Google to split stock to keep power with founders

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Google workers walk outside of Google headquarters in Mountain View, Calif., Thursday, April 12, 2012. Google Inc. said Thursday that it earned $2.89 billion, or $8.75 per share, in the first quarter. That's up from $1.8 billion, or $5.51 per share, a year earlier. (AP Photo/Paul Sakuma)

(AP) -- Google improved its short-term finances even as it seeks to preserve its long-term interests.

The online search leader reported a 61 percent increase in its net income for the first three months of the year and announced plans to issue a new class of stock to shareholders. The new shares won't have any voting power and will help Google's senior leaders keep control years from now.

Under the plan, expected to win approval in June, all current stockholders would get one share of the new Class C stock for each share they now own. This effectively splits Google's stock price in half.

Employees given Google stock in the future would get the non-voting stock, allowing voting power to remain with existing shareholders. The same would hold true for companies that Google buys using its stock.

Stock splits reduce prices for each share, allowing smaller investors to participate. Although Google said investors had been clamoring for one, the decision announced Thursday seemed driven more by a desire to retain control.

Without change, senior leaders would eventually lose their voting power. CEO Larry Page and fellow co-founder Sergey Brin said that would undermine "our aspirations for Google over the very long term."

Since it went public in 2004, Google's founders have emphasized a need to insulate management from short-term pressures. That's a view now commonly held by the newest generation of freshly public - or soon-to-be public - tech companies such as Zynga Inc. and Facebook Inc.

Even so, issuing shares with no voting power is unusual. But that's been Google's way since its beginning, even as it turned into a multi-national corporation. The company held a "Dutch auction" for its initial public offering of stock, allocating new shares to the highest bidders, including small investors. Traditional IPOs favor large investment banks.

Google's founders argue that Google will be more successful if the company concentrates on its long-term vision. This can mean short-term stumbles in meeting Wall Street's targets for earnings and revenue, as well as investments that may not bear fruition for years.

"These kinds of investments are not for the faint-hearted," the founders said in a letter posted online.

In other words, they don't want investors voting with short-term interests in mind.

In the conference call, analysts seemed to shrug off Google's stock split plan and focused instead on upcoming products, advertising rates and the company's plans for tablet computers based on its Android operating system.

Google said that it earned $2.89 billion, or $8.75 per share, in the first quarter. That's up from $1.8 billion, or $5.51 per share, a year earlier. Excluding one-time items, Google earned $10.08 per share, higher than the $9.66 that analysts polled by FactSet had expected.

Total revenue was $10.65 billion, up 24 percent from $8.58 billion.

After subtracting ad commissions, Google's revenue totaled $8.14 billion in the latest quarter. Analysts were expecting revenue of $8.09 billion on this basis.

Google's revenue was helped by a 39 percent increase in "paid clicks," but the prices of its search-driven text ads continued to decline. The so-called "cost-per-click" for these ads declined 12 percent from the same time a year earlier.

Google's report for the October-December quarter had been a disappointment, with earnings and revenue below analysts' expectations. A drop in search ad prices - 8 percent at the time - also spooked investors, who sent the stock down 8 percent after the company issued its report in January. Thursday's stronger results seemed to reassure investors that the prior report was something of an exception.

Google's stock climbed $3.09, or about 0.5 percent, to $654.10 in after-hours trading. Before the announcement, the stock had gained $15.05, or

2.4 percent, to close at $651.01.

In a conference call with analysts, Page called the first quarter "very strong" but emphasized its need to stay true to its roots.

"Google is a large company now so we'll achieve more and do it faster if we approach life with the passion and the soul of a startup," he said. "This has involved a lot of cleanup."

Expenses rose 16 percent to $7.3 billion, and Google's employee base grew 2 percent to 33,077 full-time workers.

Google, which is based in Mountain View, Calif., did not say when the stock split will occur. It first needs shareholder approval in June, though that's expected because Page, Brin and Executive Chairman Eric Schmidt have most of the voting power and support the plan.

When the split happens, the value of existing shares will be split into two, so half remains with the existing Class A shares and the remainder will be with the new Class C shares.

Investors will have twice the number of shares than before, but the total value and voting power won't change. In other words, 100 shares worth a total of $60,000 will become 200 shares still worth $60,000 and carrying 100 votes. The new class of shares will get its own ticker symbol. Stock in the two classes will trade independently.

"It's important to bear in mind that this proposal will only have an effect on governance over the very long term," Page and Brin wrote their letter to investors. "It's just that since we know what we want to do, there's no reason to delay the decision."

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