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November 05, 2008

OLYMPIA—Attorney General Rob McKenna today announced that Yahoo! Inc. and Google Inc. have abandoned their proposed advertising agreement after being informed that the United States Department of Justice (DOJ), joined by several states, would bring an antitrust lawsuit to block the deal. Fifteen states participated in the investigation, which was led by Washington, California, New York, and Texas.

“Google and Yahoo compete aggressively for online search advertising and for search syndication deals with partner sites,” said McKenna. “After a detailed investigation, state and federal antitrust enforcers concluded that the pact between these online giants would harm competition and innovation.”

The companies announced on June 12, 2008, that they had entered into an agreement under which Google ads would appear alongside Yahoo! search results and on various Yahoo! Web properties and partner sites. During the course of the investigation, the companies proposed various modifications to their initial agreement in order to address DOJ’s and the states’ antitrust concerns.

Google and Yahoo! provide online search engines that enable advertisers to display ads alongside a search result. When a user navigates to Google or Yahoo! and does a search, the web site displays listings relevant to the user’s query and may also display paid advertisements on the top or to the right of the search listings. The search engine is paid each time a user clicks on a search advertisement. Google and Yahoo! also make their search and advertising technology available to third-party publishers. This practice is called “syndication.”

Search engine giants Google and Yahoo! are each other’s closest competitors. Through coordinated investigations, DOJ and the states determined that allowing Yahoo! to outsource its search queries to Google could diminish market competition for both online search advertising and search syndication. In addition, by enabling Yahoo! to outsource a significant number of its search advertisements, the agreement could have created conflicting incentives for Yahoo! to continue to invest in its own sponsored search business.

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