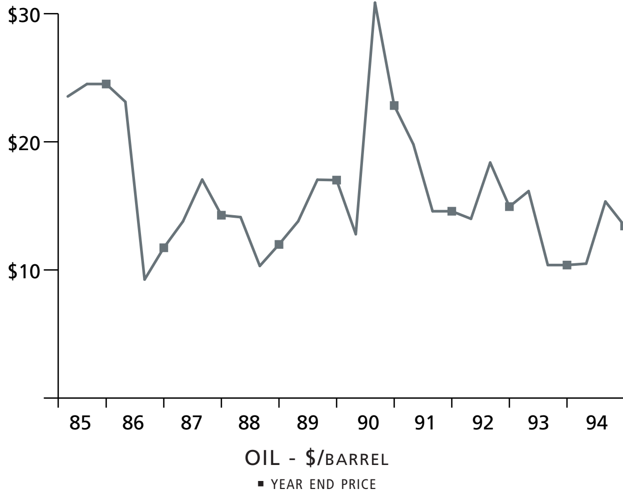
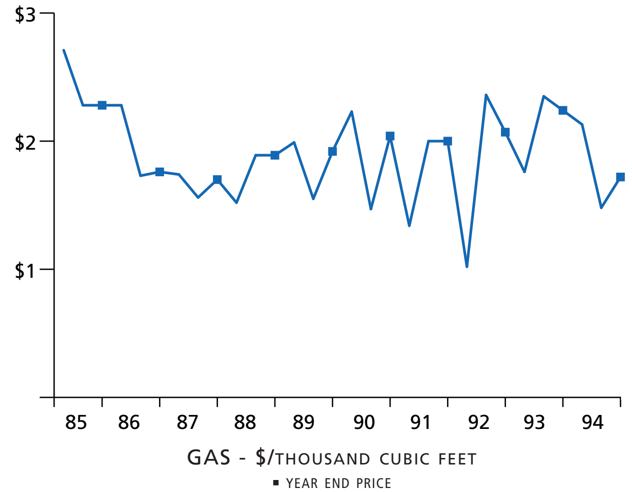
Against the Grain

APACHE AT 40

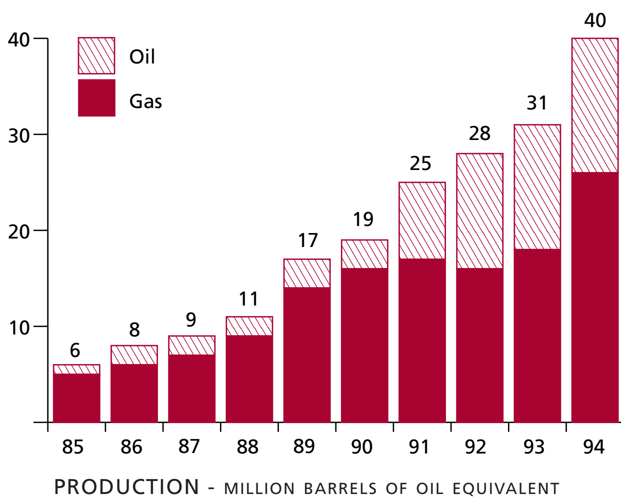
"In Africa every morning a gazelle awakens knowing that it must out-run the fastest lion if it wants to stay alive. Every morning a lion wakes up knowing that it must run faster than the slowest gazelle or it will starve to death. It makes no difference whether you are a lion or a gazelle: When the sun comes up you had better be running."

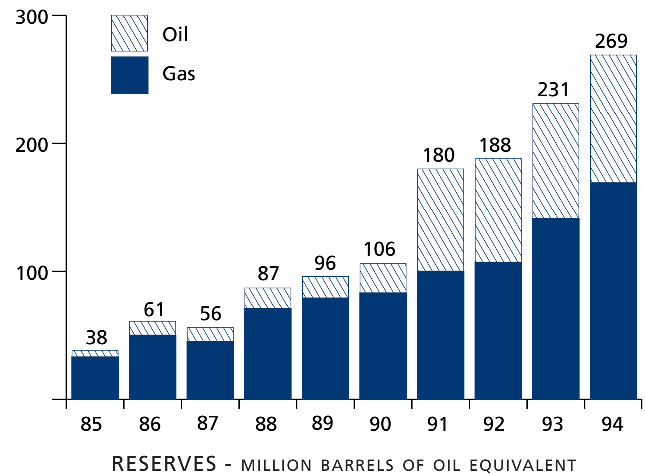
During the oil and gas price collapse of the past decade...



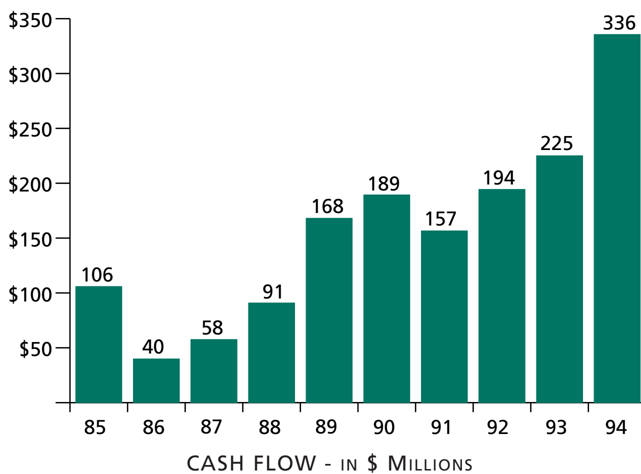


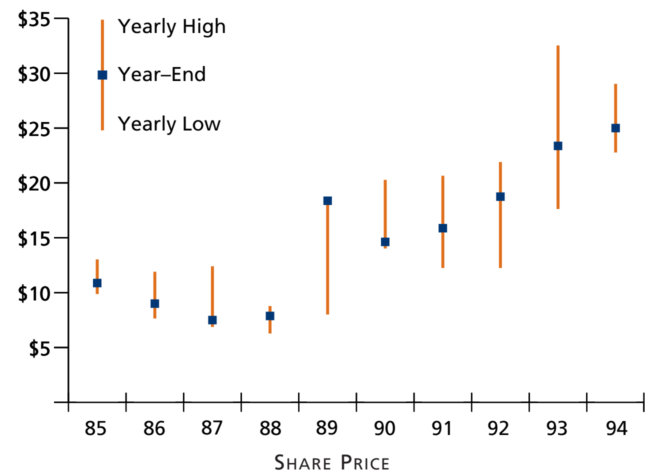
Apache countered by growing its production and critical mass.





Following the initial shock of lower prices, Apache's strategy is paying off.





n December 6, 1994, Apache turned forty. It's been ten years since the company's first thirty years were documented in the pages of *Journey Into Risk Country* – and what a decade it's been, with both challenges and rewards. In 1984, Apache's oil price was nearly $29 a barrel. Two years later it fell below $10. Natural gas prices were cut in half. The collapse caused a shakeout that changed the face of the industry. Awash in a sea of red ink, over half of the industry's producers shut their doors. More than 400,000 jobs were lost with casualties continuing to mount as of this writing.

Amid the turmoil, Apache has grown. To build the critical mass necessary to survive and compete despite shrinking margins, Apache multiplied its oil and gas reserves ninefold and quadrupled its assets to $1.9 billion. By 1994, Apache ranked as the world's 21st largest gas producer and 24th largest oil producer, up from 53rd and 93rd, respectively, a decade earlier.

The pace is accelerating. During 1995, Apache completed over $1 billion of acquisitions, adding the equivalent of approximately 200 million barrels of oil, or a company larger than Apache only three years earlier.

Apache did not inherit its asset base. It pieced it together brick-by-brick. In recounting Apache's progress over the past decade, this book seeks to capture the mindset or culture that caused it to happen. This writing is not a celebration of the past so much as a chronology of events intended to preserve the entrepreneurial spirit and drive that have defined Apache since inception.

Were Apache's culture personified, it would take the form of its founder, Chairman and CEO Raymond Plank. In 1954, Raymond set out with $250,000 "to build a significant and profitable oil and gas company for the benefit of our shareholders." Today, Apache's cash flow regenerates that original seed capital every six hours. Apache would not be where it is today without the will, determination, and desire to win that Raymond exemplifies every waking hour of every day.

On behalf of the team he continues to inspire and lead toward the next century, I am pleased to dedicate this book to Apache's "Chief," Raymond Plank.

A decade ago, Apache was a small, gutsy company with something to prove. Having made the transformation from an organization whose livelihood depended on raising public drilling funds to a growing exploration and production company funded with internal cash flow, Apache still has something to prove: that it can continue to deliver the kinds of results that have brought it to this point; that it can avoid the arrogance that often afflicts those that have "arrived;" and, that it can continue to grow, not for growth's sake, but in order to build value per share for stockowners, regardless of prevailing industry conditions.

We hope you enjoy our story.

G. Steven Farris
President and COO
October 1, 1995

Apache's Plank is on the Warpath

1988: Apache earns $5 million for the year.
1989: Apache earns $5 million for the first quarter.
1990: Apache earns $5 million in January alone.

by Echo Montgomery Garrett

"Survival isn't easy in this business," says Raymond Plank, the founder, chairman and chief executive officer of Apache Corporation (NYSE: APA–$14\frac{3}{8}$), an independent energy company—80% natural gas and 20% oil reserves—that is galloping full speed ahead. Plank, white-haired and vigorous, has just emerged from a meeting where he was on the firing line from Wall Street analysts, besieged with questions on the volatile nature of the energy business and how his company will continue to be a chief among its competitors.

The 69-year-old businessman, who learned the meaning of pressure as a bomber pilot in the South Pacific during World War II, clearly relishes the challenge. The company, which Plank founded 37 years ago, transformed itself three years ago from a master limited partnership, shedding the complicated and expensive administrative burden required thereof. Since then it has gone far beyond merely surviving: Apache is thriving. In 1990 the company racked up record earnings of $40.3 million on revenues of $273.4 million. Revenues were up 35% over 1989 levels while earnings soared 82%. This year, analysts expect earnings of $52.6 million, or $0.95 per share. Cash flow per share, a vital measure for oil and gas companies, could reach $4.00 per share this year, say analysts, up from $3.88 last year and $3.70 in 1989.

Plank has always been a maverick. When he first broached the idea of putting together a deal that would become a master limited partnership (MLP) in 1975, his lawyer said it couldn't be done. Plank promptly changed lawyers. And the independent engaged in exploration, development, and production of natural gas and crude oil, sold shares in 1981 in the first publicly-traded MLP, Apache Petroleum Company L.P.

In 1986, however, Plank saw that the days of MLPs were numbered. First of all, the MLP required a high cost structure: It was spending $5 million a year in

"We pay $1 billion to Saudi Arabia every five days," complains Apache founder and chairman, Raymond Plank. He wants our government to give domestic oil and gas producers a break.

administrative and tax recording costs. Secondly, Congress had effectively removed the tax benefit of the investment. Finally, natural gas was trending down and oil prices had collapsed.

"When the prices collapsed, we were in real trouble," recalls the chairman. "We had 120,000 partners to whom we were sending individual tax information."

After weighing several options, Plank eliminated Apache Petroleum in October 1988. The entity was reborn as the present Apache Corporation.

Plank took a long, hard look at his company and began to drain what he viewed as a bloated cost structure by reducing the number of employees from a high of about 5,000 to 700. He also sold off a number of marginal wells. "It takes just as much effort to keep track of a well producing $500 a day as it does to keep track of one producing $5,000," explains Plank, who once cut officers' pay by 10% when gas prices were lower than the company had forecasted. "We wanted to underscore to our shareholders that they don't get leftovers," he says.

He also moved in May 1989 to improve the marketing of his commodity by purchasing a major stake (31%) in Natural Gas Clearinghouse, the third-largest gas marketer in the country, following Texaco and Chevron. "We want to make sure our gas is sold at a good price," says Plank.

A third aggressive move came in the form of reducing Denver-based Apache's debt load through a $150 million convertible debenture offering in October of last year. The funds were used to pay off bank loans and commercial paper debts and to strengthen the company's ability to acquire new wells.

Operating in the energy business is always volatile, but the war in the Persian Gulf made the oil markets about as predictable as Saddam Hussein. "It's pretty hard to plan when oil is selling at $13 one day and $30 the next," says Roger Plank, vice president of corporate communications and Raymond's son.

Raymond Plank didn't focus on the war or the wild gyrations of prices, adding, "The majority of our business comes from natural gas. War is bad for everybody. It builds abberations into the political system that are counterproductive."

He has sharp words for what he sees as a lack of support for domestic oil

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Top: Raymond Plank in Egypt, 1995
Bottom: Reprinted from **Equities** Magazine, March/April 1991

You've got to love this business to be in it, and Raymond truly does. He has the burning drive, dedication and focus that is singular for success.

What sets Raymond apart is his dedication to principles that help not only the company but also the country. He's patriotic — by that I don't mean a flag waver — he's serving America by building a significant corporation that addresses the needs of our nation.

Well before public opinion recognized hostile takeovers for what they were, Raymond organized the opposition against them. It wasn't just about Apache... we weren't in play. It was about right and wrong — and hostile takeovers were wrong for America. Raymond lives to build – to leave things a little better than he found them. So to see quick-buck, hostile takeover artists tear down in an instant what often took generations to build, violates Raymond's idea of what is good for America.

Acquisitions are an avenue of growth in the oil and gas business. But Apache doesn't acquire with the intention of bleeding a company dry and causing it to collapse. Apache brings it aboard, invests capital and they grow together.

Raymond is a good citizen and a good chief executive — he marries the two. America not only gets a productive corporation, it gets someone who is interested in advancing the welfare of the country.

Apache has grown to be a significant independent but still has the same philosophy: serve your shareholders, serve your employees and serve your country.

John A. Kocur

is a member of the company's board of directors, having served as president and vice-chairman during his twenty-two years with Apache

1954

On December 6, Apache Oil Corporation is founded in Minneapolis, Minnesota, by Truman Anderson, Raymond Plank and Charles Arnao (APA). The public company begins with 41 investors, six employees and $250,000 of seed capital.

1955

Apache's first well, near Cushing, Oklahoma, produces seven barrels of oil per day. The company's total production at year end reaches 800 barrels of oil per day.

1956

Apache registers industry's first oil and gas limited partnership with Securities and Exchange Commission.

1959

Apache offers limited partnerships in commercial real estate and begins 25 years of diversified investments.

1967

Apache discovers Recluse field in the Powder River Basin of Wyoming, kicking off a new industry play.

1969

On May 27, Apache Corporation common stock begins trading on New York Stock Exchange.

1971

Apache pioneers the program consolidation strategy by forming Apexco, Inc., a publicly traded oil and gas company created with assets from several limited partnerships.

1973

The Arab oil embargo sparks increases in crude oil and gas prices and in domestic drilling activity.

1978

Natural gas is decontrolled by the federal government, multiplying the value of Apache's core position in the deep Anadarko Basin.

1981

Apache creates Apache Petroleum Corporation, the world's first master limited partnership. Domestic rig count exceeds 4,000. Crude oil prices surpass the $30-per-barrel mark.

1982

Apache acquires oil and gas properties from Dow Chemical for $402 million.

1985

The company buys $178 million of properties from Davis Oil Company.

1986

OPEC floods world markets with oil and prices plummet from $24 to $9 per barrel. Apache purchases $440 million of oil and gas properties from Occidental Petroleum. The Tax Reform Act of 1986 eliminates most limited partnership tax benefits.

1987

Apache moves its headquarters to Denver, Colorado; forms Nagasco, Inc. to gather and market its Oklahoma gas; launches Apache International, Inc.

1988

Apache is first to restructure its master limited partnership into corporate form, ending its partnership era and beginning its transformation to a pure oil and gas play.

1991

Apache doubles its size with MW Petroleum acquisition from Amoco Production Company for $546 million. Total assets cross $1-billion mark.

1992

The company moves its headquarters to Houston, Texas, in the heart of its expanded property base.

1993

Apache strengthens its Gulf of Mexico presence with the $114-million Hall-Houston acquisition; establishes its first overseas operating hub in Western Australia through a $98-million merger with Hadson Energy.

1994

The company announces a $571-million acquisition of 315 oil and gas fields from Texaco, Inc. and a $285-million merger with Canada-based DEKALB Energy Company. Total assets reach $1.9 billion.

A look back at America in the mid-Fifties would reveal a nation of opportunity and rapid growth fueled by a seemingly endless supply of cheap petroleum products. A gallon of gasoline could be had for fifteen cents. "Service station attendants," dressed in matching company uniforms and caps, would pump the gas, wipe the windshield, check the oil, check the tires and throw in a page of S&H Green Stamps and a free set of commemorative tumblers with a fill-up.

It was during those days that Raymond Plank, a Yale-educated World War II bomber pilot, would join two other young men, Truman Anderson and Charles Arnao, in setting up an accounting, tax and business advisory service in Minneapolis. Working in this business, they appreciated the substantial tax benefits that could be realized through investments in oil and gas exploration. And, in the Fifties, some Minnesotans were taxed at a rate as high as 91 percent of their adjusted gross income. The three also observed that many of the sponsors promoting these investments were not exactly on the up-and-up, and that many of their clients were not getting a fair shake.

Back then, all too common in the oil and gas investment community middlemen would raise investor capital, turn it over to a drilling operator and promise investors huge potential returns from one-shot wildcat ventures. As glamorous as this must have sounded, there was little accountability by the promoters, and investors were usually left with sizable tax benefits but little else. The three entrepreneurs recognized an opportunity.

They could offer investors the tax advantages of direct participation in the oil and gas business through limited partnerships while also providing them with an honest chance at a decent return. Anderson, Plank and Arnao added "che" to their last-name initials and, on December 6, 1954, the Apache Oil Corporation was born. Apache would soon be the first in the oil and gas business to file a registration with the Securities and Exchange Commission for a drilling program.

Having raised $250,000 from investors in 1954, the infant public company formed its first program with three basic principles in mind: Apache would operate wells itself and be directly accountable for results; in turn, the company would report directly to investors the status of their investments with regular updates; and, Apache would spread investor capital and risk over a number of wells rather than just a few hit-or-miss prospects.

With these tenets in place, Apache's first oil and gas program was well received by the investment community. Now, it was time for Apache to perform. The company's first well, drilled about 650 miles south of the Twin Cities, near Cushing, Oklahoma, came in at seven barrels of oil per day — hardly a company-maker. But Apache's second well, the Bradley-Rafferty #1, was completed flowing 30 barrels of oil per day and would lead to larger producers. Apache was on its way.

Four years later, investors in this initial program were receiving cash distributions of as much as $2,000 per quarter for their original $10,000-unit investments. Apache Oil Corporation, as program manager, had demonstrated considerable growth as well. Having reported net income of $12,535 on gross revenue of about $190,000 in its first year, the company would go on to nearly double total revenues during each of its first four years.

Top Left: In a contest to name the company, a secretary added "che" to the first letters of the last names of the founders Truman Anderson, Raymond Plank and Charles Arnao. The secretary was awarded a $25 U.S. savings bond and Apache Oil Corporation was formed on December 6, 1954.

Right: The purchase of Foshay Tower, then the tallest building in the Twin Cities, marked Apache's entrance into real estate investments. The "skyscraper" would house Apache's headquarters for nearly 30 years.

By 1959, Apache had expanded its oil and gas operations into 18 states and three Canadian provinces, and the company's 41 original shareholders had been joined by 1,000 more. Two years later, the shareholder count would climb to 3,645.

In 1964, after its first ten years of business, Apache reported net income of $661,000 on total revenues of $9.2 million. Investors had contributed $9.3 million into the company's drilling funds, from which they had received tax deductions and initial cash distributions of $4.7 million.

While Apache had made considerable progress during its first decade, changes within the industry would make the Sixties a challenging time for independent producers. Increased oil output from the Middle East and record domestic production were outstripping demand and straining the nation's storage facilities. The Texas Railroad Commission consequently ordered statewide production cuts. In Oklahoma, Apache's primary source of production, daily allowables were trimmed to 15 barrels a well. This compared to the state's 100-barrel-per-day allowable ten years earlier.

With a surplus of oil pushing prices lower and state regulations choking production rates, independent producers' cash flow was being beaten up with both sides of the mallet. Apache, which already had expanded its limited partnerships to include commercial real estate, further diversified into steel, plastics, machinery, agriculture and the telephone business. This diversification would help insulate the company from a turbulent period in the oil and gas industry while also providing some attractive returns. But these businesses would never replace Raymond Plank's passion for the oil and gas industry.

Years later, Plank would be quoted in ***Forbes*** magazine: "We put $2.5 million into auto parts in 1970 and sold it eight years later for $35 million. We put $25 million into agriculture in the Seventies and Eighties and sold it in 1987 for $85 million. Those big chunks of capital kept our equity growing, but not where we wanted it growing — in the oil business."

Apache had less emphasis on oil and gas operations during the latter part of the Sixties and early Seventies, but it was still the business that drove the company. By 1964, Apache had established regional offices in Tulsa, Houston, Midland, Texas, and Calgary, Alberta. In July of 1967, the company gained industry recognition with its discovery of Recluse field in the Powder River Basin of Wyoming. The U.S. Fagerness Well No.1, which tested over 1,000 barrels of oil per day, would

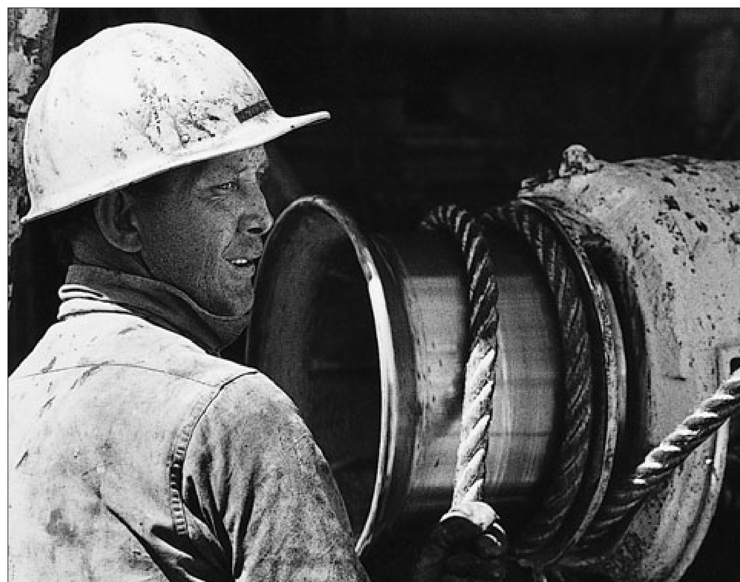
Apache gained national recognition with its discovery of Recluse field in 1967 and later established a posh petroleum club in the town of Recluse, Wyoming (population: 37).

lead to the drilling of eleven new producers before year end with combined flow rates of 2,800 barrels per day net to the company's interests. The discovery kicked off a new industry drilling trend in Wyoming and put Apache on the map.

With its identity as an oil and gas company established, Apache shares began trading on the New York Stock Exchange on May 27, 1969.

In 1971, Apache formed Apache Exploration Company (Apexco), a separate, publicly held company in which Apache was the majority shareholder. Fifteen hundred investors who had participated in Apache's drilling funds exchanged their program interests for an aggregate 1.3 million shares of Apexco and gained liquidity in an over-the-counter stock.

Turned over to Apexco were all of Apache's oil and gas assets, which represented interests in 1,166 wells, spread over ten states and three Canadian provinces, that were producing an equivalent 6,700 barrels of oil per day. Also transferred were 357,000 acres of undeveloped leasehold in the U.S. and Canada. With oil and gas operations its sole business, Apexco had the focus to develop into Apache's strongest subsidiary through the recession-plagued Seventies.


Apache's first "company-maker" was Recluse field, where it drilled eleven development wells within five months, sparking a new industry play in northeastern Wyoming.

President Raymond Plank, fourth from left, purchased the first 100 shares of Apache's common stock when it began trading on the Big Board on May 27, 1969.

The gas lines that followed the oil embargo of 1973 foreshadowed a domestic energy industry gone mad. Oil prices had been somewhat stable prior to 1973, hovering around $3 per barrel. By 1975, prices had jumped to $7 per barrel and, by the end of the decade, they tripled to over $21 per barrel. The ensuing years brought a level of activity never before seen in the industry and likely never to be seen again. The number of rigs drilling across the nation soared from roughly 1,000 to over 4,500.

Apache, at that time, having sold most of its industrial subsidiaries, had built cash reserves that put the company in a strong position to grow in a rapidly reviving oil and gas industry. The company's limited partnership investors, who now numbered nearly 7,000, were receiving higher quarterly cash distributions on higher commodity prices. However, under the limited partnership format, these program investors did not have the option to monetize their partnership investments. Although many investors had gained liquidity through the formation of Apexco in 1971, Apache had sold the exploration subsidiary in 1977 when Apexco's market value matched Apache's, leaving the parent company vulnerable to hostile takeovers.

A hallmark of Apache Corporation has been providing investors with options. With program liquidity as the impetus, Apache created Apache Petroleum Company (APC), the world's first "master limited partnership." Program investors could choose to remain in their existing oil and gas partnerships or elect to exchange their interests for publicly traded units. APC had the unique characteristic of providing all the tax benefits associated with a limited partnership plus the liquidity and critical mass of a New York Stock Exchange company.

The first APC exchange offer in late 1981 placed 85 percent of the eligible program participants from 33 separate drilling funds into the new master limited partnership, representing marketable securities of over $181 million. In its first full year, APC investors received $19 million in tax-free distributions. APC's structure gave unitholders a double shot at profitability. A rise in oil and gas prices could yield higher cash distributions and spark potential share price appreciation as well. Within three years, APC would attract 58,000 unitholders and would hold over $1 billion in future estimated gross revenues.

With the favorable reception of APC from the investment community, Apache was in a position to find more feedstock to accommodate the master limited partnership's growth. In 1982, the company would pursue an approach to growth that would become an Apache signature.

Apache's vice president of marketing, Hank See, had just completed a presentation to securities analysts in New York. In the audience was investment analyst George Baker, whose brokerage firm at the time — Smith, Barney, Harris Upham & Co. — had been retained by Dow Chemical U.S.A. to find a buyer for its Houston-based oil and gas division. The two phoned Raymond Plank in Minneapolis and asked if Apache would have an interest in making an acquisition in the neighborhood of a half-billion dollars. Plank's immediate response was, "Absolutely."

John Kocur has been instrumental in Apache's progress. Following 22 years with the company, he remains an active board member. Among his contributions, Kocur spearheaded efforts to create the world's first master limited partnership and later transition it to corporate form. The MLP rollup marked the beginning of Apache's transformation to a pure exploration and production company.

During the months of negotiations that followed, the companies would remain some distance apart on a deal due to their differing opinions on future production and prices. The value gap would ultimately be bridged with some creative terms that would satisfy both companies. Apache agreed to pay $402 million, and Dow agreed to contribute $7.5 million a quarter for twelve-and-a-half years to help fund APC's drilling efforts. In return, Dow would receive a share of the cash flow from the wells drilled with its funding. In addition, as part of the total payment, Dow agreed to accept $180 million in stock, or "units," of Apache Petroleum. The innovation applied to this deal would come to typify Apache's acquisition style in years to come.

More immediately, the fact that the world-renowned Dow Chemical Company would accept Apache Petroleum Company's newfangled depositary units as currency gave the MLP a stamp of credibility that opened the doors for financing future acquisitions. The ingenuity of this transaction also spawned a host of MLP imitators across multiple industries.

Apache had demonstrated its penchant for innovative financing two years earlier when it designed a special limited recourse financing arrangement with several of the country's largest pension funds. The financing would cover the capital costs of wells drilled by Apache on behalf of its 1979 and 1980 oil and gas programs. The pension funds agreed to provide Apache access to $65 million at a then-low ten percent interest rate in return for a percentage of the revenues from any oil and gas found on the properties they helped finance. Apache got what it needed with minimal impairment of its borrowing capability, and the lenders got an inflation hedge from the potential oil and gas reserves they helped to underwrite. It was this type of funding that would later finance several acquisitions and help carry Apache through the tough times ahead when many other heavily-leveraged companies would go belly-up.

Many of the characteristics on which Apache was founded continue to drive the company into the future: innovative financing, adaptability in changing environments, decisiveness, determination and integrity. ▲

Ucross Valley, 1994

Giving Something Back:

The discovery of Recluse field in July of 1967 put Apache on the oil map and brought Raymond Plank on frequent visits to the grassy high plains of northeastern Wyoming. Not far from the little town of Recluse (population: 37), Plank would see an opportunity for an extraction company to give something back to the land and people who had given so much. His vision would become reality with the Ucross Foundation.

Great steam engines of the Burlington Railroad once rolled through this section of Wyoming. The Pony Express used some of the same buildings that the Foundation would restore and utilize for dormitories, exhibition halls and dining centers. Ucross would couple environmental stewardship in the open spaces of the surrounding 22,000 acres with the resources and facilities of an artist-in-residence program.

The Ucross Residency Program opened its doors in 1983 and has since hosted over 450 artists from all disciplines, including writers, poets, composers, painters, sculptors, photographers and playwrights from the U.S. and abroad. In this program, residents are provided with studios and accommodations in an undisturbed atmosphere particularly created to inspire their work.

The Foundation is proud to count E. Annie Proulx among its prominent past residents. She arrived at Ucross in the spring of 1990 to finish her first novel, **Postcards**, which would make her the first woman ever to win the PEN/Faulkner award for best fiction. Two years later she returned for another residency, this time to begin writing **The Shipping News,** which in 1994 was awarded the Pulitzer Prize for fiction as well as a host of other prestigious honors. She has since joined the Ucross Foundation's Board of Directors.

Thanks to the support of many contributors, including friends of Apache, the Ucross Foundation is now a thriving, vibrant member of the community. It is a natural workshop that will inspire artists to create their best work for years to come.

INNOVATION

ADAPTABILITY

DECISIVENESS

DETERMINATION

and

INTEGRITY

1985 and 1986

Having closed the books on its thirtieth year, Apache entered 1985 as one of the largest oil and gas limited partnership sponsors in the industry. But the boom days of the early Eighties had given way to a sobering environment of rapidly declining oil and gas prices. Industry upstarts who had jumped on the "soon to be $100-per-barrel oil" bandwagon were returning to their former businesses or closing their doors altogether. Even the major integrated oil companies and established independents were circling their wagons in preparation for further erosion.

As commodity prices continued to slide, companies began taking steps to shore up their balance sheets in what would soon be a similar pattern of employee layoffs, restructurings, redirection of operations and property sell-offs.

The industry shakeout led to what would become the largest acquisition in Apache's 32 years. It began in 1986 with a succession of phone calls placed by three people accustomed to working fast and making quick decisions to match. The first was Armand Hammer, the spry octogenarian who ran big Occidental Petroleum from the West Coast. The second was Marvin Davis, the successful and restless billionaire who operated out of both Los Angeles and Denver. The third was Raymond Plank.

"Occidental Petroleum had recently purchased MidCon Pipeline Company, which in turn owned Cotton Petroleum — a company we had pursued through three prior owners — and three other former independents," Plank recalls. "We heard from Marvin Davis that the debt Occidental had piled up might nudge Armand Hammer into selling some properties. I didn't know Armand, but I did know and like Marvin. So, I suggested that the two of us make Occidental an offer since Apache couldn't manage the big bite alone.

"Marvin immediately liked the idea. With characteristic speed, he reported back that Armand had just returned from South America where he'd put together a deal that had him on Cloud Nine. He suggested I wait five minutes and call Hammer. I did, and Marvin was right.

"Armand was ebullient. He said, 'Raymond, I'm just back from Peru where I closed on a wonderful deal.' I said, 'Fine, Armand... while you're at it why don't you make it two? We'd like to buy the producing oil and gas assets you bought with MidCon Pipeline.' He said, 'Fine, I'll sell to you but it will take until September to figure out and value what we bought.'"

Top Left: Virtually everything in the industry was looking down following the boom days of the early Eighties. The national rig count dropped from more than 4,500 in 1982 to fewer than 750 by 1986, its lowest level since World War II.

Right: Marvin Davis (left) and Raymond Plank review documentation that would lead to Apache's $440-million purchase from Occidental Petroleum in 1986. Despite oil prices having just dropped from $24 to $9 per barrel, the acquisition would pay off for years to come.

Top to Bottom: Anadarko Basin, Oklahoma; Enigma field, Wyoming; Louisiana bayou drilling barge

Marvin Davis doesn't like to waste time. Within days, he was on a plane to the West Coast to visit with Hammer. "When Marvin heard about the properties that Armand said he'd sell, he pulled an appealing seller figure out of the air – $565 million," Plank continues. "I choked because, with prices falling, the number was too large by over $100 million. It turned out not to matter as both sides came together on values. But Marvin was right when he laughed and said, 'It doesn't matter, Armand's trying to prove he can still do a big deal."

Four days before closing, with Apache and Davis in a partnership to ante up $220-million each, Davis called Plank to say he really wasn't enthusiastic about re-entering the business. "I told Marvin that if we could use the financing he'd arranged until the end of the year, we'd take him out. His response: 'That'll be fine, Ray.' It turned out to be fine for Apache as well. The year before we had bought $178 million of properties from Marvin near the top; he'd helped us acquire $440 million near the bottom."

This would be the closest the company would come to "betting the farm." Not only was Apache on the line for $220-million more than it had bargained for, but it happened just as oil prices crashed below $10 per barrel. What history now recognizes as merely a 16-year low was, at the time, a devastating price collapse during which many industry experts were predicting further erosion to below $5 per barrel. Nonetheless, the opportunity to gain instant critical mass with a tailor-made acquisition was enough to pull the trigger. Apache's largest acquisition up to that time boosted the number of wells in which it held an interest to 6,200 and added one million acres of undrilled leasehold. The acquired properties, located primarily in the Oklahoma portion of the Anadarko Basin, the Rocky Mountains and the Gulf of Mexico, provided Apache with economies of scale and growth opportunities that continue to surface today.

Nineteen eighty-six sounded the death knell for oil and gas limited partnerships. Not only were prices collapsing, but the enactment of the Tax Reform Act of 1986 eliminated most of the tax incentives associated with oil and gas program investments. When the government reduced federal tax rates for upper income brackets, investor capital for limited partnerships all but dried up.

More importantly, by watching and encouraging the collapse of energy prices in 1986, the federal government signaled a shift in policy that it did not acknowledge until a decade later. No longer would the energy and economic security of the U.S. oil and gas industry be linked to our abundant domestic resource base. We would rely on Middle East oil and seek to keep prices below the replacement and production cost of U.S. companies.

Oil prices, which were hovering around $24 per barrel at the beginning of 1986, had crashed to $9 per barrel by mid-year. Price declines in natural gas, which then represented over three-quarters of Apache's production, followed suit. The impact on domestic producers was devastating. Cash flow plummeted, as did drilling budgets. Most independents were forced to take significant write-downs as the value of their reserves plunged. Apache did not escape unscathed. The company reported its first loss ever despite meaningful increases in both production and reserves.

Apache's 32-year endeavor to build a substantial domestic oil and gas enterprise seemed almost washed away in an industry depicted as a "gusher of gloom" by the news magazine ***Time***. Oil and gas prices were testing new lows. The tax benefits enacted decades earlier to encourage domestic exploration and production were all but gone. What remained for most independent producers and industry investors were hopes. As hope gave way to reality, more than half of the estimated 16,000 independent U.S. producers collapsed, or sold out.

Apache was at a crossroads. It could conduct business as usual and hope that the international influences controlling prices would exercise constraint to support a realistic price, or it could take action to avoid joining the growing roster of industry casualties. For those companies that would survive the bloodbath, this was the time to take immediate action to adapt and survive. Apache moved its headquarters to Denver, Colorado, consolidating operations and financial controls. ▲

APACHE BUILDING BLOCKS ACQUISITION SUMMARY

Year	Seller
1985	Davis Oil Company
	Florida Exploration
1986	Occidental Petroleum (Midcon Oil & Gas, Cotton Petroleum, Texoma, Harper)
1987	Apache Limited Partnerships (17)
1988	Apache Petroleum Company
1990	CNG
1991	Amoco Production Company (MW Petroleum)
	Consolidated Press
1992	Shell Offshore Inc.
1993	American Exploration Company
	Ampac Oil & Gas
	Anderman/Smith et al
	Bank of America
	Beams Mineral Company
	Berco Resources Inc.
	Boekman, Duncan E.
	Brinegar, Rosemary T.
	BWAB Incorporated
	Celsius Energy Company
	Cenex
	Chemical Bank
	Conoco Inc.
	EBCO Auction
	Eversull, Leonard J., Debra
	Fina Oil & Chemical Co.
	FW Oil Interest
	Gary L. Hall et ux
	General Atlantic Resources Inc.
	Great Western Resources
	Hadson Energy Resources Corp.
	Hall Consulting Company
	Hall Equities Inc.
	Hall-Houston Oil Company I, II, IV
	HHOC Employee Royalty Trust
	Hunt Oil Company
	Hydrocarbons Investment Inc.
	Key Production Co. Inc.
	Little Paint Creek Ranch
	Manning Oil Partners
	Mittlestadt/Pohrlonak
	Muirfield Resources Company
	Ocean Front Oil & Gas
	Oryx Energy Corporation
	Pennzoil E & P, Inc.
	Petroleum Inc.
	Petroro Corporation
	Presidio Oil Company
	Rialto Energy Inc.
	Roemer-Sheridan Operating et al.
	Seagull Energy Company
	Snyder Oil Company
	Texaco Inc.
	Universal Resources Corp.
	Vintage Petroleum
1994	American Exploration Company
	BWAB Incorporated
	Bryant & Carr Inc.
	Canyon Exploration Company
	Cox, John L.
	Crystal Oil Company
	Denver Oil & Mineral Company
	El Paso Production Company
	Gary L. Hall
	Hall-Houston Oil Company
	HHOC Employee Royalty Trust
	Ingrid O. Bond et al
	Litke, Gene R.
	Lobo Exploration Company
	Longboat Energy Corporation
	Main Pass Partners Ltd.
	Maxus Exploration Company
	McCulliss Resources Co. Inc.
	MHA Energy Corporation
	Montgomery Exploration Co.
	Natural Exploration Inc.
	Natural Gas Clearinghouse
	Orion Oil & Gas
	Parker & Parsley Petroleum
	Phillips Petroleum Company I, II, III
	Phillips Petroleum Company (TX)
	Phillips Petroleum Company (WY)
	Plains Resources
	Ridgewood Energy Corporation
	Sandpoint Petroleum
	SAO Inc.
	Southwestern Production
	Texaco USA
	Vale Petroleum Company

Total Invested: $ 2,019,953,000

Total Quantity Reserves Purchased: 362,805,000 (Barrels of Oil Equivalent)

Note: Excludes acquisitions of less than $50,000

Apache's move to Denver from Minneapolis, its home of 33 years, signaled a change in direction — from raising investor capital for limited partnerships to becoming a low-cost exploration and production company, operating with internal cash flow, lender and shareholder support. While Apache had already been directing most of its exploration and production operations out of Denver, making it the logical choice for the company's new headquarters, many oil and gas companies were pulling out of the Mile High City, leaving in their wake a sizable pool of industry professionals and attractive commercial real estate. The experienced talent pool in Denver would help accommodate Apache's changing culture as it became a pure exploration and production company.

During these challenging industry times, it was tough enough just to survive, let alone grow through the drillbit. ***Business Week*** magazine had written, "The year 1987 will be a year for oilmen to forget." Indeed, half the contractors drilling in the Gulf of Mexico closed their books and called it quits. Rigs placed in what was to be temporary storage stayed inoperative for so long that rust obscured the owners' names and rendered most parts unusable. Onshore, independents and service companies fell like flies in the first winter frost.

The collapse of oil prices during 1986 carried over into the natural gas market in 1987. In some parts of the U.S., gas was selling for less than $1.00 per thousand cubic feet, down substantially from the peak levels of over $8.00 recorded in some regions just five years earlier. It was during the mid-Eighties that "gas bubble," the euphemism for the nation's oversupply of natural gas, was coined by the media and industry analysts. For years to come, much time and effort would be spent in predicting the size of the gas bubble and when it would burst — typically, it was always one year out.

With gas prices having cratered by the end of 1987, independents were forced to take billions of dollars of write-downs on the value of their reserves. Over half of the companies listed among the ***Oil and Gas Journal's Top 400*** would report losses in 1986, 1987 or both, with combined losses for the two years approximating $11 billion. Apache would take its hit as well, reporting a $71-million loss resulting from a $75-million write-down. With the stroke of a pen, Apache wrote off an amount equal to the shareholder equity it had taken over 25 years to build.

During the late Seventies and early Eighties, when gas prices were at all-time highs and rising, the industry sold its gas under long-term, "take-or-pay" contracts. These contracts might have mitigated the impact of the gas price collapse, except that gas purchasers refused to honor their part of the agreements. Nor would the government regulators permit the utilities to pass through to their customers the higher gas costs attributable to long-term contracts, triggering producers and pipelines to take multi-million-dollar hits again. Struggling under contested contracts, Apache was among those that settled contract disputes for pennies-on-the-dollar, applying the proceeds toward cash-starved operations.

Top Left: During the five years that its headquarters were in downtown Denver's United Bank Building (far left), Apache evolved from a drilling-fund sponsor to a pure exploration and production company and tripled in size.
Right: Rocky Mountain field operations

Nowhere was Apache more vulnerable under "take-or-pay" contracts than in Oklahoma, where approximately two-thirds of the company's gas reserves were being held hostage by two pipelines that would neither take nor pay. To gain control in the marketing of its gas, Apache and a partner formed Nagasco, Inc., which would build and operate a 200-mile gas gathering system in the heart of the company's gas production, the Anadarko Basin. The move would provide Apache access to gas markets nationwide. Although the company would have to accept low, spot-market prices, at least it could move its gas and generate cash flow.

Also in 1987, Apache would sell its last remaining non-oil and gas subsidiaries, including S & J Ranch, Inc., an agricultural concern based in Fresno, California. While these agricultural operations continued to be profitable, the sale would enable Apache to capture the accumulated earnings of the subsidiary and invest them into its core business — oil and gas. The $85-million divestiture further demonstrated Apache's intention to go full throttle into exploration and production.

To streamline operations, reduce administrative costs and upgrade its property base, Apache sold interests in more than 2,000 marginal wells during the year.

The pangs of collapsed oil prices were being felt outside the U.S. as well and, for companies Apache's size, this presented an opportunity. Recognizing that some cash-starved countries would be looking for more ways to garner exploration dollars, the company launched Apache International, Inc. The international leg would soon make forays into Argentina, France and Angola, providing Apache with a presence overseas, where reserve targets were generally considered to be larger than in the maturing U.S.

Entering 1988, both Apache and its master limited partnership, Apache Petroleum, had sizable acreage positions with considerable drilling potential. But it takes cash to drill, and low commodity prices were continuing to hammer cash flows. Apache Petroleum, in which participation had grown to nearly 70,000 unitholders, was further hamstrung by the costs associated with providing each unitholder with an individualized tax report, even though most of the tax benefits associated with the MLP format had been eliminated. Between the MLP unitholders and program participants, Apache had sent out 120,000 individualized K-1's in 1987. Clearly, something had to be done.

Apache had few options. The company could eliminate quarterly cash distributions to unitholders, many of whom had invested in Apache Petroleum for its yield, or eliminate the MLP structure altogether. Apache decided to pursue a restructuring of the master limited partnership, but only in a way that would provide unitholders with options. Investors could either exchange one APC unit for four-tenths of a share of Apache Corporation common stock or receive one share of Key Production Company, a newly formed corporation that would assimilate the remaining assets of Apache Petroleum.

Mark Jackson, Apache's vice president of finance, was one of a team of employees who helped direct the APC restructuring, which occurred shortly after his arrival in 1988. "We were the first company to create a master limited partnership and the first to get out of it," Jackson says. "When Apache conceived the MLP format, it was perfect for the times.

A testament to that was how popular it got to be — for God's sake, even the Boston Celtics were owned through a master limited partnership. But the MLP format ended up getting abused, and the federal government stepped in and eliminated most of its tax advantages. Without these tax benefits, the millions of dollars that were being spent to administer APC no longer made sense. The horse we'd been riding was dying. It was time to restructure and move on."

Apache's telephones likely will never ring as often as they did in the weeks that followed the mailing of the APC exchange offer documents. Dozens of Apache employees helped answer unitholder questions about the offer and the procedures for responding. When the dust settled, two-thirds of APC's unitholders had elected to exchange their interests for 12.1 million shares of Apache stock at $63/8 per share. The remainder opted for shares of Key Production.

Ascending from the amalgamation was an Apache Corporation with the critical mass that would be essential in creating value for its shareholders, which now included most of the former APC unitholders.

Virtually every property in which APC held an interest, Apache also held an interest. The consolidation produced a stronger company with greater economies of scale, lower per-well general and administrative expenses and lower per-well employee costs following the elimination of double-duty accounting for two separate companies.

Apache would also need new personnel to help steer the company in its new direction. Brought aboard in the spring of 1988 were Francis H. "Mick" Merelli as the company's president and chief operating officer and G. Steven Farris as vice president of exploration and development. Merelli and Farris brought with them the operating approach and systems that would be instrumental in bringing Apache to where it is today.

Mick Merelli, currently chairman, president and chief executive officer of Key Production Company, says that when he joined Apache, "I knew the company had a lot of opportunities and some really good stuff from prior acquisitions. They also had a lot of good people. What we did was accelerate the process of matching people with properties.

"There were certain things that we really believed in," Merelli explains. "One was being decentralized — empowering our regions to make their own drilling decisions and to act quickly on opportunities. Another was the decision-making process. I think most companies' planning process is screwed up — corporate goals get shoved down through the ranks. We looked to our exploration and production people for their input on what they thought they could do, and their goals were ratcheted up through the organization. We put a lot of heat on our regions to find opportunities. But nobody argued — they just got it done. They got to be better drillers by virtue of doing so much of it."

Top: When pipelines would neither "take nor pay," Apache took more control of the gathering and marketing of its gas by forming Nagasco, Inc. in 1987. Located in the heart of Apache's Oklahoma production, the gathering system accessed markets nationwide.

Bottom: The price collapse of 1986 and 1987 forced dozens of offshore drilling rigs into storage. Many never left.

Proper planning requires information. Merelli and Farris would also implement the systems necessary for Apache to track performance, measure results and evaluate plans for the future. With the ability to measure results accurately, Apache would implement an incentive compensation program that would appropriately reward those employees who achieved superior results.

Merelli says, "Apache's systems are based on risked economics and net return — not just on growth. All the components of exploration and production — overhead, capital spending, costs — can be integrated into one report. These information systems enabled us to look back on drilling programs to see what was working and what wasn't. We were very strong in constantly reviewing results." Merelli adds, "Planning for drilling is a dynamic thing. You get it as close as you can, but you change it if you really like an area."

Looking at Apache today, Merelli says,

"Big is a pain in the ass. Big companies get comfortable. Raymond Plank is not interested in being comfortable. He's always trying to figure out what the company needs to do to be successful and what things need fixing. He's willing to try some things, but he's never bet the farm on anything.

"You don't survive for that long — through scary times and downturns — without having some differences from your competitors. I think Apache has been adaptable and has always considered alternatives to modify its business."

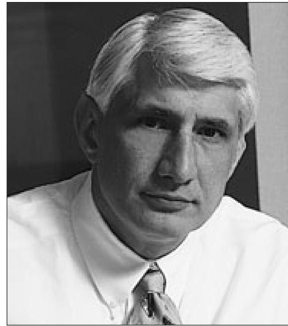
The steps taken during 1988 led to increases in the company's reserves, production and cash flow, and Apache ended the year with net income of $5.4 million, an $80-million turnaround from the prior year in the face of continued low commodity prices. Apache had cleared the decks to pursue an aggressive drilling campaign in 1989. ▲

Hostile or Friendly?

Doug Jaffe invested where others feared to tread — in Apache stock when the company was at the height of its transformation from a partnership sponsor to a pure oil and gas play and a speculative buy at that. Jaffe, who ran an aviation company out of San Antonio, Texas, and held various energy investments, was a complete stranger to Apache at the time he bought what represented over ten percent of the company's outstanding shares. Apache's $7-per-share stock price underscored its vulnerability to a possible takeover.

Not knowing his intentions, Apache could have maneuvered to blunt any possible takeover plans. Instead, Jaffe was offered a seat on its board of directors and an opportunity to represent not only his own interests, but those of all shareholders. He joined.

Over the next 18 months, Apache's stock would climb $10 per share, netting Jaffe a quick $20 million. The performance inspired a lasting, friendly relationship and put to rest any further speculation of a hostile takeover. But one never knows. Had the company not performed, there might not be an Apache today.



"Apache was a misunderstood company in early 1989," reflects Steve Farris, Apache president and chief operating officer. "Wall Street didn't know if we were a program sponsor or an exploration and production company — and, at $7 per share, the stock reflected that. We knew we'd have to prove ourselves — to demonstrate that we could post profitable growth through internally generated cash flow.

"Unlike other independents, Apache was not given a head start like many of its peers who were spun out with assets from much larger parent companies," Farris explains.

"Ray Plank clawed and scraped to build a company with a solid foundation in oil and gas. When I came aboard, Apache had a tremendous asset base, particularly in Oklahoma, and a lot of hidden value. By the late Eighties, oil and gas had gone from being Apache's primary business to its only business. We would live or die in oil and gas."

It would be the western Oklahoma portion of the Anadarko Basin, where Apache had over three decades of drilling experience, a substantial acreage base and an infrastructure in gas gathering and marketing, that the company would focus its drilling efforts during 1989. Apache had already established itself as the largest independent gas producer in Oklahoma, where multiple-pay horizons offered ongoing drilling and recompletion opportunities, and would go on to be the most active operator in the state during the year in terms of total footage drilled.

Utilizing over half of the company's exploration and development capital, Apache would complete 70 new producers from the 85 wells it drilled in the Midcontinent region during 1989. This compared to a total of 100 wells the company had drilled nationwide the year before. Nineteen of the region's new producers, completed in the Red Fork zone of the Cherokee formation, collectively added one-quarter of the total reserves found during the year. As a core drilling play, Apache would go on to drill 250 more Cherokee wells over the next six years. Ninety percent of these would be successful, finding three-quarters of a trillion cubic feet of gas, of which Apache's share was 125 billion cubic feet.

What made these Cherokee wells particularly appealing to Apache was how well they responded to the company's completion techniques. Working closely with various service companies, Apache developed leading-edge fracture stimulation treatments for its Cherokee wells. The company's stimulation methods in this "tight" horizon sometimes doubled initial gas production, allowing for rapid payout and generating strong cash flow for reinvestment. As a result, what had been considered to be a marginally economic play by most of the industry became a staple of Apache's drilling and growth.

Some years later, J.C. Ridens of Apache's Tulsa office was telling an industry colleague about the company's plan to fracture stimulate a five-year-old well that was still producing three million cubic feet of gas per day.

Above Left: President and COO G. Steven Farris
Right: Apache's effective fracture treatment techniques and strong acreage position have made the Cherokee formation in Oklahoma a core drilling play.

The colleague exclaimed,

"You're going to risk losing three million cubic feet a day? What — are you guys nuts?"

Ridens replied,

"No. We're just Apache."

Following the stimulation treatment, the well's daily gas production increased to nine million cubic feet.

What Apache learned from fracture treating the Cherokee formation in Oklahoma, it would also apply elsewhere. In the future, this technology would bring new life to older and deeper trends that were considered to be past their prime or uneconomic under conventional completion techniques.

With the company's increased gas production from its expanded drilling program, Apache took another step to strengthen its gas gathering and marketing operations when it purchased a 32-percent interest in Natural Gas Clearinghouse (NGC), the nation's largest independent marketer of natural gas. About that time, NGC was moving five percent of the nation's total gas supply.

Already the largest producer in a state in which large leasehold positions were next to impossible to obtain, Apache knew that to continue its rapid growth, it would have to further develop its other regions. One area where Apache had a small but appealing acreage position was the Gulf of Mexico, which had come largely with the acquisition from Occidental Petroleum in 1986. Once the strict domain of major integrated oil companies, the Gulf was particularly attractive in that it offered independents a shot at larger reserve targets. Apache would double its drilling efforts there, completing 33 new producers in 39 attempts. In the company's Gulf Coast region, Apache filled several key operating positions early in the year and geared up for an aggressive drilling campaign by year end.

Apache also had an interesting niche in Nevada. In an isolated area in Nye County, Apache had developed a small field with several wells capable of world-class production. One of them, the Grant Canyon #3, capable of producing 4,400 barrels of oil per day, was believed to be the most prolific oil producer in the Lower 48 during its time.

Top: Apache's advanced stimulation technology improves the economics of stubborn "tight sand" gas formations and gives new life to forgotten plays. This massive "frac job" at the Taylor 1-22 in the Anadarko Basin of Oklahoma increased production from 3.5 million to 9.3 million cubic feet of gas per day.
Middle: Offshore Texas, Gulf of Mexico
Bottom: Nye County, Nevada

"Hair and Dirt All Over It"

"The restructuring of our master limited partnership wasn't an easy process. So when we finally resolved it with two-thirds of the former unitholders opting for Apache stock, there was an ebullient feeling to have that monumental task completed. We could now focus on building a brighter future for our shareholders.

Our bubble was burst at the oil and gas industry's flagship analyst event of the year, the Howard Weil Conference in New Orleans. We had just finished a presentation explaining Apache's new dimensions and outlining our plans for the future. The presentation had gone reasonably well with several analysts' questions indicating genuine interest. For the first time in years Apache's restructuring concerns appeared to be behind us and we were building a new investor following. During the coffee break, we perked up when we overheard one analyst say to another, **'Apache has an interesting story, don't you think?'** But we were brought down to earth when the other responded, **'Oh I don't know, that company has hair and dirt all over it.'**

That short exchange summed up the magnitude of our challenge. Telling our story wouldn't be enough. We were going to have to prove that we could make it as a more conventional, competitive independent.

Since then, our institutional ownership has risen from 17 percent to 75 percent and Apache's share price has quadrupled. That's a long way from a company with 'hair and dirt all over it.'

A few believed Apache might accomplish what we said we would. They'll never be forgotten and hopefully will continue to be well rewarded for their belief. But the nay-sayers, while there will always be some, are far fewer today.

I'm not sure that's all to the good. Because along with acceptance and respectability lurks the danger of forgetting how you earned it; of humility turning to corporate arrogance; of losing motivation because there's less to prove; and, of forgetting how you got to where you are. But to overcome those pitfalls, you first have be aware of them. We are, and we will."

Roger Plank

During the years following the amalgamation of its master limited partnership in 1988, Apache replaced more than 200 percent of its annual production through a combination of drilling and acquisitions.

In 1989, Apache completed a well in the field that flowed at an initial rate of 1,920 barrels of oil per day. The new producer helped Apache retain its position as the largest oil producer in Nevada which, while hardly a major oil producing state, was an important source of the company's oil production and cash flow. Later, a $23.5-million acquisition included additional interests in this prolific field.

By year-end 1989, Apache's drilling efforts had led to improvements in virtually every operational and financial category. Gas production increased 60 percent, oil production rose 36 percent and cash from operations was up 75 percent. While oil prices had improved, they had minimal impact on Apache's overall results as 82 percent of the

When Apache first acquired interests in Grant Canyon in 1986, the field was estimated to contain nine million barrels of remaining oil reserves. It went on to produce over 21 million barrels and was an important source of the company's cash flow. Apache would operate its first 3-D seismic shoot at Grant Canyon.

company's production was natural gas, and gas prices remained relatively flat. Net income during the year climbed two-and-one-half times to over $22 million and debt, which was reduced by $122 million, represented 36 percent of total capitalization versus 61 percent the year before.

In short, Wall Street was beginning to understand what kind of company Apache was. Apache's progress induced a twofold improvement in its share price, from $7 7/8 to $18 3/8, ranking it as the seventh best performing stock on the New York Stock Exchange in 1989.

INVESTING

THE BEST AND WORST STOCKS OF 1989

NEW YORK STOCK EXCHANGE

THE 50 BEST

		STOCK PRICE 12/31 1988	STOCK PRICE 12/31 1989	DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS	COMMENTS
1	L.A. Gear (footwear)	$10.94	$31.12	—	185%	A jump in high-style sneaker sales
2	Mylan Labs (pharmaceuticals)	$8.88	$24.25	$0.10	176%	New drug for Parkinson's disease
3	Shaw Industries (carpet manufacturer)	$11.75	$31.00	$0.40	169%	Market-share leader; low-cost producer
4	Holiday (hotels, gaming)	$27.00	$71.75	—	166%	Sold Holiday Inns to Bass PLC (Britain)
5	Conseco (insurance)	$11.12	$26.88	$0.20	145%	Successful acquisitions of life companies
6	Entera (oil, gas)	$6.00	$14.38	—	140%	Industry upswing
7	Apache (oil, gas)	$7.88	$18.38	$0.28	139%	Industry upswing
8	Crawford & Co. (insurance adjuster)	$14.83	$33.75	$0.51	133%	High incidence of catastrophes
9	Sea Containers Ltd. (transportation)	$30.12	$68.00	$0.60	129%	Takeover target
10	WorldCorp (air transportation)	$5.88	$13.25	—	126%	Recapitalization
11	Stride Rite (footwear)	$13.38	$28.88	$0.35	119%	Market leader; takeover speculation
12	Adobe Resources (oil, gas)	$6.75	$14.62	—	117%	Rising gas prices
13	Craig (supermarkets)	$8.25	$17.75	—	115%	Rapid earnings growth
14	Mattel (toys)	$9.50	$19.75	—	108%	Revitalized popular toys
15	Charles Schwab (discount broker)	$6.75	$13.88	$0.09	107%	Rising brokerage commissions
16	Crompton & Knowles (chemicals)	$15.31	$30.75	$0.58	106%	Sales of dyes up sharply
17	Lydall (fiber manufacturer)	$15.25	$31.38	—	106%	Restructuring
18	Tyler (diversified manufacturer)	$6.38	$8.62	$4.91	106%	Restructuring
19	Edison Brothers Stores (retailing)	$32.25	$63.50	$1.80	105%	Restructuring
20	Federal National Mortgage Assoc. (financial)	$16.92	$33.88	$0.43	103%	Beneficiary of S&L bailout bill
25	On-Line Software International (software)	$5.00	$9.75	—	95%	Successful new sales campaign
26	Tidewater (oil services)	$7.38	$14.38	—	95%	Industry upswing
27	Flightsafety International (pilot training)	$24.75	$47.88	$0.17	94%	Strong demand for services
28	American Barrick Resources (gold)	$16.38	$31.63	$0.13	94%	[illegible]

7 Apache (oil, gas) $7.88 $18.38 $0.28 139% Industry upswing

Apache's transformation to a pure exploration and production company during a period of dismal prices paid off in the best way it could — a substantial rise in its share price.

While 1989 was a tough act to follow, Apache was just warming up. The momentum carried into 1990 with each of Apache's focus areas registering increases in both production and reserves.

Apache's drilling activity quadrupled along the Gulf Coast. In the Gulf of Mexico, the company installed new production platforms to accommodate its growing volumes of gas from successful drilling efforts there. Apache's drilling program in the Rocky Mountain region, directed primarily at oil-bearing formations, increased sixfold during a time of rising oil prices. And, the Midcontinent region continued to lead the company in nearly every drilling category.

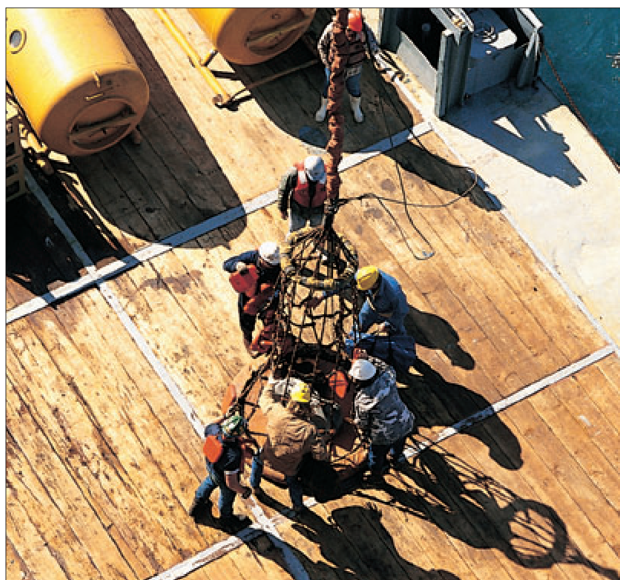
Along with its active drilling program, Apache upgraded its property base by both acquiring and selling properties. From 138 deals that it screened, Apache completed 14 selective property purchases at a total cost of $37 million. All of the acquisitions, which collectively added the equivalent of 41 billion cubic feet of gas reserves, were in areas where the company had existing operations.

Apache also stepped up its enhanced recovery projects to increase production from existing oil and gas fields at low costs. These "nuts and bolts" projects, which included recompletions, workovers and secondary recovery, were considered by many to be mundane procedures but, to Apache, they would become an essential ingredient in the company's recipe for adding value to fields acquired from others.

Benefitting from more efficient operations and the economies of scale involved with increasing oil and gas output, Apache cut per-unit production costs by 20 percent during 1990.

These efforts would continue in order to preserve positive margins in what would remain a volatile pricing environment.

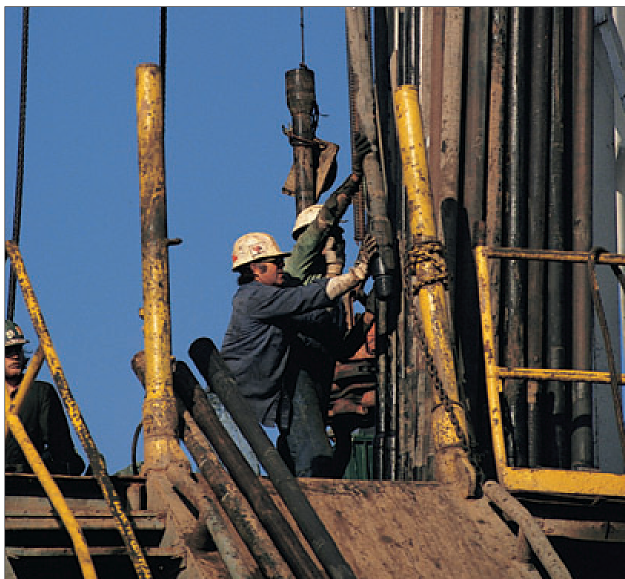
During a time when many industry observers were optimistic about the prospects of rising gas prices, Apache raised some eyebrows when it announced it had agreed to sell 40 million cubic feet of gas per day under long-term, premium-priced contracts. Apache was "locking in" what then represented over one-third of its gas reserves at an initial price of $2.30 per thousand cubic feet, escalated over a period of twelve years. Detractors of the agreement questioned if the contracted price would be considered "premium" twelve years down the road, let alone the next twelve months. Five years later, the gas covered by Apache's long-term contracts would sell for $1.00 more than prevailing spot market prices.



Through an active drilling program and a series of tactical acquisitions, Apache would become the largest independent gas producer in the Gulf of Mexico.

For the second straight year, Apache's oil and gas operations led the way to record financial results, finally laying to rest any concerns as to whether Apache could make it as a pure exploration and production company. Net income doubled to over $40 million, and cash from operations increased 35 percent to an all-time high of $174 million.

At year end, Apache turned its attention to another oil-related development, Iraq's invasion of Kuwait. The ensuing deployment of U.S. and allied troops to the Persian Gulf region was a brief reminder of the strategic relevance of oil and that it can be used for means other than fueling civilian automobiles. ▲



Immediately following the MLP rollup, Apache stepped up drilling and replaced more than 100 percent of its annual production through the drillbit.

"A Company to Watch"

"Apache is a company that has not been exactly a mainstream institutional vehicle. But in recent years it has been changing its stripes and, I must say, I came from the 1989 annual meeting considerably encouraged by the progress that I think Apache is making in transforming itself from an old ... drilling program fund raiser into a bona fide, fully capable, independent producer.

The company last year was able to roll up the MLP that it created. Actually, Apache was the inventor of MLP's when they created Apache Petroleum Company a few years ago. Apache, much as it was on the cutting edge of creating MLP's, also seems to be on the cutting edge of recognizing that the combination of tax complexities and a changing market environment really suggested it more appropriate for the MLP to be rolled back into the corporation.

Anyway, as a result of that, they've simplified the corporate structure considerably. They've been able to make some progress on reducing debt and they certainly think they've got more ability in the next couple of years to improve that further.

My sense from the meeting was that this is a company to watch."

Thomas A. Petrie, C.F.A.
Petrie Parkman & Co.
Denver Petroleum Perspectives
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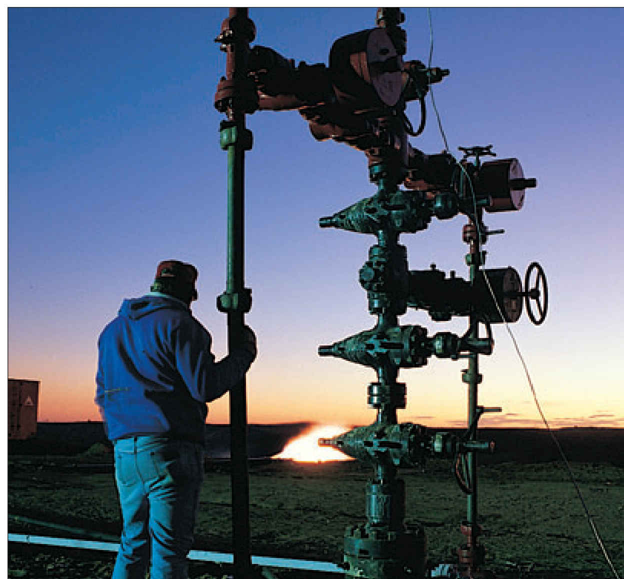
1991 and 1992



Proving yourself day in and day out is an integral part of the oil and gas business. For producers, it's a constant battle against reserve depletion, and new opportunities to replace reserves must be continually pursued — and captured.

Apache's high productivity wells, or "short reserve life," meant fighting the battle on two fronts: one was against time — the company needed to act quickly and diligently to replace its reserves; the other was against perception — conventional wisdom viewed a short reserve life as a detriment, as evidenced by Apache's stock, which sold at a considerable discount to its peer group based on relative cash flow. Apache, however, viewed its short reserve life as an important asset. Wells capable of higher rates of production generate substantial cash flow for reinvestment, enabling more rapid growth. While Wall Street would later recognize the merits of fast production, liquidating 15 to 20 percent of your assets every year does tend to act as a significant motivator and explains much about Apache's "get up and go."

By 1991, Apache had made considerable progress in demonstrating an ability to replace reserves through drilling. Operational advances were reflected in the company's improved financial results and strengthened balance sheet. While there continued to be numerous domestic drilling opportunities for companies Apache's size, the major integrated oil companies were increasingly redirecting their efforts overseas as low commodity prices squeezed margins in the maturing Lower 48. Times were ripe for Apache to step up to the plate.

The year before, Apache had dug up information that Amoco Production Company was looking to sell a substantial parcel of properties to generate cash for its international operations. Raymond Plank contacted Amoco to express interest in buying the properties. At the time, however, Amoco was roaming the world's financial centers looking to add to its list of interested suitors. In January 1991, nearly a year after Apache's initial contact, Amoco said they were ready to talk. They stated that the properties would be packaged under a subsidiary, MW Petroleum Corporation, and that it would carry a price tag of $1 billion.

The asking price alone would have sent most companies running back home with their tails between their legs. But Apache would neither run nor hide. An intensive analysis of the properties headed by Jim Bauman, vice president of corporate development and 37-year company veteran, revealed that not all the properties would mesh well with the company's focus areas. Apache quickly assembled a proposal to purchase only those properties that would best fit existing operations. Amoco agreed to take a look.

Jim Bauman first reported to work in 1958 as a $350-a-month accounting clerk. After running Apache's Wyoming cattle operations, Bauman now rides herd over the company's acquisition efforts, which have netted nearly $2 billion of properties in the last half-decade alone. Bauman says, "This is an action-oriented company. We've got a 'do-it' culture here — rather than a 'cover-your-ass' mentality. And, getting transactions done has given us a track record where we probably see the front-end of more deals than anybody in the industry."

Apache and Amoco proceeded to discuss terms of a possible transaction. But negotiations soon came to an impasse.

At the core of the dilemma was the Desert Storm War, which had sparked a 50-percent run-up in oil prices to $30 a barrel. With Kuwait in flames and Iraqi oil off the market indefinitely, long-term price projections were difficult at best. How were Apache and Amoco to come to terms if neither could agree on a price forecast for oil?

The monumental challenge was sufficient to cause the **Harvard Business Review** to recount the transaction in a case study entitled *"Bridging the Gap Between Buyer and Seller: MW Petroleum Corporation."* The article points out, "Of the thousands of mergers and acquisitions consummated in a given year, there are probably thousands more that never get completed."

A long history of deal-making innovations had taught Apache that, although virtually all transactions had their deal-breakers, most could be overcome between a willing buyer and willing seller. As Harvard puts it: "Given the right technical resources, skilled negotiators can often find ways to close these gaps, removing unnecessary impediments to the fulfillment of their company's strategic plans... The solution hinged on a remarkably simple piece of financial engineering.

"Amoco, which was more optimistic about oil and gas prices, could write Apache a capped price-support guarantee. Under this guarantee, if oil prices fell below a designated price-support level in the first two years after the sale, Amoco would make compensating payments to Apache. This support would strengthen Apache's short-term revenue, profit, and cash flow available for debt service if its — and its banker's — worst-case oil price scenarios were to materialize. In return for this guarantee, Apache would pay Amoco if oil or gas prices exceeded a designated price-sharing level over the next five to eight years. While Apache would end up paying more for MW if oil or gas prices rose, the corresponding rise in revenues would provide the means to make the payments. By giving up some of the upside, Apache could insure itself against the downside." As Harvard concluded, "The agreement was a win/win solution because each party would get the price it forecast, if that forecast was right — so both parties felt they got the better deal."

With the value gap bridged, an Amoco engineer agreed to write out the main terms of the purchase. The four handwritten pages would later take the form of more than 100 documents encompassing thousands of pages. Those pages of

longhand are now preserved, in reduced size, in Lucite cubes on the desks of many who labored through the negotiations.

Apache had to move quickly during the evaluation and negotiating stages of the transaction process. Each division of the acquisition team (engineering, corporate development, production, exploration, accounting and finance), worked in parallel with the expediency that gave the company a leg-up on would-be competitors working step-by-step. Apache would also move fast to assume operations and integrate the properties, a process that would be completed in 30 days.

The MW deal doubled Apache's size overnight, casting it among the largest independents in the U.S. For $546 million in cash and stock, Apache picked up interests in more than 6,000 productive wells, identified drilling locations, enhanced recovery projects, access to certain of Amoco's proprietary seismic and well data, and over 1.3 million acres of developed and undeveloped leasehold. At the time of the acquisition, the MW properties were estimated to contain proved reserves of 63 million barrels of oil and 288 billion cubic feet of gas — volumes that would rise materially in the years ahead. The high proportion of oil in this purchase was a strategic consideration that brought balance to Apache's reserve mix, helping it weather the inevitable price storms that effected both commodities at different times.

More than half of the acquired properties were located on the Gulf Coast of Texas and Louisiana, in the Rocky Mountain region and in Oklahoma, providing an excellent fit with existing operations. The remaining properties established a new focus area in the Permian Basin of West Texas and New Mexico where Apache had operated several years earlier

before selling its interests due to absence of critical mass. Among the industry's largest transactions of 1991, the MW acquisition represented a significant leg-up to a medium-sized independent like Apache and triggered a 15-percent rise in the company's stock price on the day of its announcement. But enthusiasm over the acquisition would be tempered by skepticism regarding what the company had bought — and why.

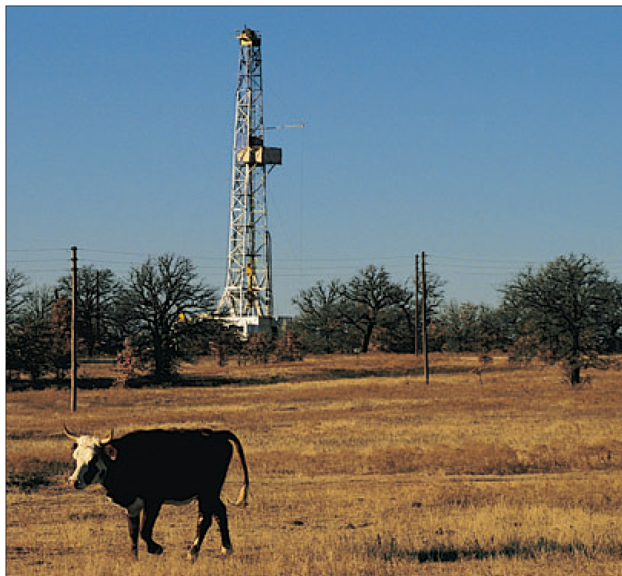
Amoco had become a major for a reason. They were good, and they were smart. So these fields certainly must have represented the dregs of Amoco's property base. Even within the ranks of Apache, there were occasional jokes that the MW in MW Petroleum stood for "marginal wells" or "mostly water." Furthermore, Apache had just completed two successful years growing through the drillbit and strengthening its balance sheet. Why jump right back into debt? Apache would have to prove that there was more value in the MW acquisition than met the eye. To a giant like Amoco, maybe these were marginal wells. But to Apache, they represented a scavenger hunt, finding ways to add value.

As Steve Farris says,

"It's not just what you pay for an acquisition that's important — it's what you do with it after you drag it home that counts."

Every available means was used to squeeze the most out of the MW properties. In the six months following the deal's closing, nearly 300 production enhancement projects were completed on the acquired properties. By year end, Apache was running one out of every eight workover rigs operating on the Gulf Coast and, companywide, daily oil production was running at twice year-earlier levels while gas production was up eleven percent.

A popular story that circulated the company shortly after the acquisition involved a cow that had wandered onto one of the acquired leases and scraped up against a plugged well, causing crude to flow. Apache quickly put the well back on production and drilled several offset wells. While the "Divining Cow" made for an entertaining tale, the real story behind what would make the MW acquisition a success was the hard work and diligence of Apache's employees in finding opportunities to increase production through low-cost operations — and to take action promptly.



Apache unearthed a myriad of opportunities to increase production and reserves on the acquired MW properties.

Craig Clark, vice president of domestic production, explains, "With the MW acquisition, Apache patented the 'acquire and exploit' strategy, which has since become a popular adage in the industry. But it's one thing to say it and another to do it. We'll cut costs, enhance production through workovers and recompletions, and work closely with exploration to help identify new drilling opportunities that will more effectively drain a producing property. With every acquisition we've made, there's been plenty of spin on the wheel."

In less than four years, Apache would recover 61 percent of its overall investment in the MW properties while 88 percent of the reserves remained for harvest. This "lookback" on the MW acquisition would continually be updated in order that the most profitable operations and areas would be identified and further exploited. The ability to measure the results of a transaction through lookbacks would play an integral part of Apache's overall acquisition and exploitation strategy.

MW Acquisition Lookback

	Investment (MM$)	MMBOE	Cost/BOE
Purchase (7-1-91)	$546	111.1	$4.91
Asset Sales	(99)	(22.0)	4.50
Retained Assets	447	89.1	5.02
Production	(445)	(51.5)	8.64
Capital Investment	210	59.1	3.55
Remaining (3-31-95)	$212	97.3	$2.18
Investment Returned	**61%**		
Remaining Reserves		**88%**	

Lisa Floyd, vice president of technical services, explains, "We look back on large acquisitions and small acquisitions alike — and it's a harsh look. We compare actual results with the model we had at closing, and we're able to see where we may have overestimated or underestimated. Ultimately, we can use this information to better evaluate future acquisition candidates."

Floyd continues,

"The MW acquisition reconfirmed what Apache's management was one of the few to recognize: Our people in the field are the most important personnel in the company — that's where it all starts.

With the MW properties, there were plenty of ways to capture hidden value for those who took a closer look."

Apache's size relative to the MW acquisition required some innovative financing arrangements. For months prior to the acquisition, Clyde McKenzie, vice president and treasurer, and Wayne Murdy, former senior vice president and chief financial officer, were spending a lot of time on the road meeting with rating agencies and banks to talk about Apache. McKenzie explains, "Nobody knew us. While Apache had done a couple of big deals previously — Dow and Oxy — the company had obtained financing through private institutions and regional oil patch banks. The MW acquisition provided us with broad exposure to the world banking industry."

The road shows that McKenzie and Murdy had taken would pay off. McKenzie continues, "Forty-two banks were invited to participate in the bidding process for the $546-million MW financing. Within a week, we had $1 billion in offers. We had to cut it off. It was a feeding frenzy."

Murdy reflects, "I remember how surprised Amoco was when we told them we would have a complete evaluation of what they had to sell within 30 days. Then, we had only three months to put together a half-billion dollars in financing so we could announce the deal at our annual meeting. Nobody had to tell us we had joined the big leagues —it was all spelled out right there. One of the most satisfying events in my own business life was watching the increased respect the country's biggest lending institutions developed for Apache as they saw us begin making money off the properties from day one."

The MW financing was provided by a syndication of 24 banks headed up by the First National Bank of Chicago and Chemical Bank, a group that would remain largely intact and provide Apache financing in the future.

McKenzie says, "Tomorrow morning, if I were told that we had to pull in a half-billion dollars for an acquisition, I could confidently respond that we could do it — and fast."

Top: Offshore Texas
Bottom: West Texas

"Enough to Scare You"

"When we came out of the APC rollup, we had plenty of debt and lousy debt ratings from the agencies. At the time, they didn't know the Apache story and didn't seem to care. Today nearly every independent has acknowledged the merits of an 'acquire-and-exploit' component to their operations. In 1990 and 1991, we coined that term to describe our then-unique strategy of blending property acquisitions with moderate-risk drilling and pro-active production enhancement operations to squeeze more value out of properties than previously thought possible.

At the time, however, we were fighting to prove the viability of this strategy. We made it clear to our investors that with the balance sheet back in shape, we had 'reloaded the gun' and were in the hunt for a large acquisition that represented the right opportunity.

Rating agencies fidget over acquisitions. In Apache's case, they were concerned that we'd overburden ourselves with debt and not be able to pay it off. So it probably didn't help matters when during the last of a long series of road-show presentations, in which the first question was always 'just how much debt would Apache take on?', Raymond Plank finally quipped, 'Well, we won't know exactly until we find the right acquisition... but I'll bet it'll be enough to scare you!'

At that point, Don August, an analyst and long-term Apache shareholder with Frontier Capital who was familiar with Raymond's disarming candor, stood up from the lunch table, yelled over the laughter 'see ya, Ray' and headed for the door.

The normally staid Boston analysts once again burst into laughter, Don took his seat and, as I recall, we were never asked that question again in "Beantown."

I think the moral of the story is that we could have chosen not to alarm anyone and avoided the question altogether by not discussing our acquisition plans. The rating agencies, investors and a number of others thought a large acquisition might be too much, too soon after the rollup. Instead, we laid it out on the table. And, although it was not at all what they wanted to hear at the time, the trail was blazed, the strategy understood, and Apache was recognized as a company that 'tells it like it is'."

Clyde McKenzie

With a proven track record following several large acquisitions, Apache's revolving credit facility was increased to $1 billion.

Debt stretched to 61 percent of total capitalization with the MW acquisition. But the day after announcing the deal, Apache immediately began to execute a strategy to reduce its debt burden by selling $150 million of non-core property assets over the next year and a half. This goal was accomplished within six months, effectively saving the company $8 million in annual interest charges and dropping Apache's debt-to-equity ratio to about 50 percent by year end.

Walt Green, managing director of First Chicago Capital Markets, Inc., says, "Apache has done a nice job of being creative and innovative. The MW financing was incentivized, which was somewhat unique at the time. The more Apache paid down debt, the better the terms were.

"Apache gained a lot of credibility with the MW transaction," Green continues. "The amount of debt that they paid down in six months was above and beyond what anyone thought they could do. They even outperformed their own projections."

The acquisition of MW Petroleum overshadowed another small but strategically significant purchase in 1991. For $6.6 million, Apache made its first overseas acquisition, gaining a toe-hold offshore Western Australia where property interests were tightly held by a close-knit group of companies, and ownership seldom changed hands. More prospective than the nine producing wells that came with the acquisition was the sizable leasehold block of nearly a half-million undeveloped acres in Australia's prolific but under-explored Carnarvon Basin. Apache would apply its value-adding strategy to these properties which, for starters, would generate $9.1 million of revenue for Apache in its first 18 months of ownership. Furthermore, Apache made its first international discovery on this acreage, whetting its appetite for more Australian properties.

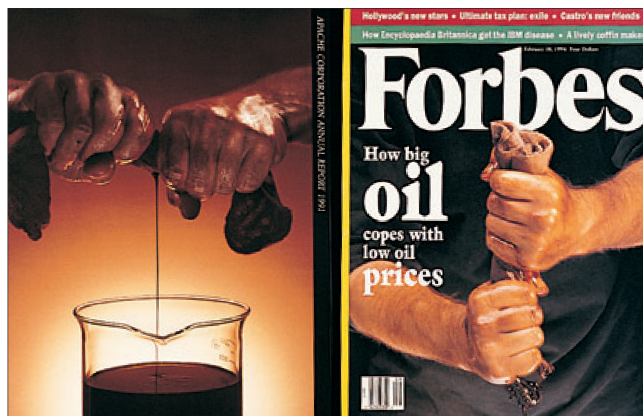
By the end of 1991, Apache was again a changed company in an ever-changing industry. As a result of the MW acquisition, Apache's greatest concentration of properties had shifted to the Gulf Coast and the Permian Basin. Apache determined that the best way to integrate and manage its property base most effectively would be to pull up roots again and move headquarters to Houston, Texas. In the energy capital of North America, a potential transaction could be waiting down the street. And, Apache would be looking at several deals each and every week, both buying and selling properties to upgrade its property base and further its growth objectives.

Apache would begin 1992 as it had finished 1991 — capturing new reserves from a selective, moderate-risk drilling program while grinding out added value from acquired properties. For the year, Apache would complete one well recompletion, workover or other enhancement operation every 21 hours. Results were encouraging.

In the Permian Basin, Apache held an average working interest of 87 percent in over 1,000 operated wells following the MW acquisition. An aggressive recompletion and workover program in the Basin during 1992 would not only increase Apache's annual oil production from the properties by over 275,000 barrels but also add nearly two million barrels of new reserves — and, at a direct cost of less than $1.50 per barrel.

Taking a new look at old fields became a notable axiom of Apache's acquire-and-exploit strategy, and several dinosaurs had literally been thrown in with the MW acquisition because they were considered either well past their prime or not cost-effective to operate. One property that was considered only marginally economic at the time Apache acquired it was Hastings field, located near Alvin, Texas. Hastings was among a few select domestic fields to have attained "giant" status, having produced nearly three-quarters of a billion barrels of oil since its discovery in 1934. Apache immediately got to work in identifying and executing production enhancement projects on this property and, within two years, would add approximately one million barrels of oil to the field's estimated recoverable reserves. Enlarging the field's profit margins, Apache would also redesign Hastings' production systems, saving an estimated $1 million in annual production costs.

In 1991, Apache dipped its toe into the waters offshore Western Australia with a $6.6-million property acquisition. The company later jumped in with both feet, making Western Australia its first international focus area.



The cover of Apache's 1991 annual report illustrates the company's strategy to wring the most out of its properties. The cover story in the February 28, 1994 issue of **Forbes** magazine examines the challenges facing major oil companies to cut domestic costs and adapt to lower oil prices.

For every two barrels of oil produced at Hastings, 100 barrels of water is also produced. To glean daily production of 3,000 barrels of oil per day, 150,000 barrels of water are also produced. Recognizing the substantial cost of such an operation, Apache applied to the Texas Railroad Commission for a 50-percent reduction in severance taxes for the field. Since it was awarded, Apache has been saving an estimated $500,000 a year in taxes.

Urban"Obie"O'Brien, director of government affairs, recalls,

"I heard a story about our people down at Hastings field. They got a well back on production with a 20-cent washer they got at Home Depot. I wonder how that problem would have been worked out at a large bureaucratic company where people fill out their forms and go home at five o'clock.

"You hear about the 'Apache way'," O'Brien continues. "That's more of a personality or an attitude in getting a job done — not a method. In that regard, there will never be just one Apache way."

Apache also had acquired a 100-percent working interest in what was often referred to as the "granddaddy of them all," Spindletop field. The field's discovery well, drilled at the turn of the century near Beaumont, Texas, gushed oil at the rate of 84,000 barrels per day, causing such a flurry of drilling that it was said that a person could walk across the field from derrick to derrick without touching the ground. Over 90 years and a billion barrels of oil later, Apache drilled a well in Spindletop that encountered virgin pressures and flowed 170 barrels per day. The company would go on to complete four more producers in the old field.

Apache would not be sidetracked from its vigorous efforts to add low-cost reserves, but it would have to deal with yet another debacle as the price of gas fell below $1.00 per thousand cubic feet in early 1992, its lowest level in 13 years.

An involuntary spokesman for surviving independents would be Raymond Plank. Addressing the Texas Railroad Commission, Plank would remark, "As producers of natural gas, we're squirrels on a treadmill with no chance to eat the acorns. We're just industriously drilling for more gas and selling it for less money. We'll take action somewhere."

In a somewhat controversial move for a company driven by growth and increases, Apache curtailed virtually all of its spot market gas sales in Oklahoma, which then approximated 100 million cubic feet per day, rather than sell at cratered prices. But Apache would do more than just sit on its hands and wait for prices to rise. The company would be among those leading the charge for gas proration reforms aimed at more effectively matching supply with demand. Following these efforts, laws were rewritten in Oklahoma, Texas and Louisiana, which together were producing about half the nation's gas.

O'Brien recounts, "We were the company to take the biggest hit from prorationing. Of the tens of thousands of oil and gas wells in Oklahoma, about 2,000 were covered by prorationing rules, of which Apache operated about 15 percent. But even though we got hurt from lower production, we wanted to be on the right side of this issue.

We seem to have made a commitment as a company to throw ourselves behind the efforts of independent producers."

The chairman of the Texas Railroad Commission, Barry Williamson, would later say, "Raymond Plank is a maverick and a real leader...

Texas needs more leaders like Apache to take a hard look at what's going on in the industry and to stand on the curb and push the envelope to make it better."

Top Left: Hastings field, Alvin, Texas
Right: "Enough was enough" when natural gas prices fell below $1.00 per thousand cubic feet in early 1992. Apache shut-in about 100 million cubic feet of daily gas production in Oklahoma and spearheaded an industry-wide charge to reform gas prorationing laws in Oklahoma, Texas and Louisiana.

In the face of volatile prices, Apache continued to find opportunities to both buy and sell properties. A key acquisition during the year was the $57.4-million purchase of producing gas properties in the Gulf of Mexico, a cornerstone transaction off which Apache went on to build a sizable presence. The estimated reserves from this single acquisition, which included six wells producing 43 million cubic feet per day, were twice those represented by the 733 wells that Apache sold during the year.

Apache also sold the 32-percent interest it held in its gas gathering and marketing affiliate, Natural Gas Clearinghouse, for $50.7 million. Apache had originally invested $8.7 million in NGC and then received $16.5 million in distributions over a three-year period. While NGC had demonstrated remarkable growth during Apache's affiliation with the company, the opportunity to realize a significant profit in such a short time span could not be ignored, nor could the growing conflict of interest between a new breed of gas marketers and independent producers.

Apache would utilize the NGC sales proceeds to further strengthen its balance sheet, bringing debt down from a peak of 61 percent of capitalization following the MW acquisition to a manageable 49 percent by year-end 1992. Once again the decks had been cleared for pursuing additional growth opportunities.

Nineteen ninety-two would be a year in which the national rig count slipped to its lowest level in 50 years. In the same year, Apache increased its drilling more than two-thirds to 203 wells, completed over 400 production enhancement projects, and posted its best overall operational results up to that time. At under $4.50 per equivalent barrel of oil, the company's reserve replacement cost was at its lowest level in a decade. Despite volatile gas prices and production curtailments, oil and gas revenues climbed one-quarter to over $450 million. This was twice the level recorded only three years earlier when Apache completed its first year as a pure exploration and production company. Apache's progress was again recognized on Wall Street as the company's stock price reached a ten-year high of $22 1/8 per share just prior to year end. ▲

Strength in Numbers

In the nation's most volatile industry, natural gas producers compete on an uneven playing field. Thousands of bankruptcies over the past decade are evidence enough that the first link in the nation's gas supply is at the bottom of the food chain. Apache led the charge in passing gas prorationing legislation reform in Oklahoma, Texas and Louisiana, and is now battling for independents' rights to sell their gas directly to consumers.

In 1992, a series of federal initiatives to deregulate the gas business culminated with Federal Energy Regulatory Commission Order 636, which required interstate pipeline companies to provide "open access" transportation to all sellers and buyers. Intended to stimulate competition, 636 caused the opposite. A new kind of "deregulated monopoly" quickly evolved with a handful of large, middlemen marketers assuming control of the marketplace. As a result, producers realize less and consumers pay more while the middlemen pocket nearly three-quarters of the price consumers pay for natural gas.

In search of a better way, Apache has joined forces with Parker & Parsley Petroleum and Oryx Energy to form ProEnergy, an independent-owned venture created to link gas producers directly with purchasers. Armed with initial volumes of two billion cubic feet of gas per day, ProEnergy will recruit additional independents that wish to join an organization in which all downstream profits will be distributed among participating producers.

ProEnergy represents an immediate solution to a pressing problem facing its founding companies. Looking ahead, however, thousands of other small independents might collapse if gas marketing rules remain unchanged. Growing up on a Minnesota farm in the Twenties, Raymond Plank witnessed first-hand how small farmers gained market clout by selling their products through cooperatives. Why wouldn't a cooperative system work on behalf of gas producers?

An industry task force teamed up to rally grass-roots support for gas producer cooperatives. Federal legislation has been introduced to Congress that would enable independents to join in marketing their gas directly to consumers.

Perhaps more important than the bill itself is the groundswell of support for cooperatives among independents, the citizens and governments of oil-and-gas-producing states and the thousands of royalty owners and workers in related industries. The power of a united front is captured in a quote by anthropologist Margaret Mead: "Do not doubt that a small group of concerned citizens cannot change the world. Indeed, it is the only thing that ever has."

Good Ol' Fields

"Oil and gas producers come and go.
They go broke; they go to jail; they go to their graves.
But good fields just keep producing."

As time passes, the staying power of some of the country's oldest and biggest fields becomes more evident. Through sizable acquisitions the past decade, Apache now operates a cache of old giants:

Spindletop Field
Jefferson County, Texas

Since its discovery in 1901, Spindletop has yielded over a billion barrels of crude. It's been operated by 18 different companies over its storied past and is still cranking out nearly one million barrels of oil a year.

Hastings Field
Brazoria County, Texas

Hastings has produced nearly three-quarters of a billion barrels of oil since its discovery in 1934. A half-dozen operators have since tested the limits of Hastings, and it is currently yielding annual production of about 1.3 million barrels of oil.

McElroy Field
Crane County, Texas

Discovered in 1926, the field has produced over a half-billion barrels of oil through nearly a dozen different owners. Today, Apache is finding new opportunities to increase output, and the field is producing nearly nine million barrels a year.

Welsh Field
Jefferson Davis Parish, Louisiana

Since its discovery in 1903, nearly 100 million barrels of oil have been produced from the field. After more than a dozen different operators, Welsh ceased to produce in 1991. Apache is currently producing 1,200 barrels of oil and two million cubic feet of gas per day from the once deceased field.

Through a mixture of acquisitions, moderate-risk drilling and active field operations, Apache entered 1993 as one of the fastest growing independents in the industry. Over a five-year span, daily oil output increased more than fivefold and daily gas production doubled. But Apache's growth also brought with it a new set of challenges: As a larger company, Apache had raised the bar for replacing reserves to sustain its rapid growth pace; and, the company would need to maintain a degree of balance between acquisitions and drilling so that it did not become solely dependent on acquisitions for growth. Clearly, Apache needed to increase its exposure to larger reserve targets that held big-time drilling potential. Where better to start than the largest producing basin in North America, the Gulf of Mexico.

Throughout the company's history, as a matter of policy, none of Apache's larger acquisitions have been bought at auction. Either they have been hunted down or have crossed Apache's path through some unusual channel. One such acquisition in 1993 started off with a lunch. Jim Pavlich, Apache's Gulf Coast drilling manager in Houston, was meeting a drilling contractor to inquire about the timing of an offshore drilling job that Apache had scheduled. The contractor told Pavlich to expect a delay because the rig was being moved to develop a recent discovery made by Hall-Houston Oil Company. Almost in passing, the contractor mentioned that there was a chance that Hall-Houston would be interested in selling its offshore discovery because of the considerable costs to develop it. Pavlich recounts, "I hustled back to the main office with the news and, within a day, Jim Bauman had his evaluation team studying the properties. Two days after that, back came Bauman saying that the whole outfit might be for sale and that he and Steve Farris would be meeting with Hall-Houston to see if they might be able to work something out. Hey, within a month, it was a done deal."

Raymond Plank would later call the entire Houston group together outside company headquarters to say a few words about Pavlich's efforts in bringing the deal together. He would also hand him a check for $5,000. The dynamics of the Hall-Houston acquisition illustrated an Apache culture that encourages open lines of communication without politics or bureaucracy and fosters the entrepreneurial spirit on which the company was founded.

It also demonstrated some of the fundamentals of Apache's acquisition philosophy. Roger Rice, vice president of human resources, explains, "Although Apache conducts extensive due diligence, it doesn't overanalyze and works quickly. As George S. Patton put it: 'A good battle plan today is better than a perfect one tomorrow.' That's particularly relevant to Apache where rapid action is the norm.

Top Left: Houston headquarters
Right: Gulf of Mexico
Above: L to R: Jon Jeppesen, Jim Pavlich and Craig Clark

"The Hall-Houston acquisition exemplified how ideas percolate up at Apache. People here believe they're going to be successful — and that goes from top to bottom," Rice continues. "Over the past decade, we've increased our production sevenfold while holding the line on the number of employees. That's a real testament to the work ethic here and a key component in what makes Apache competitive in today's environment."

The properties included in the $114-million Hall-Houston acquisition contained the equivalent of an estimated 104 billion cubic feet of proved gas reserves from interests in 63 producing fields and 12 fields under development. More importantly, it significantly expanded Apache's operating presence in the Lower 48's largest producing province, where sizable reserve targets remain untapped. Soon after the acquisition, having increased the number of blocks it operated offshore from eight to 64, Apache became the largest independent gas producer in the Gulf of Mexico with daily production of over 200 million cubic feet, up sixfold from 35 million in 1992.

Apache also took steps to remain the largest independent gas producer in Oklahoma, where active drilling and acquisitions had contributed to the Midcontinent region's growth. Reserves in the region, which had comprised one-half of Apache's total in 1989, doubled by 1993. Despite this increase, the Midcontinent represented one-quarter of company-wide reserves in 1993, illustrating the enormous growth of Apache's other regions during those four years.

In the Anadarko Basin of western Oklahoma, where Apache's operations had first rooted 40 years earlier, the company tried something new in an old formation. Back in the Seventies, the Deep Springer formation had yielded favorable investment returns at a time when federally decontrolled deep gas (found below 15,000 feet) fetched over $8.00 per thousand cubic feet, justifying the substantial costs associated with drilling and completing these wells more than three miles into the earth. But when gas prices cratered, the Deep Springer became a graveyard for dollars and the industry abandoned the play.

Having earlier reaped attractive results from its fracture stimulation techniques in the Cherokee formation, Apache decided to apply the technology to its Stowe #1-9 well, a seven-year-old Deep Springer producer that had been flowing 300 thousand cubic feet of gas per day. Following the largest "frac job" ever completed in Oklahoma at that time, daily gas production from the Stowe well soared to ten million cubic feet.

In early 1993, Peter Lynch of Fidelity Investments, the world's largest mutual fund money manager, was quoted in the national business and financial weekly **Barron's** saying,

"Apache Corp. is one of these great independent oil companies. It is very smart. They buy things right...

Usually, these companies have no earnings. Apache has genuine earnings and genuine cash flow. Eventually, all the big international oil companies are going to turn over their relatively small properties that they can't deal with."

More than just a bystander, Lynch was among the very first on Wall Street to have recognized Apache's potential. Following a sparsely attended one-on-one meeting at Fidelity's Boston office during Apache's first road-show presentation since the 1988 rollup of its master limited partnership, Lynch purchased 50,000 shares of Apache stock for his Magellan Fund. Joel Tillinghast, the Fidelity analyst who had arranged the meeting with Lynch after sensing a turnaround candidate, later commented, "If Apache continues to do things right, it's conceivable that we could buy two million shares."

Fidelity started buying when Apache stock was hovering around $8 per share and built its ownership to 15 percent of the company. With over nine million shares, Fidelity was Apache's largest shareowner and, by the summer of 1993, with Apache stock trading above $30 per share, Fidelity's stake grew to be worth $300 million.

Fidelity Investments

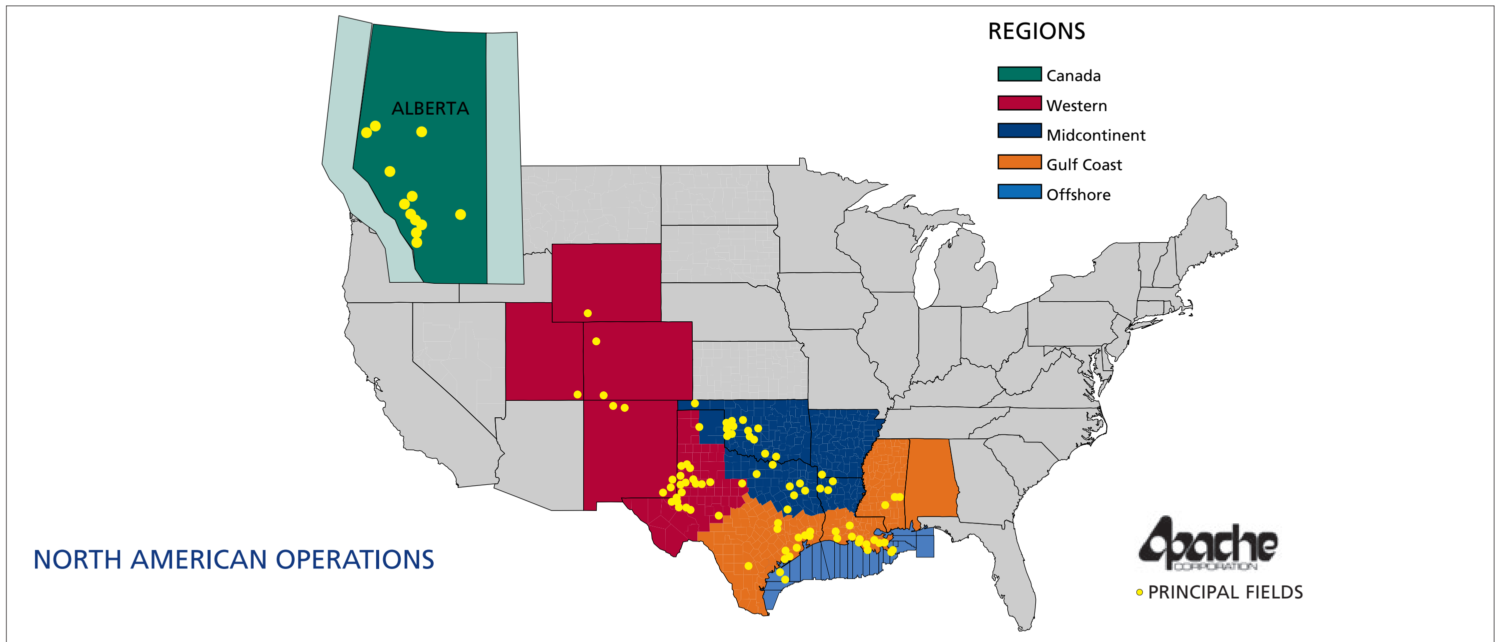
July 1, 1995

Fidelity Management & Research Company
82 Devonshire Street
Boston MA 02109-3614

Mr. Raymond Plank
Chairman & CEO
Apache Corporation
1 Post Oak Central, Suite 100
2000 Post Oak Boulevard
Houston, TX 77056

"...Today our clients entrust us with $200 billion to invest in 5,000 businesses around the world, up from $2 billion we had in the late 70's ... compiling the #1 investment record in the mutual fund business. This would not have been possible without your direct involvement in our investment process...

Not only did Apache build one of the most impressive E&P organizations in North America over this time span, but you spent endless time with us sharing your vision of the long-term benefits of a low cost and well financed aggressive acquisition and development program, and the value that can subsequently accrue to both the management and your outside shareholder-partners. Your fervent commitment to long term excellence gave us the knowledge and confidence to build a major position in your company, and, equally as important, provided us with the most valuable paradigm around to evaluate and assess the whole energy industry..."



The $500,000-recompletion added estimated gas reserves of 8.9 billion cubic feet. By virtue of Apache's long-standing operations in Oklahoma, the company held a substantial acreage position there that included Deep Springer prospects. Combing through its existing position and buying additional leases, the company would go on to drill 17 Springer wells, all of which were productive. Initial flow rates from these wells were typically over five million cubic feet of gas per day. Apache would later make a $198-million acquisition that would quadruple its Deep Springer acreage position in Oklahoma, and the play would become one of Apache's core domestic assets.

As with fracture stimulation, other advanced technology is helping to add new value to oil and gas properties. Estimates by the Department of Energy reveal that only about 12 to 15 percent of the reserves contained in an oil reservoir are recovered through conventional drilling and production methods. Using the most advanced technology can yield recoveries as high as 50 percent.

In addition to its extensive use of fracture stimulation technology and horizontal drilling methods, Apache has expanded its use of 3-D seismic. Prior to 1991, the company had virtually no access to 3-D seismic information. Today, Apache has over 6,000 square miles of 3-D seismic coverage in the Anadarko Basin, the Permian Basin, the Green River Basin, the Gulf Coast and on over 250 blocks in the Gulf of Mexico. The company is also shooting its own 3-D seismic surveys and has added numerous workstations to interpret the data.

Jon Jeppesen, vice president of domestic exploration, explains, "It used to be that the majors had a corner on advanced technology. Now it's available to independents. In order to compete in this business into the future, you're going to have to use advanced technology effectively." Jeppesen says, "Most people think of 3-D seismic as an exploration tool. But we're also applying it to our producing properties, including those that have been acquired, and finding new reserves in some pretty old fields."

Jeppesen continues,

"To succeed in this business requires four things: people, data, technology and money. Apache is fortunate to have all four. Good people alone won't find a drop of oil without good information. And, Apache has compiled a lot of data through the years in its specific focus areas and has had the resources to acquire more when needed."

The application of advanced technology on the company's expanded property base would contribute to Apache's ranking as the nation's ninth most active horizontal driller by 1994.

History shows that countless companies have tried and failed because they violated the old adage: "stick to your knitting." Apache's bailiwick was clearly the U.S., where the company had demonstrated substantial growth through acquisitions and drilling. But the potential for large reserve discoveries in the Lower 48 had diminished by virtue of more than three million wells, or over 80 percent of the world's total, having been drilled in the U.S. With its size doubled, Apache would need to look outside the U.S. for larger reserve targets in order to replace its substantially higher production and maintain growth down the line.

During the first five years of its international activity, Apache had directed less than ten percent of its annual capital expenditures toward international exploration, spreading its risks over several selective minority-interest drilling ventures in a variety of countries. While this "shotgun approach" limited the company's financial exposure, there was little to show for its overseas drilling efforts up to that time. However, Apache did have a good taste in its mouth from its 1991 acquisition of properties near Airlie Island, located in the Carnarvon Basin offshore Western Australia. The acquisition had paid out in under two years, and reserve estimates for the acquired properties had held steady for three years running despite substantial production.

More important, the Carnarvon Basin held the potential for sizable reserve discoveries and was considered by some as being at a similar stage of development as the Gulf of Mexico 40 years earlier. About two-thirds the size of the Gulf, the Basin had yielded a half-billion barrels of oil and 4.1 trillion cubic feet of gas from fewer than 1,000 wells. This compared to the Gulf of Mexico's 30,000 wells and cumulative production of 8.7 billion barrels of oil and 103 trillion cubic feet of gas.

Apache had also participated in a large gas discovery on acreage that accompanied the Airlie Island acquisition. Although the East Spar discovery was estimated to contain the equivalent of 420 billion cubic feet of gas, gas markets in Australia were extremely hard to come by, and no reserves could be booked without a sales contract. As an absentee owner with no operating presence Down Under, Apache needed an Australian hub if it were to realize any value from its East Spar discovery or its 6.9 million acres of leases.

With that in mind, Apache took notice when Hadson Corporation came calling to propose that Apache purchase its 50-percent owned subsidiary, Hadson Energy Resources Corporation (HERC). With an active operating office in Perth, Western Australia, HERC had a track record of successful operations offshore in the Carnarvon Basin. After securing the support of a handful of HERC's shareholders, many of whom had earlier encouraged Apache to buy the company, Apache completed a $98-million merger with HERC at year-end 1993.

Top Left: Apache is using technology to bring new life to old fields.
Right: Several of Apache's gas wells in Western Australia are capable of producing more than 50 million cubic feet per day each, or over ten percent of the company's daily U.S. gas production through a single well bore.

Aussie and Harriet

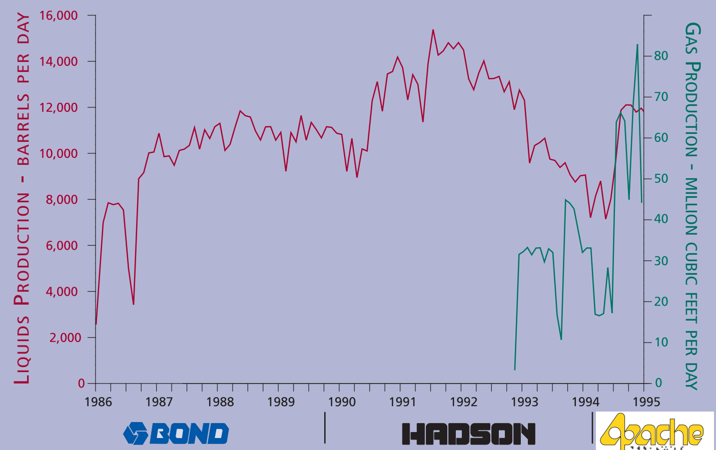
It is said that opportunity knocks in a big way but a handful of times over the course of a lifetime. To a corporation, "company-makers" are equally rare and surrounded by the day-to-day necessity of grinding it out. With this in mind, Apache has positioned itself as the largest independent acreage holder in an emerging, under-explored basin offshore Western Australia. In the Carnarvon Basin, recent discoveries of large oil reserves and enormous gas accumulations are reminiscent of the Gulf of Mexico 40 years ago. Apache's cornerstone producing asset there is Harriet field, the oldest oil field offshore Western Australia. Discovered in 1983, Harriet already has a rich past and has outperformed even the most optimistic reserve expectations.

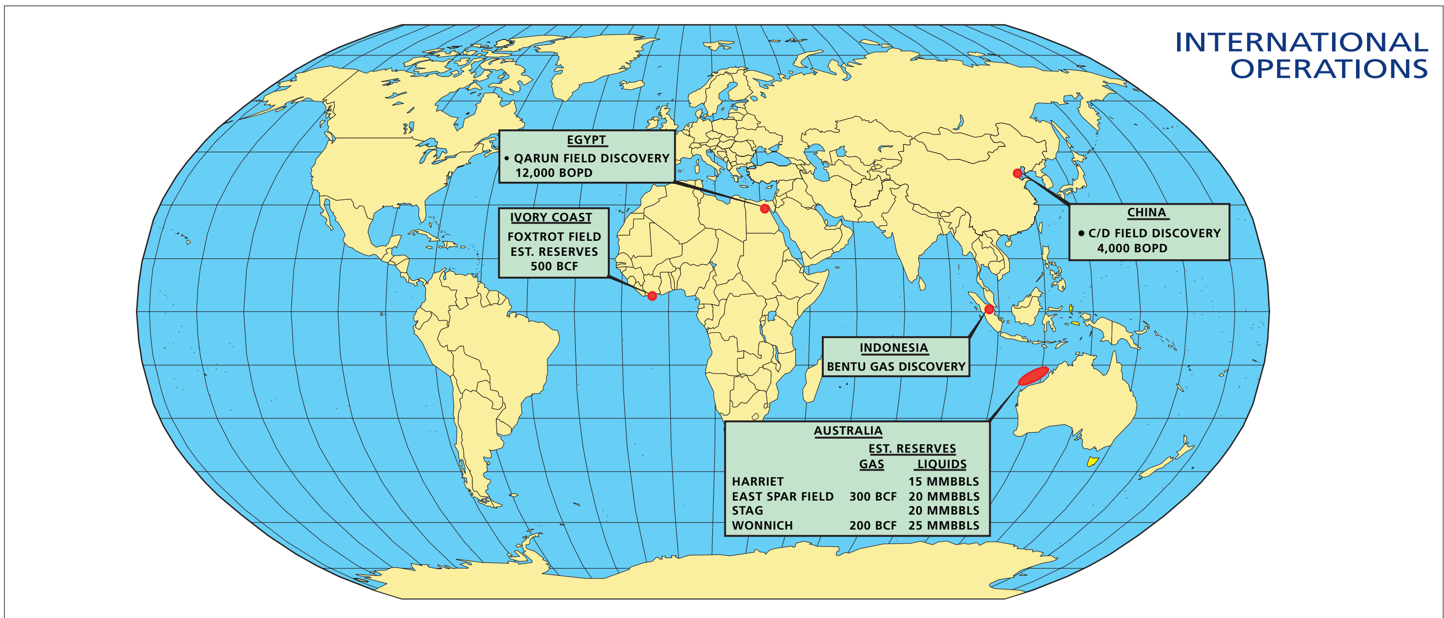
Although Harriet field is considered "old" by Australian standards, it has produced for less than ten years. Occidental Petroleum discovered the field after a string of eight dry holes and later sold its interests so that it could concentrate on developing a major discovery in Colombia. The buyer of these interests was Bond Corporation, headed up by the flamboyant Alan Bond who, among other things, was the first Australian to win the America's Cup of yachting. After Bond brought Harriet on line in 1986, the field produced at an average daily rate of about 11,000 barrels of oil, and its reserves were estimated at around ten million barrels.

Bond had a reputation of buying and selling companies like a card shark shuffles cards, and it wasn't long until Harriet field was on the auction block again. During Bond's ownership, little capital was plowed back into operations at Harriet, and the field's output steadily declined. Hadson Energy Resources Corporation bought Bond's interests in 1990 and quickly implemented operations to shore up the field's production. As a result, Harriet's daily production rose to over 14,000 barrels, and its estimated reserves were revised upward to 28 million barrels. Hadson also found markets for nearby untapped natural gas reserves and built an infrastructure of production facilities and pipelines. Gas sales commenced in the summer of 1992, while production from several small fields in the area was aggregated at facilities on nearby Varanus Island, where Alan Bond had once dreamed of building a resort. While Hadson's Australian operations were going well, its parent company was experiencing financial trouble, and operations capital for Harriet all but dried up. Production from the field headed south, and Harriet was again put up for sale along with the rest of Hadson Energy's assets. Hadson approached Apache about a possible transaction and, by year-end 1993, a merger was completed.

The fourth operator of Harriet in ten years, Apache has both the commitment and financial wherewithal to give Harriet a chance to reach its full potential. Active operations, including the drilling of the field's first horizontal wells, have contributed to an increase in production from the Harriet area to over 12,000 barrels of oil and 75 million cubic feet of gas per day. Ultimate reserve estimates for Harriet alone have increased to nearly 50 million barrels of oil, five times the original estimate. With Harriet as its Australian foundation, Apache is expanding its activity on its substantial acreage base in the under-explored and, evidently, underestimated Carnarvon Basin.

Varanus Hub Liquid/Gas Production History





The merger provided the much-needed hub that brought with it experienced personnel on Australian soil, a rare infrastructure of pipeline and production facilities, and the capacity to operate. The timing of the merger was also right. Apache had ample cash flow to apply toward developing its existing and acquired Carnarvon Basin properties, and natural gas markets were emerging in the wake of recent industry deregulation. It wouldn't be long before the new Australian operating hands tapped markets for Apache's discovered but unbooked gas reserves at East Spar, participating in two joint ventures to provide an aggregate 161 billion cubic feet of gas for use in mining operations and independent power generation. With the stroke of a pen, these two contracts enabled the company to double its reported international reserves. Within two years, Apache and its partners would capture over half the new gas contracts in Western Australia. The synergies upon which the Hadson merger were predicated turned out to be quite real, as did the substantial growth potential of this under-explored region.

The Hadson Energy merger provided Apache with an important operating hub and experienced personnel in Western Australia.

HERC also brought operatorship of one of only two existing gas pipelines to shore from the waters of the Carnarvon Basin and one of the few oil loading terminals offshore, located on Varanus Island. Owning and operating the pipelines, processing and storage facilities in a prolific basin with limited infrastructure gave Apache an important franchise relative to those companies that would have to incur substantial costs to develop similar facilities.

The properties added through the merger provided both production enhancement opportunities and meaningful development potential. Apache's share of estimated reserves for Harriet field, Western Australia's oldest producing offshore oil field at ten years of age, were increased by one million barrels following extensive reservoir studies. At Stag field, which had been discovered just prior to the merger, Apache drilled five appraisal wells and a horizontal development well that tested over 6,000 barrels of oil per day, doubling the field's initial reserve estimate to 20 million barrels of oil.

After being among the first independents to voyage overseas, it took Apache several years to climb the learning curve. Management and the board of directors had the patience and perseverance to see the company through a long incubation period that culminated in its first core asset abroad in Western Australia, an international prototype Apache hopes to duplicate in three or more other countries by the end of the decade.

Patience is beginning to pay off elsewhere internationally. In Egypt, Apache participated with a one-quarter interest in an exploratory well claimed by the Egyptian Oil Minister to be the largest potential discovery in the history of the Western Desert. Initial test rates at the discovery, drilled on the Qarun concession, reached 12,000 barrels of oil per day, the most prolific individual oil production rate in Apache's 40 years. Following development drilling, field production is expected to rise to 40,000 barrels of oil per day by late 1996. An aggressive exploration program in Egypt produces optimism and the belief that Egypt might one day become another international core focus area.

Floyd Price, Apache's vice president of international exploration and development, explains, "We're applying similar strategies and systems internationally as we use domestically. We'll strengthen our position through tactical acquisitions in three or more focus areas, like we've done in Western Australia." Price continues, "Due to the nature of the international arena, we'll participate in more exploratory drilling. But, at the same time, we should have plenty of opportunities to apply our exploitation methods on existing producing properties, actively looking for workovers and recompletions while utilizing advanced technologies, such as horizontal drilling and 3-D seismic, to maximize the economic benefit of our drilling program. All in all, international is shaping up as a significant part of Apache's future."

"Oilmen are soldiers working for the interest of people."

This statement was made by Egyptian President Mohamed Hosni Mubarak during his onsight inspection of the Qarun field discovery, considered by the Egyptian government to be the largest oil discovery in the history of the Western Desert.

Looking forward, Steve Farris states, "I believe that the next decade will be the most significant period for the oil and gas industry since the automobile. The need for energy in emerging nations is and will be substantial." Farris continues,

"Apache has the ability to be both financially innovative and operationally strong. And, the people here have a tremendous drive to be successful."

Apache's track record did not go unnoticed as it became the twelfth most widely covered company in any industry followed by Wall Street, according to Nelson's, an institutional research firm. By year-end 1993, 68 analysts were tracking Apache's performance, up from two prior to the MLP rollup. More than just taking a long shot on a company with a major transformation ahead of it, these analysts followed a growing independent that had strung together six consecutive years of improvements in virtually every operational and financial category.

Entering its fourth decade, Apache had its strongest balance sheet to date and had posted records in revenues, cash flow, oil and gas production and reserves, and drilling and acquisition activity. Contributing to this active purchasing was Apache's decision to push down to the regional level the authority to make acquisitions of up to $1 million, eliminating the red tape of a lengthy approval process. The regions would use the same economic criteria for evaluating potential acquisitions as they would use for making drilling decisions. In 1993, 74 property purchases were completed, involving fields and wells in which Apache already held interests. Somewhat unique within the industry, this integrated approach to acquisitions and drilling enabled Apache to gain efficiencies while building interests in fields that held potential upside.

In 1994, Apache would close $180 million of acquisitions, the most notable of which was the $97-million purchase of Crystal Oil. Crystal's operations centered along the Louisiana-Arkansas border and in southern Louisiana.

But, it seemed as though Apache was simply cleansing its pallet with these prior purchases when it announced at year end that it would acquire over 300 oil and gas fields from Texaco, Inc. for $571 million. Virtually all of these fields would be located within Apache's focus areas.

While financial markets were still digesting that news, Apache announced a $285-million merger with Calgary, Canada-based DEKALB Energy. The acquisition would mark Apache's return to Canada, where it had operated in the Sixties, and would expose the company to the largest gas-bearing basin in North America.

The two announcements put an exclamation point on Apache's past decade, during which it had evolved into a multi-faceted, professionally managed company that still has a strong sense of purpose and innovation. As the company approaches its half-century mark, many of the values that brought it to this point remain constant: *hire people who are able to turn on a dime when opportunity is identified or a given route blocked; recognize exceptional work by good people and reward them promptly for it; expect employees to take measured risks and encourage them to do it; expect some occasional failures if there are to be consistent successes; the more you can move decision making processes out of corporate headquarters and into the field, the better company you are going to build; and, be ready for change because it's coming from anywhere and always will.* ▲

In response to a question as to how Apache could add value to properties acquired from one of the world's largest oil and gas companies, Raymond Plank answered,

"It's a little bit like a pig following a cow through the corn field. The scraps are pretty good for someone with our particular mission."

The Wall Street Journal, November 30, 1994

With over half the recent growth in U.S. natural gas demand met by supplies piped in from Canada, the DEKALB Energy merger provides Apache with an important operating arm north of the border. Originally the affiliate of a prominent seed company, DEKALB brings nearly 40 years of exploration and production experience in the largest gas-bearing basin in North America.

Symbolizing the company's defiant approach to industry turmoil, this flag was presented to Raymond Plank on Apache's fortieth birthday. The original Gonzales Flag was carried in battle by rebellious Texans against Mexican troops in 1835.

Apache's direction has always been toward building a significant oil and gas company. Founded as a marketer and manager of tax-advantaged oil and gas investments, during 1986 that phase of the business was rendered obsolete by the Tax Reform Act and the collapse of oil and gas prices. Apache changed and adapted immediately while over half its industry counterparts failed.

The company's direction shifted from tax-incentivized drilling programs to focused, low-cost oil and gas operations. Additional technical expertise was brought on board. The management team developed and reviewed new policies and strategic directions. This can and does involve monitoring and counseling from the board of directors. Being a director of Apache Corporation has been a challenging experience.

The honest, candid and frequent communication fostered by Raymond Plank enabled the magnitude of change required for success. Frank discussions between management and the board allowed for prompt and appropriate actions when confronting challenges. While the Securities and Exchange Commission has increasingly prodded public companies to improve communication and disclosure among management, directors and shareholders, that long-standing characteristic of Apache has enabled difficult issues to be tackled with a clear understanding of the company's overall direction.

Never lacking motivation or creativity, Raymond Plank, together with key associates at every level, initiated and quickly implemented a series of bold strokes to change the course of the company. While Apache could have settled for easy solutions and foundered, it made tough decisions that are paying off in the long run.

The $440-million acquisition from Occidental Petroleum became a rallying point in the midst of collapsing oil prices and industry consolidation. The easy answer would have been to shy away from such a large price tag, but the need to gain critical mass to be competitive in a changing industry won out. Innovative financial instruments were designed to complete a deal larger than Apache itself.

Concurrent with this acquisition, Apache relocated its headquarters from Minneapolis to Denver where seasoned oil and gas professionals were added as an essential part of the company's transformation to a low-cost operator. The operational management and incentive systems implemented during that period remain in place today and are an integral part of how Apache is able to exploit properties by identifying and capturing value left behind by others.

By 1991, Apache had proved itself as an effective operator, demonstrating that it could replace production through the drillbit at reasonable costs. Cash flow increased, the balance sheet strengthened and the stock price reflected the company's dedication to sophisticated low-cost operations. The $546-million acquisition of MW Petroleum from Amoco Production could have been interpreted as a radical departure from Apache's new direction. As intended, the acquisition provided an opportunity to blend the company's new exploitation capability with its long-standing financial acumen which, together, represents a strategy to enhance shareholder value. We again moved headquarters, from Denver to Houston, to be nearer to the acquired properties and to the pulse of the energy capital of North America.

To augment its domestic operations, Apache entered the international arena. With a sevenfold increase in production over the past decade, the company needed exposure to larger reserve targets and a more stable gas price environment abroad in order to further its growth objectives. Several years into this endeavor, Apache had gained experience but little else. Rather than pull the plug, we continued to build a base and stayed the course, focusing in those countries with the most promise. Today, with six discoveries in four countries, international activity is surfacing as an important component of Apache's future.

Steps taken over the past decade have significantly changed the face of the company. Apache navigated through a tumultuous period by recognizing early on that the oil and gas downturn was not merely short term and offered opportunities for a contrarian strategy to grow as industry consolidation continued. That long-term perspective, measured risks and innovative actions have enabled Apache to make progress amid adversity. Dull moments are not part of Apache's culture or its continuing will to succeed.

The Board of Directors of Apache

An Active Decade 1985-1994

	Drilling	Acquisitions*	Combined
Wells • Transactions	1,858	98	N.A.
Investment	$1,184,000,000	$2,019,953,000	$3,203,953,000
Reserves Added (barrels of oil equivalent)	197,000,000	362,805,000	559,805,000

*Excludes acquisitions of less than $50,000

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Vice President - International Exploration and Production

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R. Kent Samuel
Controller and Chief Accounting Officer

"The capacity of the individual is infinite. Limitations are largely of habit, convention, acceptance of things as they are, fear or lack of self-confidence."

Raymond Plank

APACHE'S FOUNDER, WHO BECAME ITS PRESIDENT IN 1954 BY THE TOSS OF A COIN, PUTS IT THIS WAY:

Harry Truman often used an expression pertinent to Apache as we enter our fifth decade:

"The only thing new in the world is the history you haven't read."

Over the years we've adapted to shifting political environments, volatile product prices, industry expansion and consolidation, technological advances and rapid globalization, with a mixture of innovation, measuring and managing risk, and an underlying desire to lead change rather than fall victim to it.

We've kept our horizon of opportunities expanding along with our financial base from which to build. Our culture is opportunistic and entrepreneurially driven, unafraid either to run plays into the line or pass on fourth down.

Our values have sharpened — keeping pace with our growing equity and cash flow:

- *Relationships are to be honored and built on integrity.*
- *Credibility is quickly lost if not continuously earned.*
- *Corporate arrogance and unnecessary costs are fatal.*
- *To drift is to die; to persevere is to uplift.*
- *Commitment to individual and Apache growth is constant.*

In mature industrial nations, societies tend to lose sight of the building blocks that, in the case of the United States, have enabled unparalleled achievements and living standards. We've become preoccupied with entitlements and take for granted the vital linkage between creative, motivated people and our resource and environmental base.

Energy's role in the world's advancing living standard is immense, but better accepted today outside our country than within. Yet energy's role is well enough understood by underdeveloped nations on the rise to play a growing part in human advancement globally.

In constantly refining Apache's role and direction amid constant change, it's as though each year in our history is not only real and vital, but also practice, conditioning and experience for the challenges that lie ahead.

Our base is domestic, our vision global, our challenge constant: to excel well-by-well, field-by-field, country-by-country, continuing to build shareowner, human and financial values.

Raymond Plank

Raymond Plank
October 1, 1995
Houston, Texas

"Apache will always have something to prove."

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