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Stock Offer for Tender – Profit with Special Situations

September 7, 2008

Table of Contents

It's All About The Odds when it Comes to Offer for Tenders

What Is a Stock Tender Offer?

The Risks of Stock Tenders

Odd Lot Tenders

Some Things to Know

(<http://hackadelic.com/solutions/wordpress/toc-boxes>)



Written by

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How is an individual investor able to get an edge over millions of others and especially institutions that spend every waking hour analyzing companies and crunching numbers?

The way to profit is to know something that others don't. Right?

That is where being involved in stock offer for tender can help you profit and beat the market.

It's All About The Odds when it Comes to Offer for Tenders

I believe that investing is just like poker or any other form of game except I control the odds, stakes and the bet.

If an opportunity arises where the odds are in my favor, I will take it. If a bet came along where I had 60% of winning and 40% of losing, I would take it each time because probability confirms that in the long run, I end up winning.

However, this all depends on how much capital is allocated and what your own risk rating is.

60% of winning \$100 with a 40% chance of losing \$500 may not suit everyone but a 75% chance of winning may change that factor.

It boils down to picking your spots. No blind bets should be made without calculating the odds, risks and timeline when investing in special situations and stock offer tenders.

What Is a Stock Tender Offer?

A stock tender is when a company announces that it will be buying back a certain number of shares at either a specified price or in the form of a Dutch auction

(http://en.wikipedia.org/wiki/Dutch_auction).

The purpose of a stock tender offer could be to reduce the number of stockholders of record and reduce or eliminate future servicing fees, SEC reporting costs and stock listing fees.

Especially when it concerns smaller companies, having a large base of tiny stockholders can

certainly eat away profits with administrative tasks.

This is an excerpt from Pinnacle Bancshares

(http://findarticles.com/p/articles/mi_m0EIN/is_2007_Oct_18/ai_n27412690) stock tender.

“We estimate that odd-lot stockholders who own less than 100 shares represent over 37% of our total stockholder base but approximately 0.3% of our total shares outstanding. If we are successful in reducing our total stockholders of record under 300, Pinnacle plans to deregister its common stock with the Securities and Exchange Commission and delist from the American Stock Exchange. As a result of these actions, we expect to save considerable costs related to SEC reporting requirements, costs associated with implementing and complying with the Sarbanes Oxley Act, stock listing fees and stock registrar costs. We also expect to reduce the significant amount of management time devoted to these activities.”

As a real example, Jonathon from My Money Blog

(<http://www.mymoneyblog.com/archives/2008/07/united-rentals-uri-stock-tender-offer-a-calculated-gamble.html>) participated in a stock tender with United Rentals (URI) where he purchased shares of URI at \$19.81 which the company bought back for \$22. Timeframe for this was under 1 month, so the gain of approx 10% is annualized to over 100%.

So the idea of a company offering a stock tender is pretty straightforward, but there are risks involved.

The Risks of Stock Tenders

This is a form of merger arbitrage (http://www.oldschoolvalue.com/blog/special_situation/profit-from-special-situations-risk-arbitrage/) but I do believe the risk is lower than merger acquisitions, where there are many factors that could suddenly cause the deal to fall apart.

Boost Returns by Easily Recognizing What's Beneath the Surface of a Stock

Now back to the risks...

- A company announces that it will buy back a certain number of shares, in United Rentals (URI) case, 27 million shares were to be bought back ranging from \$22-\$25. There is a risk that too many people would tender their shares and cause an over-subscription whereby your lot of shares may not be completely bought back (but there is a way to prevent this, which I will get to later on).
- The company should have enough cash or have financing in order to buy back the shares. Just like in risk arbitrage, if the company doesn't have the funding, the tender will get cancelled or amended to a lower buy back price.
- Management could withdraw the tender at the last second. Nothing is set in stone when it

comes to special situations.

Odd Lot Tenders

In case the tender is oversubscribed, people holding odd lots of shares under 100 are given preference when shares are bought back. This means, if you hold 99 shares and somebody else holds 100 shares, your tender is given a higher priority. Those who hold more than 100 in an oversubscribed tender will have their shares bought back at a pro rated basis. Thus buying 99 shares ensures the best return.

In some cases, companies specifically announce odd lot tenders where they will only buy back shares from those who hold less than 100 shares.

This is one of the areas where the small investors have an advantage over the big boys.

Some Things to Know

Once you purchase shares, you have to **call** your broker to let them know you want to tender your shares. I do all my investing through my 401k account with Fidelity and they charge \$38 for the tendering.

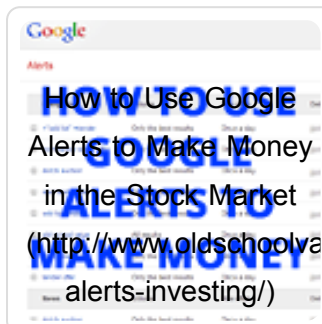
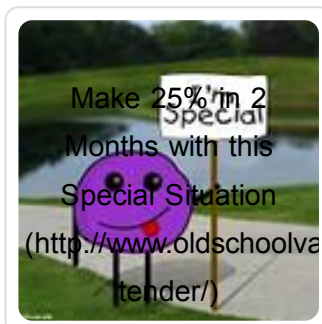
Buy commission of \$10.95 and sell commission of \$38 is \$48.95 in fees alone, so choosing your spots is very important.

Don't forget to factor in the capital gains tax as well.

With numerous realized gains of say 10%, the individual investor is able to profit in unstable and uncertain markets with minimal risk. This isn't speculation and if you give the additional effort to look for it and read a few paragraphs from the SEC filings, your portfolio could do very well.

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Dalus Ponkis · a year ago
These odd lot tenders almost disappeared or became unprofitable after numerous discussions on various sites (mostly SA). Even paid services started appearing such as <http://www.specialsituationinv....> This was a good run, maybe it will reappear after one or two years again.
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Franx · 2 years ago
Just a couple of picky points:
1. "I believe that investing is just like poker or any other form of game except I control the odds, stakes and the bet."
I would argue that you control all three of these things in poker (no limit). You choose the game

I would argue that you control all three of those things in poker (no-limit). You choose the game stakes and of course your bet sizing, and you pick the spots you want to 'gamble' so those are the odds as well.

2. "60% of winning \$100 with a 40% chance of losing \$500 may not suit everyone but a 75% chance of winning may change that factor."

60% winning \$100 and 40% losing \$500 would hopefully not suit anyone. Even when you increase the odds to 75% of the time you win \$100 and 25% you lose \$500 not many would take it...I will take the house side of that bet please.

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oddlotspecialsituations.com • 3 years ago

Great post Jae. Odd Lot Tenders are a great way for small investors to profit. I cover these investments at oddlotspecialsituations.com for anyone that is Interested.

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Great post Jae. Investing in odd lot tender offers is a great way to profit for small investors. For anyone interested, I run a newsletter that covers these investments at <http://www.oddlotspecialsituat...>

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Jae Jun • 8 years ago

Hope I answered your question in the following post.

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Dividend Growth Investor • 8 years ago

Great article Jae. But if you have to have an odd lot and you have to pay high commissions, doesn't it mean that the stock price has to be at least \$20 in order for you to at least breakeven?

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Maybe I'll even profile your experience on Fat Pitch Financials.

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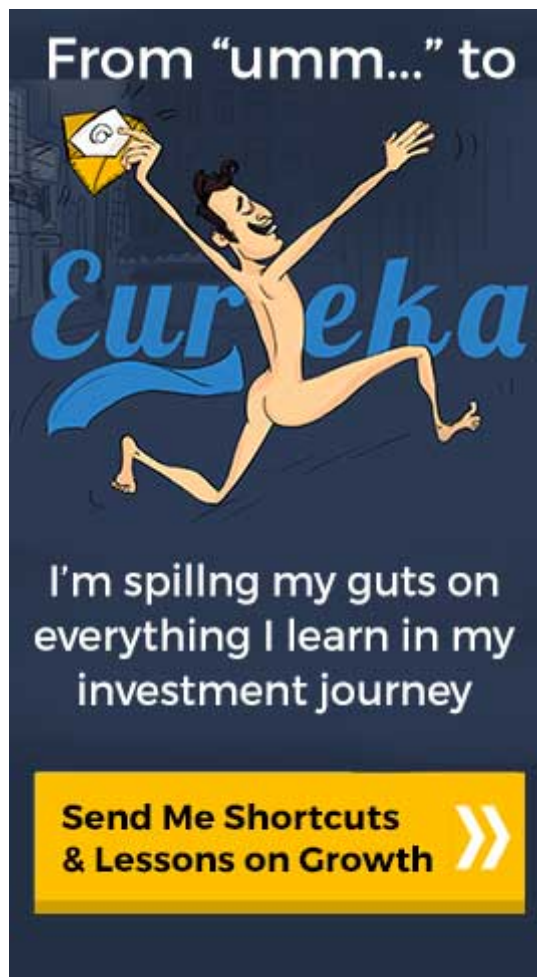
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Our Mission



(<http://www.oldschoolvalue.com/about.php>)
My wife and I are Christians and our focus is to love God and love people. We are proud supporters of Compassion and are grateful to be sponsoring 8 children.

We are just two ordinary people and understand that we cannot change the world. However, that doesn't mean we can't try. Call me crazy, but our dream is to one day sponsor 1,000 children around the world. Thank you for helping us achieve this one child at a time.

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