

ODD-LOT BUYBACK PROGRAMS: GREAT FOR THEIR VENDORS, BUT NOT NECESSARILY GOOD FOR YOU – OR YOUR SHAREHOLDERS EITHER

In late January, we got yet another of those odd-lot offers, this one forwarded by our broker and made on behalf of **MEDCO**, which had been spun-off a year or two ago by **MERCK**.

We understand, of course, why such offers have appeal to issuers – at least to issuers who are too busy to do their own homework: All the materials are written, printed and mailed or prepped for mailing by the vendor and, essentially, they cost the issuer nothing to launch and nothing to complete.

But as we've pointed out periodically on these pages, as typically mid-sized odd-lotters, we are almost never good candidates to received offers like this. What really frosts us is that the “deal” as presented is not only a bad one for us, it's far from optimal for Medco too:

We hold 48 shares of Medco – literally a middlin' amount. The deal forwarded by Merrill Lynch proposed to charge us \$1.25 per share, with a max of \$35 to sell our stake (or to buy more if we wanted to “round-up”) PLUS, if you read all the way to the bottom of Merrill's insert, another \$30 for *them*...or \$65 bucks in total. And something important the promotional material didn't tell us, ex-Merck investors had

a capital gain on Medco of about \$32 a share. So, unless we sell some losers too, we'd have to pay capital gains tax on approx. \$1500 - or another \$300 or so. So why, we ask you, would a middlin' investor want to accept a deal like this?

If we really wanted to sell, Merrill will liquidate our odd-lot - on the spot - for \$50. If we want to pinch pennies, we could go to a discount broker, via the DRS system, which is actually beginning to work these days, and sell for a lot less. So much for the “convenient and economical program” the Medco letter promises.

But what really ticks us off when we get such a mailing is that *we know* that middlin' odd-lotters usually end up subsidizing the whole deal, simply because they fail to do the math. Great for the vendors, of course, but the middlin' investors are, more often than not, a *good thing* for companies to have. Most important to note if you're an issuer, these deals rarely put much of a dent in the folks with one to ten shares, who are really the “problem”, if indeed there is one to begin with. And, if you read our top-ten tips, you'll see that this ain't always the case.