BY ZACHARY L. BERMAN

Walter Scott, Jr., knows how to get the lay of the land. The native Nebraskan saw the importance of this skill early on, while working as stake chaser and water boy on a dam-building project one hot North Dakota summer.

"Even though my job was pounding and carrying stakes and doing whatever the crew chief told me to do," Scott says, "I got the opportunity to see everything that was happening on the project."

For over 40 years Scott has built a career on this ability to survey the landscape and see what's coming over the horizon. As a director on the Burlington Resources board, he put this skill to work to help management formulate a new strategy – one that made Burlington a leader in its field and propelled the stock to new highs. "We decided to be the first company in the sector to come out and say that returns really do matter, even if it means sacrificing some growth," explains Bobby Shackouls, chairman, CEO and president of Burlington Resources. This took foresight and "guts," since traditionally Wall Street had rewarded companies in that sector on a growth basis.

In 1988, Burlington Northern, one of the country's oldest railroads, was facing a possible strike from its workers. So its chairman, Richard Bressler, created two companies in an effort to protect its profits. Burlington Northern would oversee the railroad business, while a new company, Burlington Resources, would hold the other interests of the company—mainly its oil and gas enterprises. At Bressler's behest, Scott agreed to serve as a director of the new Burlington Resources.

Early on, the stock in the new company almost doubled, due mainly to speculation about a Pennzoil takeover. The Pennzoil deal never came to fruition, however, and Burlington Resources settled down to trade in a narrow band throughout the early '90s, even though the company continued to grow. By the late '90s, it was apparent to management and the board that the return on capital deployed was subpar.

As part of a plan to improve shareholder returns, the company launched a stem-to-stern analysis of all company assets. The result was a decision to shed assets that did not return more than the cost of capital and to expand Burlington Resources' oil and gas operations into Canada. "Walter was certainly a leader on that score," remarks Kenneth Orce, a fellow Burlington Resources board member.

Scott and the other board members knew that to pull off this strategy, they would need Burlington management 100% behind the plan. As chair of the compensation committee, Scott helped craft a combination pay-for-performance and long-term incentive compensation plan that would not only keep management focused on the new strategy, but also reward management for its success. Forty percent of compensation would be in performance share units tied to certain four-year metrics that the board approved in advance. These would vest each year, and at the end of four years, the board would do a performance review. Another 40% would be in 10-year stock options and the final 20% in restricted stock.

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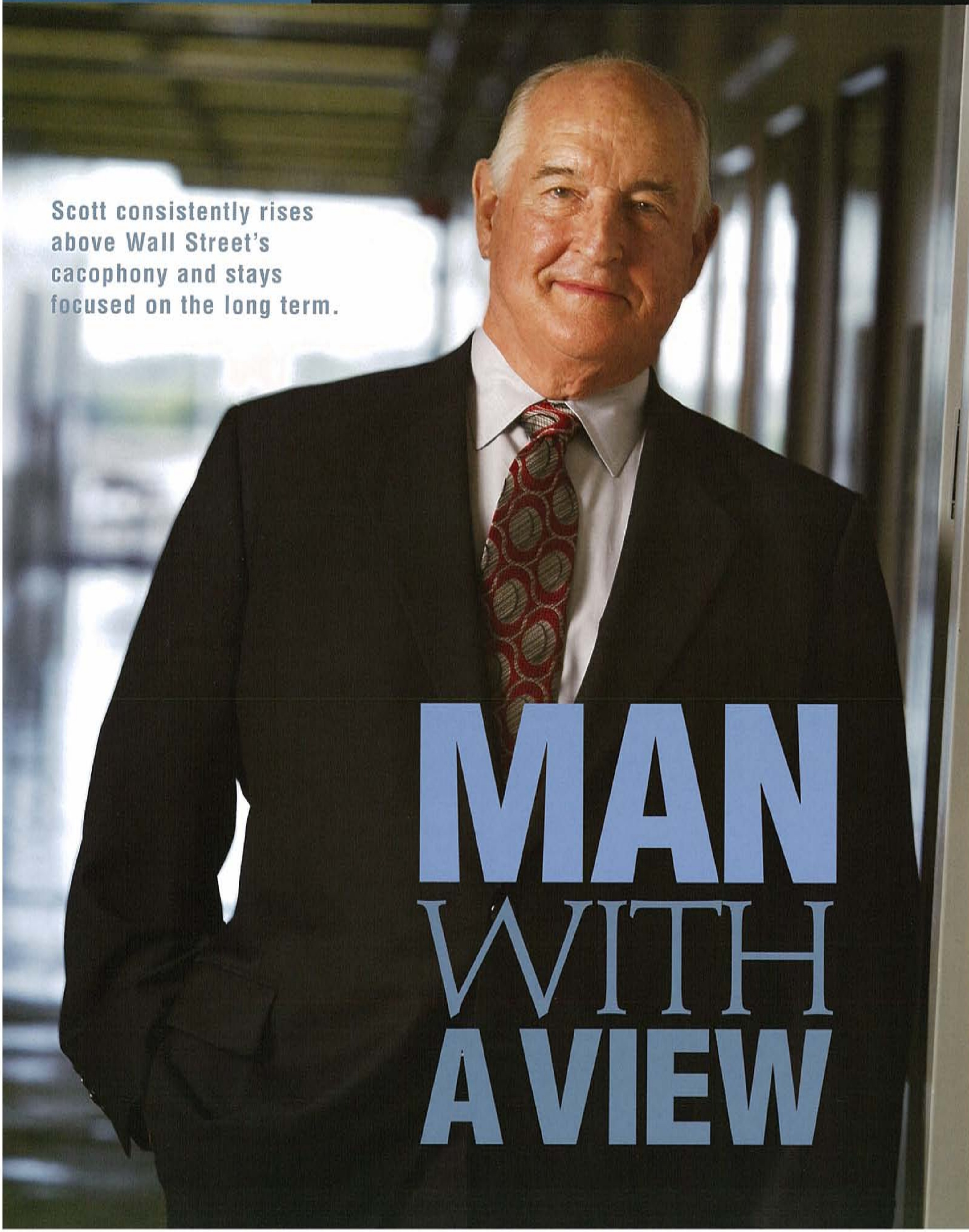
>
> **AL FASOLA • FELLOW RCN DIRECTOR**

Scott had learned the importance of stakeholder returns at Omaha-based Peter Kiewit Sons', the $3 billion employee-owned construction company with which Scott started out as a water boy on the dam-construction project—and whose president and chairman he rose to become. "The businesses I've been in have always been based on returns," says Scott. "Kiewit is owned by the employees, and it does not make a lot of sense to grow the company if you lose money. That doesn't make your employees very happy."

Both Burlington Resources' management and the board recognized that implementing the new strategy was going to be a long and painful process, and in the beginning the markets reacted unfavorably to the plan. Indeed, when the company first announced its intention to focus on returns over growth, the stock price took a large hit. Going forward, it took some time to shed the underperforming assets and develop a position in Canada, and Wall Street was slow to warm up. But the board, especially Scott, remained patient, stayed the course and kept focused on the long-term goal.

The strategy worked, and eventually Burlington Resources was vindicated as shareholder returns rose to 15% in 2002, 31% in 2003 and 59% in 2004. Today Burlington Resources now has a large enough reserve of oil and gas to keep drilling for the next five years, and it is showing no sign of slowing down its quest for returns. It invested $2 billion in drilling this year, up from $1.7 billion in 2004. "I can assure you that a lot of the success that Burlington has is because Bobby Shackouls and others at Burlington have taken advantage of what Walter knows," opines Ruben Anderson, who sits on the Burlington Resources board.

"Walter has served in a special capacity for me. I'll call him on any matter, and no matter where he is in the world, he will always call me back in a few hours," notes Shackouls. "There is experience that comes out with Walter serving on a board that CEOs and other directors are well advised to listen to very carefully," adds Al Fasola, with whom Scott served on the RCN board. "He doesn't talk a lot, but when he speaks, you are well



Scott consistently rises above Wall Street's cacophony and stays focused on the long term.

MAN WITH A VIEW

BORN: Omaha, Neb., May 21, 1931

EDUCATION: Civil engineering degree, Colorado State University, 1953

CAREER HIGHLIGHTS: Chairman and CEO Peter Kiewit Sons', Inc. Started at 16 and rose to the level of president, chairman and.

HOMETOWN: Omaha, Neb.

FAMILY: Married to Suzanne since 1987; three daughters, one son from previous marriage. Mrs. Scott has two sons. Together they have a total of 16 grandchildren.

MOST MEMORABLE SUMMER JOB: Working on Garrison Dam, pounding stakes in the ground as part of a survey crew.

BEST VACATION IN THE PAST FIVE YEARS: Trip to Hawaii over Christmas break with six children and 16 grandchildren

WON'T LEAVE HOME WITHOUT: "A briefcase with something in it"

BEST MOVIE SEEN OVER THE PAST YEAR: "Don't really go to the movies that often."

BEST BOOK READ OVER THE PAST YEAR: *A Short History of Nearly Everything*, by Bill Bryson

FAVORITE ARTIST: Robert Bateman

CURRENT PUBLIC COMPANY BOARDS: Berkshire Hathaway, Burlington Resources, Commonwealth Telephone Enterprises, Level 3 Communications, Valmont Industries

served to listen and take some good notes because he's usually very right."

Scott's experience also bode well for shareholders of Level 3 Communications, a $3.7 billion telecommunications company that was spun off from Kiewit in 1998. In the late '90s the telecommunications industry was flying high and celebrating huge gains. But not Scott, who was and is Level 3's chairman and titular founder. "Walter reminded us over and over and over again that nothing is forever," says Level 3 CEO Jim Crowe. "You need to, in his words, 'take care of the downside and the rest will take care of itself.' As a result, when others were celebrating, we were raising money and focusing on what can go wrong."

Once again Scott's vision paid off. The industry came to a screeching halt, and those companies without adequate reserves to weather the storm sank. In fact, while hundreds of telecommunications companies started around the same time as Level 3, not a lot of them are still standing. "A good part of the reason Level 3 is here is Walter," notes Crowe.

"Too many CEOs want boards that say yes,'" adds David Sokol, chairman and CEO of MidAmerican Energy Holdings and a longtime business associate of Scott's. "A board member like Walter creates an environment where others feel comfortable asking questions." At Berkshire Hathaway, Warren Buffett handpicked Scott to serve as its first outside director. "He was an obvious choice at that time, and he has subsequently proved to be everything you would want a director to be—wise, straightforward, discreet, shareholder-oriented and independent," notes Buffett.

Today Scott, Sokol and Berkshire Hathaway are partners in MidAmerican. This is the entity through which Berkshire Hathaway is pursuing its new energy initiative, including the recent purchase of U.S. electric utility PacifiCorp. Such connections lead some critics to question the independence of Scott and of the Berkshire Hathaway board. But Berkshire Hathaway shareholders continue to do the cost benefit analysis and discount the objections. "Frankly, there are not enough board members around like Walter," sums up Sokol.

Friends say what most distinguishes Scott is his philanthropic style. He is not just a giver to the community; he gets actively involved in all aspects of community development. For example, when the business community realized that Omaha was lacking a technologically savvy workforce, he was there to lend a hand.

"Walter took it in his own hands and raised $47 million to create something that gave the community an opportunity," recalls retired vice admiral Bob Bell, the former president of the Omaha Chamber of Commerce. That something is The Peter Kiewit Institute, located in Omaha. It is part of the University of Nebraska and educates students interested in pursuing careers in information science, technology and engineering.

Yet for all his success, Scott remains very unassuming and down-to-earth. Indeed, more than one fellow director was surprised that he decided to accept the Outstanding Director award. "I could not imagine that he would agree to accept that," says Anderson. "He wants to fly right under the radar. Warren Buffett must have talked him into it." ○