

Google Poised to Execute Long-delayed Stock Split

AP



SAN FRANCISCO (AP) — Google is finally ready to split its stock for the first time, more than three years after co-founders Larry Page and Sergey Brin began discussing a move engineered to ensure they remain in control of the Internet's most powerful company.

The split is scheduled to occur April 2, 2014. It had been delayed because of staunch resistance from other Google Inc. shareholders, who feared the maneuver would unfairly benefit Page and Brin at the expense of just about everyone else.

Google proposed the unorthodox split so that Page and Brin could preserve power in the company they started in a rented garage more than 15 years ago. It addresses concerns that the founders would lose control of Google as the company creates more shares to compensate its employees and buy startups.

To gain clearance for the split, Google settled a shareholders lawsuit and agreed to pay up to \$7.5 billion if the split doesn't pan out the way the Mountain View, CA, company envisions.

Google's split will create a new class of "C" stock that carries no voting power. One share of C stock will be distributed for each share of voting Class A stock owned as of March 27. Initially, the value of the current stock will be divided equally between the two types of shares. But they will then trade separately with different ticker symbols. Class C shares will get the company's existing "GOOG" ticker symbol, while Class A will change to "GOOGL."

If the split hadn't been delayed by a legal skirmish, Google's stock probably wouldn't have exceeded \$1,000 for the first time last fall.

Page and Brin primarily own Google's Class B stock, which already gives them 10 times the voting power of each Class A share. Combined, the Google founders control 56 percent of the shareholder votes, even though they own less than 15 percent of the stock issued.

Nonetheless, the voting clout of Page and Brin has been gradually shrinking, as Google has used Class A stock to reward employees and finance some of its acquisitions during the past decade.

Distributing a new class of non-voting stock will enable Google to continue doling out shares to its nearly 44,000 workers without further undermining the co-founders' power.

As with any stock split, the division will lower Google's trading price on the Nasdaq Stock Market as investors account for a big increase in shares. The company will be distributing about 277 million shares of Class C stock, based on how many Class A shares had been issued as of late last year.

If Google's shares behave similarly to other 2-for-1 splits, the stock's price would be cut roughly in half from its current level of more than \$1,100. Google's market value would remain roughly the same at about \$380 billion because it will have nearly double the number of shares issued.

But some shareholders suspect the non-voting status of the Class C stock will cause those shares to trade at a significant discount to the Class A stock once the new stock is issued. The concerns led to a class-action lawsuit in Delaware chancery court filed shortly after Google announced its plans for the split in April 2012.

Google delayed the stock split until the lawsuit was resolved. A trial was averted after Google hammered out a settlement. Court approval came three months ago.

Google will have to pay the Class C shareholders if the average price of their stock is at least 1 percent below the Class A shares during the first year after the split. The size of the payments will escalate as the gap widens, with the maximum payout required if the gap between the average prices of the Class C and Class A shares is 5 percent or more.

In the most expensive scenario for Google, Class C stockholders will get 5 percent of the average trading price of the Class A shares. So if the Class A stock has an average trading price of \$600 during the first year after the split while the Class C stock averages \$565, Google would have to pay \$30 per share in cash or additional stock.

In court documents, Google argued that it's unlikely there will be a big difference between the prices of the Class A and Class C shares, despite their contrasting voting powers.

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