Google blames contractor for early release of data

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In this Monday, Sept 17, 2012, file photo an unidentified man's shadow reflects on a commercial bus with an advertisement for Google Mail, in Lagos, Nigeria. Google Inc.'s stock plunged suddenly on Thursday Oct. 18, 2012, after a contractor prematurely released the search company's third-quarter earnings report. (AP Photo/Sunday Alamba)

Google became the latest company Thursday to release its financial results earlier than scheduled, after which its stock price dropped 9 percent before trading was suspended.

The search company blamed a contractor, R.R. Donnelley & Sons Co., for filing Google Inc.'s quarterly earnings report with regulators more than three hours ahead of schedule. Donnelley said it was investigating.

In recent years, Microsoft, Disney and a host of other companies have made similar mistakes, typically by posting the report to part of a website they weren't expecting anyone to see.

Companies typically release their financial reports when stocks aren't trading in order to give investors time to digest the news before buying or selling shares. Google's report was scheduled to come after the market closed at 4 p.m. Instead, a filing was made around 12:30 p.m.

Google said it was a draft. The second paragraph of the press release said "PENDING LARRY QUOTE," a holding spot for CEO Larry Page's prepared remarks. Google said Donnelley informed the company of the error after it happened. Google said it worked with the Nasdaq Stock Market to halt trading.

Companies are required to guard financial reports with the utmost secrecy and limit access to a handful of trusted executives until they are released to the public. Outsiders authorized to view such reports are expected to keep them confidential. Those who try to profit from insider knowledge could face criminal charges.

In this case, the results were released to everyone at once, so insider trading wasn't at issue.

But the stock did drop suddenly as the report showed that third-quarter performance fell well short of analyst estimates. Investors who weren't expecting the report so early had to scramble to react to the news.

Plaintiffs' lawyers will probably file class-action suits against Donnelley and Google, as they do in virtually any case where shareholders lose money, said Jacob Frenkel, a former enforcement lawyer with the Securities and Exchange Commission. Those suits would lack legal merit, he said, so long as the earnings information was released to traders simultaneously, through regular channels.

Google and Donnelley aren't likely to face serious legal consequences with regulators, either.

"There's nothing in the securities laws that would make this unfortunate early release a violation," said Frenkel, who currently practices with the law firm Shulman Rogers. Regulators such as the SEC will likely investigate, he said, but the probe would be a mere formality unless they find evidence of wrongdoing.

"The real issue is, everyone reacted properly to the early release," Frenkel said. "The system responded appropriately by halting trading."

Last year, Microsoft Corp. released its results covering October-December 2010 more than an hour before it should have. A company called Selerity found the report online early because Microsoft uses a similar Web address for earnings information every quarter. Microsoft responded by releasing the information to everyone, ahead of schedule.

In November 2010, a Bloomberg reporter accessed The Walt Disney Co.'s quarterly report by guessing the Web address Disney would use, based on the pattern the company used in past quarters. About a week later, another Bloomberg journalist used a similar trick to access a report from data storage company NetApp Inc.

In 2006, mobile phone maker Sony Ericsson released results a day early after an executive accidentally sent a copy to a Dow Jones reporter instead of a colleague.