Google's latest stock sale raises concerns

March 30 2006

Image: Internet search giant Google's logo. Google says it processes more than 200 million searches a day and leads the world for search engine usage with 57 percent of the current market, followed by Yahoo at 21 percent and MSN at just 9 percent.

For those invested in Google, the last few weeks have been a heart-thumping ride indeed, and what's more, the roller coaster might well keep on going with its highs and lows.

On Wednesday the Mountain View, Calif.-based company announced that it will issue an additional 5.3 million shares of its class A common stock, which it said will "partially meet the anticipated needs of index funds to purchase Google class A common stock when Google is added to the S&P 500 index at the close of trading on March 31, 2006."

And therein lies the irony of the Internet search engine's success.

Last week credit-rating agency Standard & Poor's announced that it will add Google to its prestigious list of top 500 U.S. companies that makes up its namesake index, much to the jubilation of those invested in the company, given that it was another public recognition that the start-up is no longer just a dot-com, albeit a huge and influential one, but a corporation that has a sustainable future and wields great influence on the direction of corporate America. The fact that it was now officially a major player in the big league pushed the company's share price forward, and many had expected it to continue rising until then end of this month, when it would formally join the list, having pushed out energy group Burlington Resources from its coveted spot.

What most did not consider was the price that Google would have to pay for the honor, and how it would pay for it. In fact, disappointment that the market will be flooded with more Google shares and concerns that such a move might dilute the value of one stock led to a sell-off in the company's shares, as the price of Google fell nearly 2 percent Wednesday from the previous day to $387.26.

One issue that some analysts are particularly concerned about is that Google is already relatively cash-rich and seemingly does not need to raise further capital. After all, the company had already diluted the stock pool last September, when it followed up its initial public offering of August 2004 and it closed out 2005 with $8 billion in cash. The latest round of stock issuance will make the company one of the most heavily publicly owned companies in the technology sector.

Still, Google itself pointed out that apart from meeting the needs of listing on the S&P, whatever profit that is generated will be put to good use, stating that "proceeds from the offering will be used for general corporate purposes, including working capital and capital expenditures, and possible acquisitions of complementary businesses, technologies or other assets."

Some analysts are anticipating the company expanding further, particularly into the Asian markets, including China. Certainly, it has been on a buying frenzy within the United States, as it announced plans to invest $1 billion in American Online earlier this week, while it had bought out Last Software to improve its satellite mapping program as well as Upstartle, a word-processing software company, all within the past month.