Settlement approved in Google stock split lawsuit (Update)

October 28 2013, by Randall Chase

A U.S. judge on Monday approved a settlement in a shareholder lawsuit challenging Google Inc.'s plans to split its stock and issue a new class of nonvoting shares.

The ruling by Chancellor Leo Strine Jr. clears the way for the Internet search leader to issue shares of "Class C" nonvoting stock for each share of existing stock.

The judge approved the settlement despite noting that, while it is designed to ensure that co-founders Larry Page and Sergey Brin retain control of Mountain View, California-based Google, the two are not being forced to give any concessions to other shareholders. Instead, like other shareholders, Page and Brin will receive Class C shares in an amount equal to their current Class B stock holdings—more than 24 million shares each.

"There's no economic sacrifice," Strine told Jeffrey Block, an attorney representing shareholders who filed the lawsuit in April 2012.

At the same time, Strine noted that Google, under the leadership of Page and Brin, has been "a rather astonishing market success," implying that there's currently no reason to second-guess the company's governance.

"Not everybody can create a verb," the judge said, referring to the evolution of the company's name from a corporate label to the description of a ubiquitous online activity.

Strine also noted that there was no guarantee that the plaintiffs could have won their lawsuit, and that the settlement includes important corporate governance protections and gives more authority to independent board directors.

Page and Brin own about 15 percent of Google's outstanding stock, but they hold 56 percent of shareholder voting power because their Class B stock gives them 10 votes per share, compared to one vote per share for Class A stock.

Google argued that by creating a new class of nonvoting shares, the company could continue rewarding employees with stock and finance acquisitions without undermining the voting power of Page and Brin.

But in a class-action lawsuit led by the Brockton Retirement Board in Massachusetts and another Google shareholder, Philip Skidmore, other stockholders alleged that Page and Brin engineered the stock split in a way that would unfairly benefit the two founders while shortchanging other Google shareholders.

According to court documents, the proposed stock split was the subject of internal deliberations for more than a year before it was announced in April 2012. Shareholders approved the split in June 2012; the lawsuit has prevented Google from issuing the new nonvoting shares.

Under the settlement, Google must provide a price support that compensates owners of the new nonvoting stock, including Page and Brin, if it's worth less than the existing class of stock after one year of trading.

Google shares were up $5.45, or about one-half percent, to $1,020.65 in afternoon trading Monday.