What's up with Google's plan to split its stock

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Google workers ride bikes 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 Inc. has announced plans to issue a new class of stock to existing shareholders, effectively splitting shares 2 to 1. It's an unusual approach that reflects a desire by Google's founders to preserve the company's long-term interests.

Here's an explanation of the plan:

Q. Why is Google doing this?

A. Google's current stock structure concentrates voting power with Google's founders, Larry Page and Sergey Brin, and with Executive Chairman Eric Schmidt. Google is afraid of diluting that power as it issues new shares to employees and to companies that it acquires through stock purchases. Google says there's no immediate danger of that happening, but it sees no need to wait.

"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 in a letter. "It's just that since we know what we want to do, there's no reason to delay the decision."

Q. What does this mean for existing shareholders?

A. Investors typically have Class A stock now. They will be given an equal number of Class C shares, which won't have any voting power. The value of the Class A stock will be split between the two, so if the stock is trading at $600 when it happens, a Class A share will be worth $300 and a Class C share will be worth $300.

Investors will have twice the number of shares they held before, but the total voting power and stock value won't change. So if Bob owns 100 shares worth $600 each, he will own 200 shares worth $300 each. Bob will still have 100 votes, and the value of all his shares will still be $60,000.

Investors will be free to buy and sell shares in either class independently, and the new class will get its own ticker symbol. If Bob sells his 100 Class C shares, he will have 100 votes through the Class A stock, and the shares will be worth $30,000. But if Bob sells his 100 Class A shares, he will have no vote on the Class C stock worth $30,000.

Q. Is this a new strategy for Google?

A. No. Since it went public in 2004, Google's founders have emphasized the need for long-term governance. They believe they need to retain the voting power to do that. The stock structure had been designed from the start to leave power with Page, Brin and Schmidt.

Page and Brin argue that Google will be more successful if it concentrates on the long term, even if that means short-term stumbles in meeting Wall Street's targets for earnings and revenue.

The founders note that it took three years for the first phones based on Google's Android operating system to come out and another three years for the system to reach critical mass. They don't want investors voting with short-term interests in mind.

"These kinds of investments are not for the faint-hearted," the founders said.

Q. So is this a split or a dividend?

A. It's neither in the traditional sense. The stock is effectively being split, as the value of each share will be cut in half. Stock splits allow smaller investors to buy shares, but in this case, the move is driven more by a desire to retain control and less by shareholder pressure. It can be considered a dividend, but instead of getting cash, investors will get stock.

Q. Is this decision final?

A. Existing shareholders must approve the plan at Google's annual stockholder meeting on June 21. Because Page, Brin and Schmidt control the majority of votes, it's expected to pass.

Q. When will this happen?

A. Google will announce details after the plan's likely approval in June.