rehnquist and Earl Warren, but my father was my mentor.

JE: Twenty-five years from now, you'll be 95 years old-think of that.

LN: Good grief. I had better take care of myself.

JE: Maybe we have answered this question already, but will we still be dependent on foreign oil in 25 years? Natural gas will be used more by consumers—we've kind of been over that already but-

LN: I think looking forward natural gas will play a much larger role. Will we be energy independent? Probably not but that's a hard thing to say for sure. I wouldn't want to stake my life on that premise.

JE: What was your father's best advice to you?

LN: I don't remember any pithy sentences or anything ,but it's more about an attitude of be honest with yourself about what you can do and what you can't do. To be honest in your dealings with others, and insist that others be honest among themselves and with you. You know, just having a high level of integrity. Don't let other people run over you, but just because you have the economic power, don't run over them.

JE: That's good advice for students that will be listening to this. Well, what a life!

LN: Well, it's not over! (Laughter)

JE: No it isn't. What do you plan to do in the next 10 to 15 years?

LN: There are so many opportunities out there even though I have turned over and continue to turn over the day-to-day operations of Devon, the opportunities to help a city, help a community or a university, are endless. It's hard to predict the future and what your own health and energy level will be. Most of my relatives have lived well into their 90s, so I plan to give it a go for a while.

JE: Over these years, you had to get away from the business did you have hobbies or something that you went to?

LN: I love to travel. I gave up golf a long time ago because it takes too much time. I really enjoy business. You sometimes hear about somebody who says, "In three years and nine months I'm going to retire and I'm eagerly looking forward to it." I just feel sorry for somebody like that who doesn't enjoy what they do. If I had any advice for students it would be to find what you enjoy to do. If you don't enjoy your current job, figure out why. Maybe it's inside you or maybe you're doing the wrong job-but go do what you want to

do because you owe it to yourself. I've been blessed to be doing exactly what I enjoy doing.

JE: So we can trace it all back to your father who was insistent. If he hadn't been insistent about this you might be practicing law.

LN: And my mother of course deserves credit for instilling in me a desire to work hard. She was a real taskmaster in high school. She did not tolerate low grades and cracked the whip and that sort of self-discipline she instilled.

JE: So then your advice to students, whether they're interested in your business or anything else looking to the future...

LN: Find what you enjoy doing. Surely there's something that everybody enjoys doing.

JE: What you just said-I ask that question of everybody. It's always down to enjoyment. If you like it, it will not be a job.

LN: Right. And someone who is counting the hours and minutes until they can retire, has a job.

JE: Right.

LN: And I really feel sorry that maybe there wasn't anything that they could go enjoy doing. Maybe there was, and they didn't go look for it, but there's got to be something that you enjoy doing.

JE: It's interesting that some find careers and others don't-they really just find jobs.

LN: Yes.

JE: Those who find careers are very fortunate because they have a passion for it. And there are those who just don't find that passion and it just is a job for them.

LN: Yes.

JE: Thank you very much. I appreciate you doing this for Voices of Oklahoma.

LN: Well, I thank you and take care.

Chapter 18 - 0:33

Conclusion

Announcer: You have just heard Larry Nichols tell the story of Devon Energy and how it grew from four and a half employees to one of our nation's leading independent energy companies. As with many of our Oklahoma stories, this story represents hard work and determination, which had paid off for Devon Energy and the state of Oklahoma. Larry Nichols has set a good example for future generations. Preserving Oklahoma's legacy one voice at a time is the mission statement of this oral history website, VoicesofOklahoma.com.