

# Google braces to pay at least \$500M in ad probe

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Google Inc.'s lucrative online advertising system is facing a U.S. Justice Department investigation that is expected to cost the Internet search leader at least \$500 million.

The disclosure made by Google on Tuesday in a quarterly report to the [Securities and Exchange Commission](#) serves as the latest reminder of the intensifying regulatory scrutiny facing the Internet's most powerful company.

European regulators have opened a wide-ranging probe into whether Google unfairly manipulates its search results to favor its own services and rigs its ad system to drive up prices. The Texas attorney general also has been looking into complaints about whether Google's search recommendations stifle competition.

The SEC documents filed Tuesday provided few details about the nature of the Justice Department's inquiry except that it involves how Google's automated system has been treating some unnamed advertisers. Google's ad network, which primarily delivers short [text ads](#) alongside search results and other Web content, is the main way the company makes money. In the first three months of this year alone, Google sold \$8.3 billion in advertising.

Google, which is based in Mountain View, declined further comment late Tuesday.

Dealing with the Justice Department's ad investigation apparently won't be cheap. In its SEC filing, Google said its management decided earlier this month to set aside \$500 million to cover a possible settlement.

That move resulted in a charge that lowered the first-quarter earnings that Google announced in mid-April. With the change, Google's net income fell from the previously reported \$2.3 billion, or \$7.04 per share, to \$1.8 billion, or \$5.51 per share.

Even before the revision, Wall Street had panned Google's first-quarter results because of rapidly rising expenses that are outpacing the company's revenue growth. Google's [stock price](#) has fallen 6 percent since the original first-quarter earnings came out while the technology-driven [Nasdaq composite index](#) has gained 4 percent during the same stretch. Google shares closed Tuesday at \$542.66.

Investors also have been worried whether all the regulatory scrutiny will make it more difficult for Google to counter emerging competitive threats from hard-charging rivals such as Facebook. The Internet's largest social networking site has built an audience of more than 500 million users that is attracting more advertisers and creating a trove of content in walled-off social circles that can't be indexed by Google's search engine.

The Justice Department has previously raised concerns about Google's market power in court filings. The agency objected to Google's attempt to win the digital rights to millions of out-of-print books, helping to persuade a federal judge to deny a settlement that would have granted the company's wishes. The [Justice Department](#) also demanded concessions before approving Google's \$700 million acquisition of airline fare tracker ITA Software last month in an effort to preserve competition in the online travel market.

News of the latest investigation also could cast a cloud over a developer's conference that [Google](#) is holding in San Francisco. The conference is scheduled to conclude Wednesday.

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