Would a Google purchase of Yelp draw regulatory interest?

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Google Inc.'s reported plans to acquire local-listings service Yelp may face difficulties, with regulators attuned to the Mountain View, Calif.-based company's established dominance of the Internet-search and advertising markets, observers say.

Reports began surfacing Thursday that Google has been in talks to acquire closely held Yelp for more than $500 million. A Google spokesman said the company had no comment.

An acquisition of Yelp could enhance Google's ability to connect advertisers with Internet users in search of local restaurants, shops and other establishments. However, Yelp also functions as a sort of search service, albeit more narrowly aimed at local businesses and users than Google's search engine. Any proposed deal may therefore draw interest from antitrust regulators.

"It should attract a serious review by the regulatory authorities, and I suspect that it will," said Samuel Miller, a San Francisco-based partner at the law firm Sidley Austin LLP. "Google has already been viewed and declared as dominant in the ad-search market; the FTC and the DOJ have recognized a narrow market definition for paid search, and I think they'll take a hard look at Google's attempt to acquire actual or potential competitors."

The antitrust regime put into place under President Barack Obama this year clearly has taken an interest in Google.

The Justice Department's antitrust chief, Christine Varney, was widely quoted at a 2008 panel discussion prior to her nomination as saying Google presents antitrust concerns, because it "has acquired a monopoly" in online advertising.

Google sought out a search and advertising partnership with rival Yahoo Inc. last year, though it was later called off amid expectations the Justice Department would file suit in an attempt to stop it. A high-profile attorney retained by the Justice Department said later the agency would have claimed the deal violated Sections 1 and 2 of the Sherman Act.

"There's no doubt Google is under Christine Varney's microscope," commented John Briggs, the managing partner of the Washington, D.C. office of Axinn Veltrop Harkrider LLP.

As far as regulators are concerned, Briggs said, "the thing they're interested in is, Google has a dominant position in collecting dollars from people advertising on the Internet. Yelp collects dollars from people advertising on the Internet. So in a macro sense, Yelp and Google are accretive, thereby creating a greater dependency on the part of advertisers."

Briggs said a proposed merger between Google and Yelp also could draw scrutiny simply so regulators have an opportunity to become better acquainted with the inner workings of local Internet searches and advertising. "They'll want to look at that because they don't understand it," he added.

Yelp, founded in 2004, pulls in more than 20 million visitors per month, and features more than 8 million reviews written by users. The company has raised more than $30 million in funding from venture-capital backers and former PayPal co-founder Max Levchin.

"They're not really competing with Google," Chris Karagheuzoff, a New York-based partner at Dorsey & Whitney LLP, said of Yelp.

Yet Karagheuzoff added anytime Google makes a significant move in the search and advertising markets, it can expect attention from regulators. "Google is such a behemoth in the search-ad market that I do think that it's fair to assume that Justice is looking at any large transaction, and may be looking for its first opportunity to challenge what it may perceive as a Goliath with no real Davids out there."

Another recent Google acquisition -- a $750 million deal to purchase mobile-phone, display-advertising technology provider AdMob Inc., announced last month -- is reportedly being reviewed by the Federal Trade Commission.

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