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## **Boone Calls the Plays as Largess Complicates Life at Alma Mater**

BY ANN ZIMMERMAN AND LESLIE SCISM

STILLWATER, Okla.—T. Boone Pickens had outsize ambitions when he donated \$165 million to transform athletics at his alma mater, Oklahoma State University, which had long played second string in football to the rival University of Oklahoma Sooners.

The colorful oil man led excited school officials on a spending spree that included gussying up the redbrick football stadium with luxury suites and razing 200 homes near campus to make way for an athletic village that was to feature a baseball stadium, indoor track and tennis complex.

While the Oklahoma State Cowboys are now a football power, with one of the most lavish



T. Boone Pickens's \$165 million gift helped overhaul Oklahoma State's stadium, above, but investment troubles have stalled other plans.

stadiums in college athletics, there is a 100-acre dirt tract where a neighborhood used to stand in this leafy college town northeast of Oklahoma City. The baseball, tennis, track and soccer facilities Mr. Pickens envisioned when he made his donation seven years ago haven't even been started because Cowboy Athletics, the endowment that was supposed to fund the projects, is essentially broke.

Mr. Pickens, 84 years old, has been extremely generous to Oklahoma State. His \$165 million donation is one of the largest ever to a college sports program, and his giving over the years has totaled nearly half a billion dollars, including recent gifts to academic programs and pledges to provide funding upon his death. But the problems that bedeviled his athletics-development plan offer a cautionary tale about the risks colleges take when they allow big donors to call many of the shots.

## An Oilman's Field of Dreams



Associated Press

T. Boone Pickens tried out a machine in the new weight room at Oklahoma State, Aug. 17, 2009, in Stillwater, Okla.

Cowboy Athletics invested all the gift money and more in Mr. Pickens's hedge fund, BP Capital. It was late 2005 and markets were still booming. The endowment expected to garner 20% annual returns because of the high returns it had gotten on other athletic money in the hedge fund. Mike Holder, Oklahoma State's athletic director and the president of Cowboy Athletics, said in an interview that putting it into the fund had been his idea, and that Mr. Pickens and the oil man's lawyer, as Cowboy Athletics board members, had approved the decision.

Separately, Mr. Pickens concocted an unusual plan to supercharge returns for Cowboy Athletics. He sold school officials on a program to generate up to \$250 million for the endowment by taking out multimillion-dollar insurance policies on the lives of older Oklahoma State alumni. The expectation was that the death payouts would exceed the premiums.

Both investments turned into big losers.

The hedge fund's energy bets paid off at first. Then the global financial crisis hit and they lost much of their value between mid-2008 and late 2009—and so did the Cowboy Athletics endowment. The endowment's \$202 million investment in the fund, which had grown in value to about \$400 million, plunged to \$125 million by the time the money was withdrawn.

The insurance plan was abandoned before the alumni died and Cowboy Athletics could collect the insurance payouts because the endowment didn't have the money to cover the annual premiums. Mr. Pickens and Cowboy Athletics concluded that the program was flawed and wasn't worth continuing.

The endowment wound up spending \$33 million on premiums and getting nothing in return.

By the end of 2010, the liabilities of the Cowboy Athletics endowment exceeded its assets by \$15 million, financial records show. Officials have not released records for 2011 because their accountants are still reviewing them, a school spokesman said.

Mr. Pickens has ponied up a lot more money to help the school overcome the problems. He is paying off the endowment's \$84 million in loan obligations as they come due—\$3 million per quarter. Also, he gave Cowboy Athletics a \$35 million life-insurance policy on his own life, which

wasn't part of the alumni-insurance plan. The endowment cashed it in for between \$10 million and \$11 million.

Mr. Pickens declined to be interviewed. In an email, he said the athletic village is back on track, at an accelerated pace, and that construction of the first building began this year. He laid blame for the delays on "the economic collapse of 2008."

Mr. Holder called the unfinished athletic village "a little bump in the road." He had served as the school's golf coach for more than three decades before being named to head the athletics department in 2005, at Mr. Pickens's urging.

Some philanthropy experts say the investments that Oklahoma State made with Mr. Pickens's money were riskier than normal for school endowments.



Associated Press

"It took on a significantly bigger risk than most schools would by not investing the gift in an array of asset classes," says Matt Hamill, senior vice president of the National Association of College and University Business Officers.

Jerry McCoy, a Washington lawyer who specializes in charitable-tax planning, says complex life-insurance investment arrangements in general "pose a lot of problems," including that "people don't die on schedule" to guarantee returns.

The collapse of the alumni-insurance investment plan spawned litigation in Oklahoma state court and federal court in Dallas. Various claims and counterclaims pitted Mr. Pickens and Cowboy Athletics against the company that sold the policies, [Lincoln National](#) Corp., and several insurance brokers. Lincoln National alleged that Cowboy Athletics, which had stopped paying premiums, was in breach of its contract. Mr. Pickens and Cowboy Athletics, in turn, alleged the brokers misrepresented the potential profit.

A federal judge in Dallas sided with the insurer and the brokers in March, ruling that Mr. Pickens and Oklahoma State hadn't heeded warnings from a consultant and others about the program's risk. On June 18, an Oklahoma state-court judge dismissed a similar suit by Mr. Pickens and the school. Mr. Pickens and Cowboy Athletics have appealed the federal ruling. A Lincoln spokesman said the company looks forward "to putting the matter behind us."

Other universities also have suffered setbacks from pledges that didn't come through or investments that didn't grow as expected, especially since the recession.

"Gifts gone bad" are a fact of life in the philanthropic community, says Rae Goldsmith, a vice president at the Council for Advancement and Support of Education.

Florida Atlantic University took a donor's name off its business school in 2009 when the alumnus didn't fully deliver on a \$16 million pledge.

Duke University delayed construction of an environmental-sciences building for almost a decade after a donor didn't come through on time with \$70 million he promised. The school broke ground on the project in April, at half its original size, a spokesman said.

In Stillwater, a city of about 46,000, many remain optimistic that Mr. Pickens's vision for Oklahoma State will come to fruition despite the rocky start.

Mr. Pickens's career as an oil executive, corporate raider and energy trader has been marked by a propensity to make audacious bets.

After graduating from Oklahoma State in 1951 with a degree in geology, he founded Mesa Petroleum and built it into one of the world's largest independent oil-and-gas companies before he gambled on natural-gas reserves. When gas prices fell in 1996, Mesa found itself \$1.2 billion in debt, and Mr. Pickens was forced out.

In his 2008 autobiography, "The First Billion is the Hardest," Mr. Pickens attributed the bulk of his fortune to trading done through his hedge fund. After initially stumbling, a series of bets on natural-gas prices returned big profits. Recently, he became an evangelist for wind power, with checkered results.

"I lost my a— in the wind business," he told MSNBC in May.

When it came to investing in his beloved Oklahoma State Cowboys, he was in a hurry, "anxious to see results before he was gone," his spokesman says.

He was 77 when he gave the school \$165 million to help complete a \$293 million renovation of an aging facility nicknamed "Rustoleum Stadium." Boosters hoped a football palace would attract better athletes and help turn the football team into a powerhouse.

Cowboy Athletics invested the gift in Mr. Pickens's hedge fund and took out loans and floated bonds to finance the stadium face lift and athletic village.

As the building projects moved forward in 2006, Mr. Pickens came up with the insurance program, named "Gift of a Lifetime".

He said he got the idea when his internist quipped that Mr. Pickens was in "good enough shape to be insured at standard rate," Mr. Pickens recalled in his autobiography.

The concept was to have Cowboy Athletics buy insurance policies on the lives of aging alumni, then collect money as the beneficiary when they died. At the time, others in the investment world, encouraged by commission-hungry middlemen, also were cutting deals that turned life-insurance policies into bets on life expectancy. In essence, they all were wagering that they could outsmart the life insurers—that they could better judge when the insured people would die, so that they would collect more in death-benefit proceeds than they paid out in premiums.

Cowboy Athletics estimated it would reap \$100 million to \$250 million, depending on when the alumni died, according to documents in the federal-court case.

Cowboy Athletics planned to get a long-term loan, with an interest rate of around 7%, to pay the premiums, said Mr. Holder, the athletic director, in deposition testimony in the federal litigation. The borrowed money would be invested in the hedge fund, earning the expected 20% returns, and would be tapped to pay the premiums. When the alumni starting dying, the profits would flow.

Some faculty members found it gruesome to have a financial interest in the deaths of alumni. One Oklahoma State board member dubbed the arrangement "too good to be true," Mr. Pickens recalled in deposition testimony in the federal case.

That concern was echoed by One Advocate Group, a consulting firm brought in by a school fundraiser, the Oklahoma State University Foundation, to review the program. The consultant questioned whether alumni would die early enough for the program to be profitable for Cowboy Athletics, and noted that the endowment would pay out big annual premiums in the meantime, documents in the federal case show.

Mr. Pickens dismissed the warnings, referring to one of the consultants in his deposition testimony as a "dumb cluck." Mr. Pickens said he left it up to Mr. Holder to make the final investment decision.

Documents filed in the case show that Mr. Holder was concerned about pleasing Mr. Pickens and meeting his timetables. In his deposition, Mr. Holder acknowledged that he didn't read some insurance documents before signing them.

"All our heads will roll" if a deal cannot be consummated on Mr. Pickens's schedule, Bobby Stillwell, Mr. Pickens's longtime personal lawyer and a Cowboy Athletics director, wrote in an email to colleagues that is part of the court record.

By early 2007, the school took out \$10 million individual policies on each of 27 people. Because Mr. Pickens's \$165 million gift was already being used as collateral on the stadium's main construction loan from [Bank of America](#) Corp., getting a long-term loan to cover the \$16.6 million in annual premiums proved difficult.

The athletic endowment paid the \$16.6 million in first-year premiums with a line of credit from a local bank, the federal-court records indicate. It did the same the following year.

Tax filings show that the \$202 million that Cowboy Athletics had invested in the hedge fund had almost doubled to \$389.6 million at the end of 2007. But when the real-estate bubble burst and credit markets seized up globally, it began shrinking. The hedge fund had continued to wager in 2008 that the price of natural gas and oil would rise, but both plummeted because of the economic downturn.

The value of the average college endowment fell 19% in 2008, according to the Council for Advancement and Support of Education. The Oklahoma State athletic endowment slid 68% that year to \$125 million, Mr. Holder said.

Under the terms of its stadium-construction loan, Cowboy Athletics needed to come up with more collateral. Mr. Holder said in his deposition that Mr. Pickens provided several loans totaling \$63 million—loans that Mr. Pickens later turned into gifts. By year-end 2008, Cowboy Athletics withdrew the remaining balance from the hedge fund to pay off the stadium loan, federal-court records show.

Oklahoma State President V. Burns Hargis stepped in to help Mr. Holder, the athletic director, figure out what to do about the \$16.6 million in insurance premiums due in February 2009. He called on a retired insurance executive and Oklahoma State alumnus, James Morris, to assess the situation.

Mr. Morris, Mr. Hargis and others met around the fireplace at Mr. Pickens's Texas Panhandle ranch in early 2009 for a "pretty sobering meeting," Mr. Pickens recalled in his deposition.

Mr. Morris told the gathering he saw little chance of alumni dying early enough to deliver the expected profit, Mr. Morris recalled in a recent interview.

In his deposition, Mr. Pickens called himself a "sap" and said he and others at the university subsequently concluded it was time "to vacate this mess of guts."

In a Jan. 23, 2009, email to several employees at Mr. Pickens's hedge fund, his lawyer, Mr. Stillwell, suggested the way to present the problems publicly: "All of the bad news—huge loss of funds under management, no athletic village and no Gift of a Lifetime program, is laid off on the economy and lending environment." In his deposition, Mr. Pickens said he agreed with that approach.

In August 2009, as Cowboy Athletics' finances worsened, Oklahoma State unveiled its renovated stadium. Mr. Pickens was presented with his own wood-paneled locker next to the players, and a jersey with the number one.

Behind the scenes, Mr. Pickens was keeping the Cowboy Athletics' operation afloat, Mr. Holder said in his deposition.

Hard feelings linger in some parts of Stillwater, especially among former residents of the neighborhood bulldozed to make way for the athletic village.

But last season, the Oklahoma State Cowboys had one of their finest football seasons ever, culminating in a No. 3 national ranking in the final Associated Press poll. They whipped the Oklahoma Sooners 44-10 in December before a rabid crowd at Boone Pickens Stadium.

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