# How Google's Stock Split Protected its Founders' Votes

When Google "went public" in 2004, its founders Larry Page and Sergey Brin and its CEO Eric Schmidt retained "B" shares with 10 votes each. It sold "A" shares to investors, each with only one vote each. As a result the founders and CEO retained a comfortable majority of shareholder votes.

Any unease about the A shares' lack of votes was submerged by Google's phenomenal stock-price performance. By mid-2012, Google shares were trading at about $650. The high price per share triggered demands from some investors for a stock split.

Larry Page had dismissed an earlier stock-split proposal as "stupid." "If you own 10 shares at $40 or one share at $400, it's the same thing! You just need to know how to divide."[1]

But in April 2012 Google announced a stock dividend of one "C" share for each existing outstanding share. So an investor holding 100 shares will get 100 additional C shares "free."[2] Since the number of shares will double, the stock dividend is effectively a 2 for 1 stock split. Of course the value per share should fall by half, say from $650 to $325. "You just need to know how to divide."

But here's the twist: The new C shares will have no votes whatsoever. Thus outside investors in Google get more shares but no more votes. There is no dilution of the founders' and CEO's voting control.

The value of this scheme to Page, Brin, and Schmidt flows from what was avoided. If Google had split its stock by distributing more A shares, the balance of voting power would have shifted towards outside investors.

Here is a simple numerical example. Suppose that Company G starts with 100 million shares in total, with insiders holding 15 million B shares and outside investors holding 85 million A shares. The insiders have 15 × 10 = 150 million votes, the outsiders 85 × 1 = 85 million votes. If Company G distributes 100 million non-voting C shares, the number and distribution of votes stays constant. But if G distributes 100 million A shares, each with one vote, the insiders have (15 × 10) + (15 × 1) = 165 million votes and the outsiders (85 + 85) × 1 = 170 million votes. The outside investors would control a majority of the votes.

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[1] A. R. Sorkin, "A Stock Split the Cements Control," *New York Times*, April 17, 2012, pp. B1, B5.
[2] As we write in October 2012, the new C shares have not yet been issued, pending resolution of a lawsuit.

You can see why Google wanted to distribute new, non-voting C shares rather than more A shares with one vote each.