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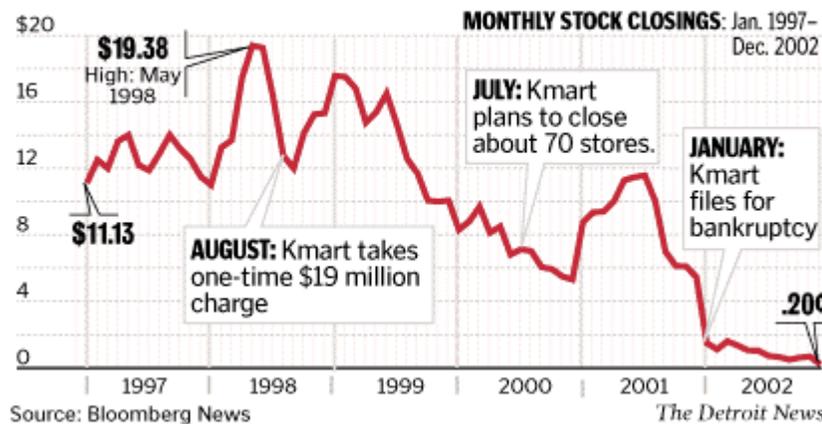
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- Essentials
- CyberSurveys
- Forums
- Photo Galleries
- Weather
- Horoscope
- Lottery
- Giveaways
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- Autos
- Autos Insider
- Drive
- Car Reviews
- Latest Deals
- Model Reports
- Joyrides
- Business
- Business
- Money & Life
- Careers
- Find a Job
- Real Estate
- Find a Home
- Metro
- Metro/State
- Wayne
- Oakland
- Macomb
- Livingston
- Commuting
- Obituaries
- Death Notices
- Schools
- Special Reports
- Editorials
- Columnists
- Detroit History
- Nation/World
- Nation/World
- Politics/Gov
- Census
- Health
- Religion
- Technology
- Sports
- Sports Insider
- Lions/NFL
- Pistons/NBA
- Red Wings/NHL
- Tigers/MLB
- MSU
- U-M
- More Colleges
- High Schools
- Golf
- Motor Sports
- Outdoors
- More Sports
- Scoreboards

[▶ Previous Story](#)   [▶ Next Story](#)

Sunday, January 19, 2003

## Stocks vanish

Kmart's stock price at one time was \$19.38 and soon it could be worthless.



## Kmart plan guts investors

Shareholders may get nothing; new stocks would be issued to lenders, suppliers first

By Joel J. Smith and Karen Dybis / *The Detroit News*

**TROY** -- When Jane Garcia bought shares of **Kmart Corp.** stock years ago, she thought it would be a nice investment for her future.

But today the southwest Detroit resident and community activist just shakes her head in disgust.

She has learned in the last few days that Kmart's proposed reorganization plan calls for canceling all the company's outstanding stock -- over 519 million shares -- leaving Garcia and thousands of others with worthless pieces of paper.

Kmart is proposing what is known as an all-equity reorganization, which means the company will cancel its current stock and reissue new stock to individuals or entities that have a claim against Kmart as payment.

"The people who own stock will be left with nothing," said Garcia. "Everyone who owns stock is being shortchanged, especially those who faithfully held on to it over the years.

"It's amazing what you can do when you're in charge. They (Kmart officials) can do pretty much what they want including devaluing the stock."

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- [Start ho](#)
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### Business

- [Busines Sunday, Ja](#)
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[Forums](#)  
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[Autos Talk](#)  
[Wings Talk](#)  
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Kmart in its defense says the Troy-based company warned shareholders for months that investments in its stock during the bankruptcy were speculative.

The cancellation of stock will hurt all levels of shareholders.

Even former Kmart Chairman and CEO Charles C. Conaway, under investigation for his role in the downfall of the discount retailer, will be hit hard. Conaway owns 2.2 million shares of stock. Another is Ronald Burkle, a California investor and member of Kmart's equity committee, who owns 1.1 million Kmart shares.

Still, the small investor is likely to feel the impact the most.

Dearborn Heights resident Ed Burke, 77, owns 3,000 shares of Kmart stock. A retired 40-year employee of Sears, Burke hoped to use the profits from the Kmart stock in his retirement. However, Burke can't even write off the loss on his income tax filing because his Kmart stock is in an IRA retirement account.

"I bought the Kmart stock with my heart instead of my head," said Burke. "It was a very bad decision. Now I'm going to have to suffer the consequences."

Burke said he bought the stock for about \$6 a share and watched it climb to \$17 before dropping off to less than 20 cents a share last week.

St. Clair Shores resident Steve Farkas, 75, a retired architect who once owned 10,000 shares of Kmart, sold the stock about two years ago for 25 percent of his original investment.

With word that Kmart stock may soon be worthless, Farkas now feels somewhat lucky he sold his shares at a loss.

"It's a tragedy what is happening with Kmart," said Farkas. "We were sold a bill of goods. But there are a lot of people who hung onto the stock that are worse off than me."

Steve Melnyk, 81, a retired postal worker who lives with his wife in St. Clair Shores, is bitter over what is happening to his 110 shares of Kmart.

"This is America and it's not supposed to happen like this," said Melnyk. "It's wrong, wrong, wrong. We stayed committed to the company and this is how they treat us. They sold out the shareholders."

Ultimately, said Kmart Chief Restructuring Officer Ron Hutchison, Kmart stockholders may receive minimal or no distribution as part of the reorganization process. Kmart's lenders and suppliers would be the largest beneficiaries. Negotiations with these creditors are ongoing, Hutchison said, but even they are unlikely to get everything they want from the process.

"None of the vendors will be made whole on their claims in terms of value," Hutchison said.

To emerge from bankruptcy, Kmart must file three documents with the federal bankruptcy court: a business plan, reorganization plan and disclosure statement. Kmart is scheduled to file these documents with the court on or before Friday.

The judge supervising Kmart's case must approve these documents. Kmart hopes U.S. Bankruptcy Judge Susan Pierson Sonderby will rule on the filing during its regularly scheduled court hearing in February.

Kmart then sends most creditors a copy of the plans and disclosure statement along with a ballot, a process known as soliciting acceptances. Eligible creditors would receive this package sometime in March. Votes

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would be due by mid-April.

If Kmart can complete these tasks on schedule, the court could confirm or approve of Kmart emerging from bankruptcy on or before April 30, which coincides with the end of Kmart's first quarter of fiscal 2003.

In some cases, shareholders are asked to vote on the plan. However, it does not appear that equity holders will be asked to vote in Kmart's case.

In bankruptcy, the general rule is those who risk the least are paid first. Secured creditors -- perhaps a bank or lender -- are in front of the line. The next payments go to unsecured creditors, typically suppliers and bondholders.

Bankruptcy experts said it's not uncommon for the courts to approve the cancellation of stock.

Thomas Henry Coleman, a Beverly Hills-California bankruptcy attorney and expert on shareholder rights, said that when a company is insolvent, there is no money left for the shareholders.

He said that bankruptcy law provides for all secured and unsecured creditors to be paid in full before shareholders ever see a dime.

"I'm sure there are some shareholders that aren't happy about this," said Coleman.

Garcia, the vocal activist, said Kmart officials haven't heard the last of her. She plans to purchase one share of the new Kmart stock so she can attend future shareholder meetings.

"They won't want to see me there," said Garcia.

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