Reverse stock split nears

Some say Agere plan is harmless; others call it a desperate move.

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The Morning Call (page AA8)

February 6, 2005

Shareholders of Agere Systems will vote next week at the company's annual meeting on an issue many financial advisers say is a "neutral event," meaning it's neither good nor bad.

But the vote on whether Agere should pursue a reverse stock split has aroused anything but neutral sentiment among some shareholders of the Hanover Township, Lehigh County, chipmaker.

A reverse stock split lifts the price of an individual share by reducing the number of outstanding shares. The increase in the price of the stock is offset by the diminished number of shares an investor owns.

The move would not fundamentally change the stock or the company -- the split merely combines two or more shares. That's why financial advisers say it is neither a good nor a bad move.

But it is often viewed as a desperate attempt to salvage a firm's share price. At least one financial writer has called it a stock's version of the Hail Mary pass, which is a desperate play in football to save the game.

"[It] is an attempt to make your stock look more valuable," said Walter Schubert, chair of the finance department at La Salle University in Philadelphia, in an e-mail. "However, the overall capital value is determined by a company's cash flows and is independent of how many shares are outstanding."

Some Wall Street watchers point out that reverse stock splits were in vogue among dying dot-com companies. For example, Webvan, the defunct online grocery store chain, approved a 1-for-25 reverse split just before filing for bankruptcy.

Opponents of the reverse stock split say the move is cosmetic and sends a signal Agere cannot raise the price by its own performance.

"In these circumstances where this company has been relatively unsuccessful since its inception as a public company, a reverse stock split, which is an artificial way of increasing the share price, serves to camouflage the fact the company is just not getting the job done," said Alan Steinberg, a former attorney with the Securities and Exchange Commission in Washington, D.C., and an Agere stockholder.

Agere is seeking its second approval for a reverse stock split. This time, the company is seeking much more aggressive splits. The most conservative, the 1-for-10 split, would convert the $1.50 stock overnight into a $15 stock. The most radical ratio, 1-for-40, would raise the price of a combined share to about $60.

Agere is the world's 23rd largest semiconductor company. It makes chips for communications devices such as the Microsoft Xbox gaming console, Apple's iPod Mini music player and Samsung cell phones.

It is not surprising the company, which employs 1,900 locally, would revive discussion of a reverse stock split. Shares of the chipmaker fell 55 percent in 2004, one of the largest drops of any U.S. stock.

While the stock has stayed above $1, the share price is close enough that the fear of delisting from the New York Stock Exchange is very real. Stocks on that exchange cannot drop below $1 for 30 consecutive trading days. Agere 's stock has already faced the threat of delisting twice. The stock has been trading below $2 since July.

Agere officials say the move will boost the price of the shares enough to get the attention of institutional investors such as mutual funds and pension plans. Many institutional investors use stock screens that only show companies whose shares trade above $5 or $10.

The record for companies that have pursued a reverse stock split is mixed. Stock in some companies has soared while others have floundered after the stock split. And for some companies, it has been a little bit of both.

AT&T, for example, implemented a reverse stock split in 2002 when its shares were trading at $13.51. The stock price more than doubled after the 1-for-5 split. But in the long term, shares of the nation's largest long-distance company have lost about half the value and now trade at $19.60.

Personal digital assistant maker Palm Inc. effected a 1-for-20 reverse stock split in 2002. Stock in the company, renamed palmOne after spinning off its software business, was trading below $1 before it implemented the split. Shares now trade at about $25, after rising to $44.50 in December.

Steinberg, the SEC official who now lives in Allentown, said he knows reverse stock splits can make a company’s shares more appealing to institutional investors. But he said surely those investors are sophisticated enough to realize the boost in price is from the reverse stock split rather than the success of the company.

Financial advisers who manage investment portfolios say shareholders have the same amount of equity as they did before the split.

"It does not theoretically create market value nor does it diminish it," said Christopher M. Jones of Keystone Financial Planning in Easton. "But it could make the stock move. You can't predict the impact."

If the company's shareholders approve the split and the company implements the change, Agere 's stock price could be converted into one of four possible prices. The four proposed split ratios are 1-for-10, 1-for-20, 1-for-30 and 1-for-40.

Shareholders approved the measure when it was proposed in 2003 but the board decided not to follow through because it believed Agere 's performance would naturally boost the stock price. That worked for awhile as the stock regularly traded over $3 in late 2003 and early '04. But after it reported disappointing revenue in 2004, the stock is now trading around $1.50. That's about the same level the shares were at two years ago when Agere first broached the subject of a reverse split.

Agere faced some criticism from financial analysts for not pursuing the first reverse split. Some analysts say the high number of outstanding shares dilutes earnings per share improvements. They also say the company needs to appeal to institutional investors.

Agere’s Chief Executive Officer John Dickson said the split would reduce transactional costs for investors who pay commissions based on the number of shares they buy or sell. Agere stands to save money on mailing costs, as well, because the split will weed out smaller investors who only own a few shares.

The company says there are too many outstanding shares. AT&T spun off Agere's former parent company, Lucent Technologies, in 1996 and distributed shares of the new company to its stockholders. When Lucent spun off Agere beginning in 2001, it distributed shares of the new company to its many shareholders. As a result, Agere is one of the 10 most widely held U.S. stocks.

"It is an absolutely unusually high number of shares outstanding," said Dickson in an interview late last year. "It is a legacy of AT&T and Lucent. We are one of the most widely held stocks in the known universe."

There is no guarantee Agere will proceed with the reverse stock split. Gaining approval from the shareholders is just the first step. Company officials noted in the proxy statement that there is risk associated with such a move. If the company receives approval, the board will need to weigh if the benefits outweigh the risk.

"Mathematically, it is a mechanism to boost the share price," Dickson said. "If that doesn't happen -- if we reduce the outstanding shares and the share price goes down -- then that's bad."

Whether the reverse stock split is a good idea or a bad one, studies show management proposals in proxy statements pass as a general rule regardless of the issue.

"Hardly any of the worldwide shareholders vote at all and [most] just rubber stamp the directors' choices," said Dennis Kushner, an Agere shareholder and former employee who lives in Muhlenberg Township.

Kushner said he will vote against the reverse stock split because he thinks the potential of a short-term gain does not outweigh the possible negative long-term effects.