

Case Study – TEXAS NATIONAL PETROLEUM



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Ask yourself.....Who is My Most Valuable Client?

TEXAS NATIONAL PETROLEUM

Read it Step by Step

Step 1

It's a Workout

These are securities whose financial results depend on corporate action rather than supply and demand factors created by buyers and sellers of securities.

In other words, they are securities with a timetable where we can predict, within reasonable error limits, when we will get how much and what might upset the apple cart.

Step 2

TEXAS NATIONAL PETROLEUM

TNP was a relatively small producer with which Warren Buffett had been vaguely familiar for years

Step 3

In 1962 Buffett heard rumors regarding a sell out to Union Oil of California. Buffett never act on such information at rumour stage, he acted on announced stage.

Step 4

TNP had three classes of securities outstanding:

1	2	3
6 1/2% debentures callable at 104 1/4 which would bear interest until the sale transpired and at that time would be called. There were \$6.5 million outstanding of which we purchased \$264,000 principal amount before the sale closed.	About 3.7 million shares of common stock of which the officers and directors owned about 40%. The proxy statement estimated the proceeds from the liquidation would produce \$7.42 per share. We purchased 64,035 shares during the six months or so between announcement and closing.	650,000 warrants to purchase common stock at \$3.50 per share. Using the proxy statement estimate of \$7.42 for the workout on the common resulted in \$3.92 as a workout on the warrants. We were able to buy 83,200 warrants or about 13% of the entire issue in six months.
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Step 5

The risk of stockholder disapproval was nil. The deal was negotiated by the controlling stockholders, and the price was a good one

Step 6

The only problem was, obtaining the necessary tax ruling. Union Oil was using a standard ABC production payment method of financing. The University of Southern California was the production payment holder and there was some delay because of their eleemosynary status.

Step 7

This posed a new problem for the Internal Revenue Service, but we understood USC was willing to waive this status which still left them with a satisfactory profit after they borrowed all the money from a bank.

Step 8

When we talked with the company on April 23rd and 24th, their estimate was that the closing would take place in August or September. The proxy material was mailed May 9th and stated the sale "will be consummated during the summer of 1962 and that within a few months thereafter the greater part of the proceeds will be distributed to stockholders in liquidation."

Step 9

The following are excerpts from some of the telephone conversations we had with company officials in ensuing months:

On June 18th the secretary stated "Union has been told a favorable IRS ruling has been formulated but must be passed on by additional IRS people. Still hoping for ruling in July."

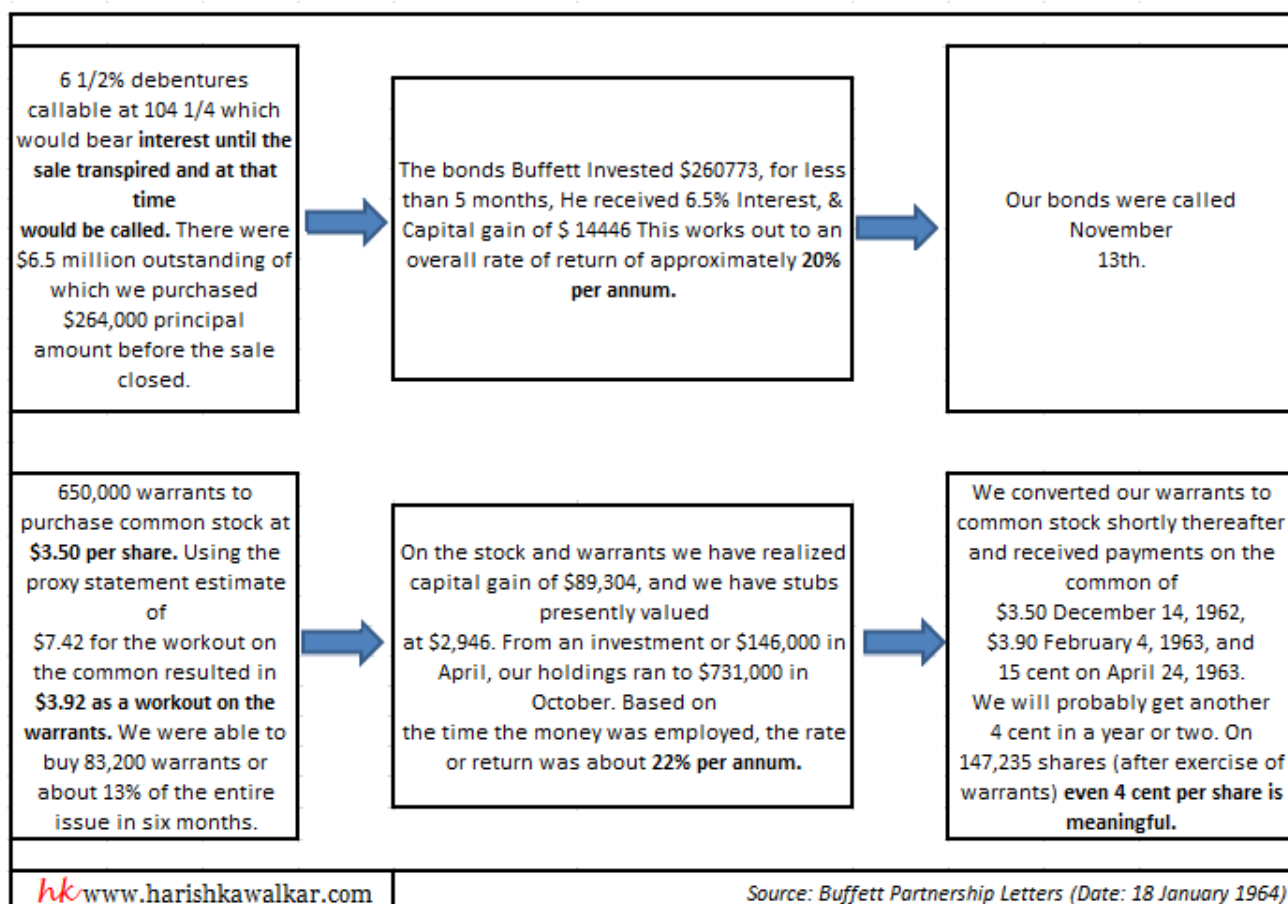
On July 24th the president said that he expected the IRS ruling "early next week."

On August 13th the treasurer informed us that the TNP, Union Oil, and USC people were all in Washington attempting to thrash out a ruling.

On September 18th the treasurer informed us "No news, although the IRS says the ruling could be ready by next week."

Step 10

The ruling was received in late September, and the sale closed October 31st.



Step 11

In both cases, the return is computed on an all equity investment. I definitely feel some borrowed money is warranted against a portfolio of workouts, **but feel it is a very dangerous practice against generals.**

Step 12

We have had workouts which were much better and some which were poorer. **It is typical of our bread-and-butter type of operation. We attempt to obtain all facts possible, continue to keep abreast of developments and evaluate all of this in terms of our experience.**

Step 13

We certainly don't go into all the deals that come along -- there is considerable variation in their attractiveness. When a workout falls through, the resulting market value shrink is substantial. Therefore, you cannot afford many errors, although we fully realize we are going to have them occasionally.

Learning's

It's a Workout, which results depend upon corporate action. (Invest where you have definite gains)

Buffett was familiar with this business, and knows about it from many years. (Track your investment for many years, and invest when you get the opportunity, Be Opportunistic)

Buffett heard rumors regarding this situation, but he never act on it, until it announced from company end, no matter the loss or gain from such situation. (Avoid rumors at all cost)

The risk of disapproval from stakeholders was nil (Know whom with you invest your money)

Tax ruling problem (Know your problems in advance, so you have time to solve it)

Even 4 cent per share is meaningful on 147235 shares (Earn every penny)

I definitely feel some borrowed money is warranted against a portfolio of workouts, but feel it is a very dangerous practice against generals. (Don't borrow and invest, no matter you get definite money. Buffett Invest borrowed money in Generals, (it's a undervalued stocks) but not in workouts, control your greed and emotion.)

It is typical of our bread-and-butter type of operation. We attempt to obtain all facts possible, continue to keep abreast of developments and evaluate all of this in terms of our experience. (Find Opportunity, Obtain all Facts, and continue to watch on all developments, evaluate all developments and facts, and Get Results)

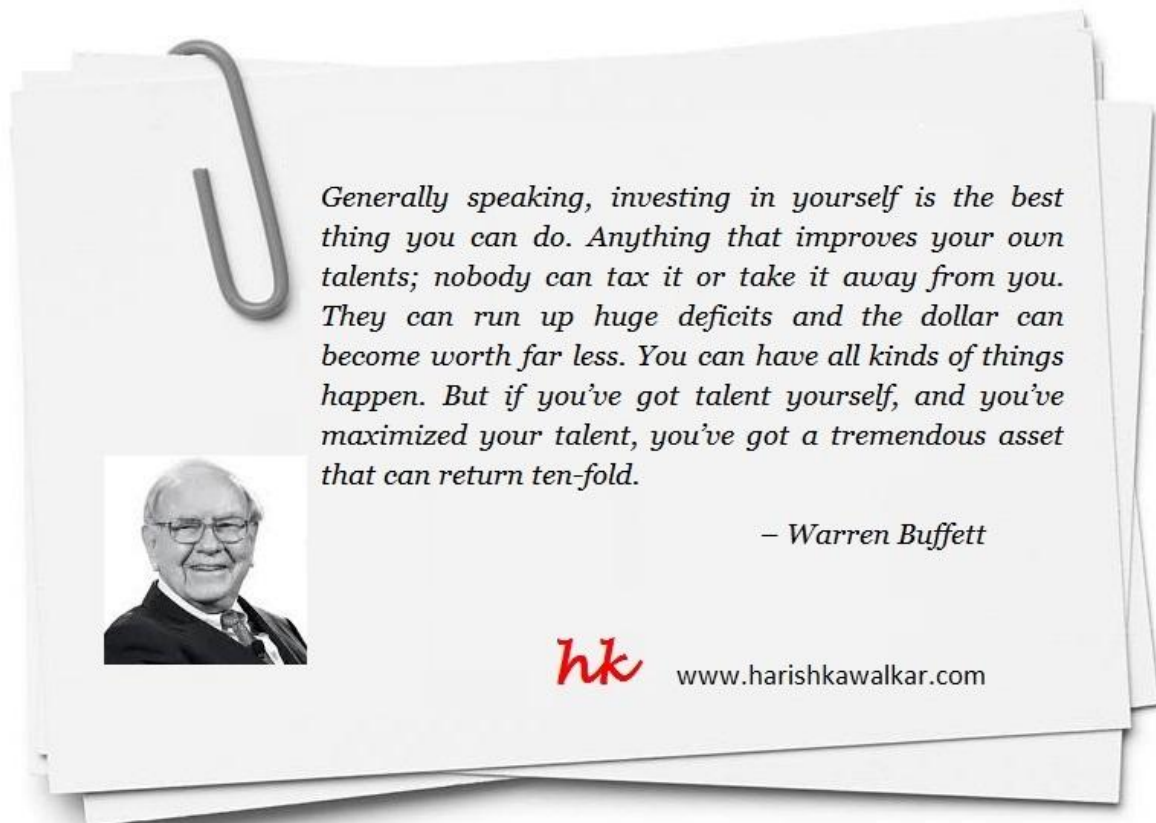
We certainly don't go into all the deals that come along. (Must know when to hit the ball, wait for your pitch, Patience)

What you learn from TNP?

Please write back to me... on harish.kawalkar@gmail.com

Acknowledgement

I write on my blog regularly, few advices are close to my heart.. Warren Buffett Famously Says....



The main aim is to maximize the knowledge, few years back when I start reading, I am enjoying it, but after few days I start to forget or lose interest in it, so I start taking notes, on letter pad, the journey start, one of my friend suggest me, why not you start blogging it? It can help others; I take time on this idea, finally the blog start after few months of discussion.

As Charlie Munger said

"I constantly see people rise in life, who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long road ahead of you."

- Charlie Munger



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Who's my most valuable client?

Few years back I was reading **"The Snowball Warren Buffett and the Business of Life"** where I strike the question, Who is my most valuable client?

"Charlie, as a very young lawyer, was probably getting \$20 an hour. He thought to himself, 'Who's my most valuable client?' And he decided it was himself. So he decided to sell himself an hour each day. He did it early in the morning, working on these construction projects and real estate deals. Everybody should do this, be the client, and then work for other people, too, and sell yourself an hour a day."

- Source (Snowball)



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The biggest inspiration behind my personal Investment Education and I own lot to Warren Buffett, Charlie Munger, Sanjay Bakshi & Mohnish Pabrai

Bibliography

1) Buffett Partnership Letters

About The Author

Thanks for reading this Case Study

My Name is Harish Kawalkar, living in Pune, India, I am a general guy, not clever, smart or genius, whatever I do on the blog, is what I think is important and useful.

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