

Microsoft, Yahoo take next step in search alliance

The Associated Press

Microsoft Corp. and Yahoo Inc. have signed off on their plan to team up against Google Inc. in the lucrative Internet search market.

The step announced Friday seals the terms of a preliminary agreement announced in late July. The 10-year contract was to be signed by late October, but Microsoft and Yahoo held off to work out some fine points.

Government regulators still must approve the proposed partnership before Microsoft and Yahoo can begin working together.

The two companies believe they will clear that final hurdle early next year. If regulators give their blessing, Microsoft hopes to begin to power Yahoo's search engine in the United States by the middle of the next year.

Microsoft and Yahoo came together after a lengthy and often stormy courtship. In May 2008, Microsoft was prepared to buy Yahoo in its entirety for \$47.5 billion, or \$33 per share, only to be given the cold shoulder. Yahoo shares closed Friday at \$15.19, up 8 cents.

Microsoft, based in Redmond, Wash., returned to the negotiating table because it thinks Yahoo offers the best opportunity to undercut Google's dominance of Internet search. Yahoo's search engine is the second most popular while Microsoft's Bing ranks third.

Even if they are allowed to join forces, Microsoft and Yahoo still will be processing half as many search requests as Google does.

Yahoo, based in Sunnyvale, Calif., is hoping it can boost its profits and its stock price by relying on Microsoft to handle most of its search technology. The partnership would give Yahoo 88 percent of the revenue generated from the ads placed alongside the search results on its Web site while enabling the company to dramatically reduce the money it spends on technology.

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