

General Motors Plans 1-100 Reverse Stock Split

DETROIT May 5, 2009; Kimberly S. Johnson and Tom Krisher writing for the AP reported that General Motors Corp. notified shareholders Tuesday it is planning a reverse stock split that would give them one share of new stock for every 100 shares they currently own.

The automaker said in a filing with the Securities and Exchange Commission that the deal would be part of an agreement with the Treasury Department in which the government would assume at least half of GM's debt in exchange for company shares. GM will send the information to shareholders currently holding a total of 610.5 million outstanding shares.

GM spokeswoman Julie Gibson said the company is merely notifying shareholders of what it may do if it reaches deals to swap debt for stock with the Treasury Department and bondholders. The company, she said, is not making an offer to shareholders.

GM has received \$15.4 billion in U.S. government loans and faces a June 1 deadline to restructure or be forced into Chapter 11 bankruptcy protection. Under GM's plan, the U.S. government would get a 50 percent equity stake in exchange for about \$10 billion in loan forgiveness.

For the deal to work, GM has to reach agreement with the United Auto Workers to swap stock for about \$10 billion of the \$20 billion in payments GM must make into a trust fund that will take over retiree health care expenses starting next year. The UAW's stake would total about 39 percent. Bondholders would get 10 percent and current stockholders would get 1 percent.

The breakdown between the union and government is still being negotiated, Gibson said.

When all the deals are done GM expects to have about 62 billion shares, 100 times more than currently are outstanding.

"If the restructuring as currently contemplated occurs, there will be very substantial dilution to existing holders of GM common stock," GM's filing said. Hence, the reverse stock split proposal.

Critics, mainly bondholders, have accused the Obama administration of favoring the government and the UAW at the expense of investors.

Richard Hilgert, president and owner of Automotive Financial Research LLC in Beecher, Ill., said bondholders and stockholders are getting the short end of the deal.

But for stockholders, who might lose everything, it might be the best they can do.

"As a shareholder, I'd rather have one percent of something than one percent of nothing," he said.

Hilgert predicted that GM shares would decline even lower than Tuesday's \$1.85 close.

In a separate filing, GM said its Canadian subsidiary will receive a \$2.6 billion loan (\$3 billion Canadian) from the Canadian government. GM can draw on the loan in installments of \$500 million Canadian (\$425.5 million). The Canadian government would be among those first in line to receive repayment of 35 percent of the loan, according to the filing.

The Canadian Auto Workers union has approved modifications to its existing contract in an effort to help GM cut labor costs. GM Chief Executive Officer Fritz Henderson said the company would go back to the union, asking for deeper cuts to match those recently approved by Chrysler's CAW workers.