YELP INC
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2016

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition period from to

Commission file number: 001-35444

YELP INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1854266**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
140 New Montgomery Street, 9th Floor San Francisco, CA	**94105**
(Address of Principal Executive Offices)	(Zip Code)

(415) 908-3801
(Registrant s Telephone Number, Including Area Code)

____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 4, 2016, there were 68,896,510 shares of registrant s Class A common stock, par value $0.000001 per share, issued and outstanding and 8,444,146 shares of registrant s Class B common stock, par value $0.000001 per share, issued and outstanding.

YELP INC.
QUARTERLY REPORT ON FORM 10-Q
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Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q (the Quarterly Report) to Yelp, the Company, we, and our refer to Yelp Inc. and, where appropriate, its subsidiaries.

Unless the context otherwise indicates, where we refer in this Quarterly Report to our mobile application or mobile app, we refer to all of our applications for mobile-enabled devices; references to our mobile platform refer to both our mobile app and the versions of our website that are optimized for mobile-based browsers. Similarly, references to our website refer to versions of our website dedicated to both desktop- and mobile-based browsers, as well as the U.S. and international versions of our website.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements that involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, c estimate, expect, intend, may, might, plan, project, seek, should, target, will, would and similar expressions or varia forward-looking statements. These statements are based on the beliefs and assumptions of our management, which are in turn based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled *Risk Factors* included under Part II, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of

this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

NOTE REGARDING METRICS

We review a number of performance metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. Please see the section titled *Management s Discussion and Analysis of Financial Condition and Results of Operations Key Metrics* for information on how we define our key metrics. Unless otherwise stated, these metrics do not include metrics from our Eat24 or Yelp Reservations (previously referred to as SeatMe) businesses.

While our metrics are based on what we believe to be reasonable calculations, there are inherent challenges in measuring usage across our large user base around the world. Certain of our performance metrics, including the number of unique devices accessing our mobile app, are tracked with internal company tools, which are not independently verified by any third party and have a number of limitations. For example, our metrics may be affected by mobile applications that automatically contact our servers for regular updates with no discernable user action involved; this activity can cause our system to count the device associated with the app as an app unique device in a given period.

Our metrics that are calculated based on data from third parties   the number of desktop and mobile website unique visitors   are subject to similar limitations. Our third-party providers periodically encounter difficulties in providing accurate data for such metrics as a result of a variety of factors, including human and software errors. In addition, because these traffic metrics are tracked based on unique cookie identifiers, an individual who accesses our website from multiple devices with different cookies may be counted as multiple unique visitors, and multiple individuals who access our website from a shared device with a single cookie may be counted as a single unique visitor. As a result, the calculations of our unique visitors may not accurately reflect the number of people actually visiting our website.

Our measures of traffic and other key metrics may also differ from estimates published by third parties (other than those whose data we use to calculate such metrics) or from similar metrics of our competitors. We are continually seeking to improve our ability to measure these key metrics, and regularly review our processes to assess potential improvements to their accuracy.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YELP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 196,295	$ 171,613
Short-term marketable securities	201,806	199,214
Accounts receivable (net of allowance for doubtful accounts of $4,269 and $3,208 at June 30, 2016 and December 31, 2015, respectively)	59,887	52,755
Prepaid expenses and other current assets	15,753	19,700
Total current assets	473,741	443,282
Long-term marketable securities	6,000	-
Property, equipment and software, net	89,502	80,467
Goodwill	172,908	172,197
Intangibles, net	35,992	39,294
Restricted cash	17,306	16,486
Other assets	4,349	3,701
Total assets	$ 799,798	$ 755,427
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,325	$ 3,388
Accrued liabilities	51,563	43,458
Deferred revenue	3,337	2,931
Total current liabilities	56,225	49,777
Long-term liabilities	14,466	12,030
Total liabilities	70,691	61,807
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common stock, $0.000001 par value 500,000,000 shares authorized; 77,244,798 and 75,982,802 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	-	-
Additional paid-in capital	822,385	774,022
Accumulated other comprehensive loss	(12,724)	(13,519)
Accumulated deficit	(80,554)	(66,883)
Total stockholders equity	729,107	693,620
Total liabilities and stockholders equity	$ 799,798	$ 755,427

See notes to condensed consolidated financial statements.

YELP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net revenue	$ 173,428	$ 133,913	$ 332,041	$ 252,421
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	15,087	13,057	30,165	21,756
Sales and marketing	94,402	68,014	190,030	131,280
Product development	33,098	26,345	65,320	50,305
General and administrative	23,464	19,280	45,233	39,217
Depreciation and amortization	8,564	7,167	16,753	14,062
Total costs and expenses	174,615	133,863	347,501	256,620
Income (loss) from operations	(1,187)	50	(15,460)	(4,199)
Other income, net	367	329	625	891
Income (loss) before income taxes	(820)	379	(14,835)	(3,308)
Benefit (provision) for income taxes	1,269	(1,684)	(168)	719
Net income (loss) attributable to common stockholders (Class A and B)	$ 449	$ (1,305)	$ (15,003)	$ (2,589)
Net income (loss) per share attributable to common stockholders (Class A and B)				
Basic	$ 0.01	$ (0.02)	$ (0.20)	$ (0.03)
Diluted	$ 0.01	$ (0.02)	$ (0.20)	$ (0.03)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders (Class A and B)				
Basic	76,467	74,631	76,176	74,009
Diluted	79,280	74,631	76,176	74,009

See notes to condensed consolidated financial statements.

YELP INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 449	$ (1,305)	$ (15,003)	$ (2,589)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(947)	1,344	795	(6,521)
Other comprehensive income (loss)	(947)	1,344	795	(6,521)
Comprehensive income (loss)	$ (498)	$ 39	$ (14,208)	$ (9,110)

See notes to condensed consolidated financial statements.

YELP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
OPERATING ACTIVITIES:		
Net loss	$ (15,003)	$ (2,589)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,753	14,062
Provision for doubtful accounts and sales returns	7,425	6,076
Stock-based compensation	39,836	29,187
Loss on disposal of assets and website development costs	121	144
Premium amortization, net, on securities held-to-maturity	763	481
Excess tax benefit from stock-based award activity	-	(3,952)
Changes in operating assets and liabilities:		
Accounts receivable	(13,237)	(7,855)
Prepaid expenses and other assets	3,492	(7,079)
Accounts payable, accrued expenses and other liabilities	5,955	15,616
Deferred revenue	405	(426)
Net cash provided by operating activities	46,510	43,665
INVESTING ACTIVITIES:		
Purchases of marketable securities	(161,854)	(93,914)
Maturities of marketable securities	152,500	63,870
Acquisition, net of cash received	-	(73,422)
Purchases of property, equipment and software	(12,438)	(18,059)
Proceeds from sale of property, equipment and software	34	109
Capitalized website and software development costs	(6,993)	(6,012)
Purchases of intangible assets	(162)	(314)
Changes in restricted cash	(820)	1,672
Net cash used in investing activities	(29,733)	(126,070)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock for employee stock-based plans	7,855	13,595
Excess tax benefit from share-based award activity	-	3,952
Repurchase of common stock	-	(396)
Net cash provided by financing activities	7,855	17,151
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	50	(598)
CHANGE IN CASH AND CASH EQUIVALENTS	24,682	(65,852)
CASH AND CASH EQUIVALENTS Beginning of period	171,613	247,312
CASH AND CASH EQUIVALENTS End of period	$ 196,295	$ 181,460
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 571	$ (4)
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property, equipment and software recorded in accounts payable and accrued liabilities	$ 3,314	$ 2,046
Capitalized website and software development costs recorded in accounts payable and accrued liabilities	-	15
Goodwill measurement period adjustment	146	51
Issuance of common stock in connection with acquisition	-	59,158

See notes to condensed consolidated financial statements.

YELP INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS FOR PRESENTATION

Yelp Inc. was incorporated in Delaware on September 3, 2004. Except where specifically noted or the context otherwise requires, the use of terms such as the Company and Yelp in these Notes to Condensed Consolidated Financial Statements refers to Yelp Inc. and its subsidiaries.

Yelp connects people with great local businesses by bringing word of mouth online and providing a platform for businesses and consumers to engage and transact. Yelp s platform is transforming the way people discover local businesses; every day, millions of consumers visit its website or use its mobile app to find great local businesses to meet their everyday needs. Businesses of all sizes use the Yelp platform to engage with consumers at the critical moment when they are deciding where to spend their money.

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company s Annual Report on Form 10-K filed with the SEC on February 24, 2016 (the Annual Report). The unaudited condensed consolidated balance sheet as of December 31, 2015 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures required by GAAP, including certain notes to the financial statements.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements, except as follows:

Effective as of January 1, 2016, the Company adopted Accounting Standards Update 2016-09, Compensation Stock Compensation (Topic 718) (ASU 2016-09). ASU 2016-09 permits entities to make an accounting policy election related to how forfeitures will impact the recognition of compensation cost for stock-based compensation: to estimate the total number of awards for which the requisite service period will not be rendered (as currently required) or to account for forfeitures as they occur. Upon early adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative-effect adjustment to retained earnings of $1.1 million (which reduced the accumulated deficit) as of January 1, 2016.

ASU 2016-09 also eliminates the requirement that excess tax benefits be realized as a reduction in current taxes payable before the associated tax benefit can be recognized as an increase in paid in capital. Approximately $164.1 million of federal net operating losses, $125.7 million of state net operating losses, $1.8 million of Ireland net operating losses, $1.3 million of federal research and development tax credits and $0.1 million of state Enterprise Zone credits (none of which were included in the deferred tax assets recognized in the statement of financial position as of December 31, 2015) have been attributed to tax deduction for stock-based compensation in excess of the related book expense. Under ASU 2016-09, these previously unrecognized deferred tax assets were recognized on a modified retrospective basis as of January 1, 2016, the start of the year in which the Company early adopted ASU 2016-09. The U.S. federal and state net operating losses and credits recognized as of January 1, 2016, as described above, have been offset by a valuation allowance. As a result, only the Ireland net operating losses resulted in a cumulative-effect adjustment to retained earnings of $0.2 million (which reduced the accumulated deficit) as of June 30, 2016.

Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. The Company is now required to present excess tax benefits as an operating activity in the same manner as other cash flows related to income taxes on the statement of cash flows rather than as a financing activity. The Company adopted this change prospectively.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments of a normally recurring nature necessary for the fair presentation of the interim periods presented.

Significant Accounting Policies

Stock-Based Compensation The Company accounts for stock-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all stock-based payments to employees, including

grants of stock options, restricted stock awards, restricted stock units and issuances under its 2012 Employee Stock Purchase Plan (ESPP) to be measured based on the grant date fair value of the awards.

Prior to January 1, 2016, stock-based compensation expense was recorded net of estimated forfeitures in the Company s consolidated statements of income (loss) and, accordingly, was recorded for only those stock-based awards that the Company expected to vest. The Company estimated the forfeiture rate based on historical forfeitures of equity awards and adjusted the rate to reflect changes in facts and circumstances, if any. The Company revised its estimated forfeiture rate if actual forfeitures differed from its initial estimates.

Effective as of January 1, 2016, the Company adopted a change in accounting policy in accordance with ASU 2016-09 to account for forfeitures as they occur. The change was applied on a modified retrospective basis, and no prior periods were restated as a result of this change in accounting policy.

Income Taxes Prior to January 1, 2016, the Company recognized the excess tax benefits of stock-based compensation expense as additional paid-in capital (APIC), and tax deficiencies of stock-based compensation expense in the income tax provision or as APIC to the extent that there were sufficient recognized excess tax benefits previously recognized. As a result of the prior requirement that excess tax benefits reduce taxes payable prior to be recognized as an increase in paid in capital, the Company had not recognized certain deferred tax assets (all tax attributes such as loss or credit carryforwards) that could be attributed to tax deductions related to equity compensation in excess of compensation recognized for financial reporting.

Effective as of January 1, 2016, the Company early adopted a change in accounting policy in accordance with ASU 2016-09 to account for excess tax benefits and tax deficiencies as income tax expense or benefit, treated as discrete items in the reporting period in which they occur, and to recognize previously unrecognized deferred tax assets that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized for financial reporting. The change was applied on a modified retrospective basis; no prior periods were restated as a result of this change in accounting policy.

There have been no other material changes to the Company s significant accounting policies from those described in the Annual Report.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue when they transfer promised goods or services to customers, in an amount that reflects the consideration that the entity expects to be entitled to in exchange for such goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. In March, April and May 2016, the FASB issued implementation guidance on the considerations in principal versus agent determination, Identifying Performance Obligations and Licensing and Narrow-Scope Improvements and Practical Expedients, respectively. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 and the related implementation guidance on its consolidated financial statements.

In January 2016, FASB issued Accounting Standards Update 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10) (ASU 2016-01). The new standard provides guidance for the recognition, measurement, presentation and disclosure of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-01 on its consolidated financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02, Leases (ASU 2016-02). The new guidance generally requires an entity to recognize on its balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The new standard requires a modified retrospective transition for existing leases to each prior reporting period presented. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

Principles of Consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the Company s unaudited interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the unaudited interim condensed consolidated financial statements; therefore, actual results could differ from management s estimates.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company s investments in money market accounts are recorded as cash equivalents at fair value in the consolidated financial statements. All other financial instruments are classified as held-to-maturity investments and, accordingly, are recorded at amortized cost; however, the Company is required to determine the fair value of these investments on a recurring basis to identify any potential impairment. The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value in the following hierarchy:

Level 1 Observable inputs, such as quoted prices in active markets,

Level 2 Inputs other than quoted prices in active markets that are observable either directly or indirectly, or

Level 3 Unobservable inputs in which there are little or no market data, which require the Company to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, to minimize the use of unobservable inputs when determining fair value. The Company s money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices in active markets. The Company s commercial paper, corporate bonds, agency bonds and agency discount notes are classified within Level 2 of the fair value hierarchy because they have been valued using inputs other than quoted prices in active markets that are observable directly or indirectly.

The following table represents the Company s financial instruments measured at fair value as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016				December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash Equivalents:								
Money market funds	$ 121,033	$ -	$ -	$ 121,033	$ 86,660	$ -	$ -	$ 86,660
Agency bonds	-	-	-	-	-	4,999	-	4,999
Marketable Securities:								
Commercial paper	-	48,887	-	48,887	-	36,981	-	36,981
Corporate bonds	-	6,017	-	6,017	-	18,024	-	18,024
Agency bonds	-	152,986	-	152,986	-	132,102	-	132,102
Agency discount notes	-	-	-	-	-	11,986	-	11,986
Total cash equivalents and marketable securities	$ 121,033	$ 207,890	$ -	$ 328,923	$ 86,660	$ 204,092	$ -	$ 290,752

3. MARKETABLE SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of securities held-to-maturity, all of which mature within two years, as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

	As of June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	$ 48,887	$ -	$ -	$ 48,887
Corporate bonds	6,016	1	-	6,017
Agency bonds	146,903	87	(3)	146,987
Total marketable securities	$ 201,806	$ 88	$ (3)	$ 201,891
Long-term marketable securities:				
Agency bonds	$ 6,000	$ -	$ (1)	$ 5,999
	$ 6,000	$ -	$ (1)	$ 5,999
Total marketable securities	$ 207,806	$ 88	$ (4)	$ 207,890

	As of December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	$ 36,981	$ -	$ -	$ 36,981
Corporate bonds	18,027	2	(5)	18,024
Agency bonds	132,224	-	(122)	132,102
Agency discount notes	11,982	4	-	11,986
Total marketable securities	$ 199,214	$ 6	$ (127)	$ 199,093

The following table presents gross unrealized losses and fair values for those securities that were in an unrealized loss position as of June 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that the individual securities have been in a continuous loss position (in thousands):

	As of June 30, 2016					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Agency bonds	$ 16,002	$ (4)	$ -	$ -	$ 16,002	$ (4)
Total	$ 16,002	$ (4)	$ -	$ -	$ 16,002	$ (4)

	As of December 31, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 10,021	$ (5)	$ -	$ -	$ 10,021	$ (5)
Agency bonds	127,102	(122)	-	-	127,102	(122)
Total	$ 137,123	$ (127)	$ -	$ -	$ 137,123	$ (127)

The Company periodically reviews its investment portfolio for other-than-temporary impairment. The Company considers such factors as the duration, severity and reason for the decline in value, and the potential recovery period. The Company also considers whether it is more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis, and whether the amortized cost basis cannot be recovered as a result of credit losses. During the three and six months ended June 30, 2016 and 2015, the Company did not recognize any other-than-temporary impairment loss.

4. ACQUISITIONS

2015 Acquisition

On February 9, 2015, the Company acquired Eat24Hours.com, Inc. (Eat24). In connection with the acquisition, all of the outstanding capital stock of Eat24 was converted into the right to receive an aggregate of approximately $75.0 million in cash, less certain transaction expenses, and 1,402,844 shares of Yelp Class A common stock with an aggregate fair value of approximately $59.2 million, as determined on the basis of the closing market price of the Company s Class A common stock on the acquisition date. Of the total consideration paid in connection with the acquisition, $16.5 million in cash and 308,626 shares were initially held in escrow to secure indemnification obligations. The balance remaining in the escrow fund was $7.8 million in cash and 308,626 shares as of June 30, 2016. The key purpose underlying the acquisition was to obtain an online food ordering solution to drive daily engagement in the Company s key restaurant vertical.

The acquisition was accounted for as a business combination in accordance with Accounting Standards Codification Topic 805, Business Combinations, with the results of Eat24 s operations included in the Company s consolidated financial statements from February 9, 2015. The initial purchase price allocation was as follows (in thousands):

	February 9, 2015
Fair value of purchase consideration:	
Cash:	
Distributed to Eat24 stockholders	$ 56,624
Held in escrow account	16,500
Payable on behalf of Eat24 stockholders	1,876
Total cash	75,000
Class A common stock:	
Distributed to Eat24 stockholders	46,143
Held in escrow account	13,015
Total purchase consideration	$ 134,158

Fair value of net assets acquired:		
Cash and cash equivalents	$	1,578
Intangibles		39,600
Goodwill		110,927
Other assets		6,031
Total assets acquired		158,136
Deferred tax liability		(15,207)
Other liabilities		(8,771)
Total liabilities assumed		(23,978)
Net assets acquired	$	134,158

Estimated useful lives and the amount assigned to each class of intangible assets acquired are as follows:

Intangible Asset Type	Amount Assigned	Useful Life
Restaurant relationships	17,400	12.0 years
Developed technology	7,400	5.0 years
User relationships	12,000	7.0 years
Trade name	2,800	4.0 years
Weighted average		8.6 years

The intangible assets are being amortized on a straight-line basis, which reflects the pattern in which the economic benefits of the intangible assets are being utilized. The goodwill results from the Company s opportunity to drive daily engagement in its restaurant vertical and potentially expand Eat24 s offering to the approximately one million U.S. restaurants listed on the Company s platform. None of the goodwill is deductible for tax purposes.

The Company recorded no acquisition-related costs for the three and six months ended June 30, 2016 and zero and $0.2 million in acquisition-related costs in the three and six months ended June 30, 2015, respectively, which were included in the general and administrative expense in the accompanying consolidated statements of operations.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	**December 31, 2015**
Cash and cash equivalents		
Cash	$ 75,262	$ 79,954
Money market funds	121,033	91,659
Total cash and cash equivalents	$ 196,295	$ 171,613

The lease agreements for certain of the Company s offices require the Company to maintain letters of credit issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires and is collateralized by restricted cash. As of June 30, 2016 and December 31, 2015, the Company had letters of credit totaling $17.3 million and $16.5 million, respectively, related to such leases.

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Computer equipment	$ 28,290	$ 26,004
Software	1,223	1,213
Capitalized website and internal-use software development costs	51,156	42,320
Furniture and fixtures	12,879	10,771
Leasehold improvements	55,512	47,552
Telecommunication	3,544	2,970
Total	152,604	130,830
Less accumulated depreciation	(63,102)	(50,363)
Property, equipment and software, net	$ 89,502	$ 80,467

Depreciation expense was approximately $6.8 million and $5.3 million for the three months ended June 30, 2016 and 2015, respectively, and approximately $13.3 million and $10.9 million for the six months ended June 30, 2016 and 2015, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

The Company s goodwill is the result of its acquisitions of other businesses, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired. The Company performed its annual goodwill impairment analysis during the three months ended September 30, 2015 and concluded that goodwill was not impaired, as the fair value of each reporting unit exceeded its carrying value.

The changes in the carrying amount of goodwill during the six months ended June 30, 2016 were as follows (in thousands):

Balance as of December 31, 2015	$ 172,197
Goodwill measurement period adjustment	146
Effect of currency translation	565
Balance as of June 30, 2016	$ 172,908

Intangible assets at June 30, 2016 and December 31, 2015 consisted of the following (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
June 30, 2016:				
Restaurant and user relationships	$ 29,400	$ (4,399)	$ 25,001	8.7 years
Developed technology	9,302	(3,296)	6,006	3.6 years
Content	3,842	(2,396)	1,446	2.4 years
Trade name and other	3,354	(1,515)	1,839	2.6 years
Domains and data licenses	2,787	(1,087)	1,700	3.5 years
Advertiser relationships	1,652	(1,652)	-	0.0 years
Total	$ 50,337	$ (14,345)	$ 35,992	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
December 31, 2015:				
Restaurant and user relationships	$ 29,400	$ (2,817)	$ 26,583	9.1 years
Developed technology	9,295	(2,441)	6,854	4.1 years
Content	3,922	(2,066)	1,856	2.7 years
Trade name and other	3,350	(1,139)	2,211	3.1 years
Domains and data licenses	2,625	(835)	1,790	3.9 years
Advertiser relationships	1,708	(1,708)	-	0.0 years
Total	$ 50,300	$ (11,006)	$ 39,294	

Amortization expense was $1.7 million and $1.8 million for the three months ended June 30, 2016 and 2015, respectively, and $3.4 million and $3.0 million for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, the estimated future amortization of purchased intangible assets for (i) the remaining six months of 2016, (ii) each of the succeeding five years and (iii) thereafter is as follows (in thousands):

Year Ending December 31,	Amount
2016 (from July 1, 2016)	$ 3,431
2017	6,727
2018	6,276
2019	5,394
2020	3,402
2021	3,165
Thereafter	7,597
Total amortization	$ 35,992

8. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Restaurant revenue share liability	$ 13,120	$ 12,654
Accrued employee vacation	7,170	4,662
Accrued marketing	5,585	2,144
Accrued bonuses and commissions	4,759	4,546
Accrued employee benefits and other employee expenses	3,481	3,631
Fixed asset purchase commitments	3,045	1,318
Accrued facilities and related	2,337	1,928
Accrued consulting	1,893	1,763
Payroll taxes payable	1,517	1,938
Accrued income, withholding and business taxes	1,343	1,513
Deferred rent	1,090	786
Employee stock purchase plan liability	954	817
Merchant revenue share liability	836	1,212
Accrued website hosting	83	975
Other accrued expenses	4,350	3,571
Total	$ 51,563	$ 43,458

9. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Deferred rent	$ 13,766	$ 11,324
Other long-term liabilities	700	706
Total	$ 14,466	$ 12,030

10. OTHER INCOME, NET

Other income, net for the three and six months ended June 30, 2016 and 2015 consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Interest income, net	$ 414	$ 131	$ 725	$ 263
Transaction gain (loss) on foreign exchange	(39)	263	27	92
Other non-operating income (loss), net	(8)	(65)	(127)	536
Other income, net	$ 367	$ 329	$ 625	$ 891

11. COMMITMENTS AND CONTINGENCIES

Office Facility Leases The Company leases its office facilities under operating lease agreements that expire from 2016 to 2025. Certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period. Rental expense was $9.1 million and $7.6 million for the three months ended June 30, 2016 and 2015, respectively, and $17.6 million and $14.5 million for the six months ended June 30, 2016 and 2015, respectively.

The Company has subleased certain office facilities under operating lease agreements that expire in 2021. The Company recognizes sublease rentals as a reduction in rental expense on a straight-line basis over the lease period. Sublease rentals were $0.5 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and $1.0 million and $0.4 million for the six months ended June 30, 2016 and 2015, respectively.

Legal Proceedings The Company is subject to legal proceedings arising in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company currently does not believe that the final outcome of any of these matters will have a material adverse effect on the Company s business, financial position, results of operations or cash flows.

In August 2014, two putative class action lawsuits alleging violations of federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The lawsuits allege violations of the Exchange Act by the Company and certain of its officers for allegedly making materially false and misleading statements regarding the Company s business and operations between October 29, 2013 and April 3, 2014. These cases were subsequently consolidated and, in January 2015, the plaintiffs filed a consolidated complaint seeking unspecified monetary damages and other relief. Following the court s dismissal of the consolidated complaint on April 21, 2015, the plaintiffs filed a first amended complaint on May 21, 2015. On November 24, 2015, the court dismissed the first amended complaint with prejudice, and entered judgment in the Company s favor on December 28, 2015. The plaintiffs have appealed this decision to the U.S. Court of Appeals for the Ninth Circuit.

On April 23, 2015, a putative class action lawsuit was filed by former Eat24 employees in the Superior Court of California for San Francisco County, naming as defendants the Company and Eat24. The lawsuit asserts that the defendants failed to permit meal and rest periods for certain current and former employees working as Eat24 customer support specialists, and alleges violations of the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages in an unspecified amount and injunctive relief. On May 29, 2015, plaintiffs filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, the Company reached a preliminary agreement to settle this matter for payments in the aggregate amount of up to approximately $0.6 million, which the court preliminarily approved on June 27, 2016. The settlement is currently awaiting final court approval.

On June 24, 2015, a former Eat24 sales employee filed a lawsuit, on behalf of herself and a putative class of current and former Eat24 sales employees, against Eat24 in the Superior Court of California for San Francisco County. The lawsuit alleges that Eat24 failed to pay required wages, including overtime wages, allow meal and rest periods and maintain proper records, and asserts causes of action under the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiff seeks monetary damages and penalties in unspecified amounts, as well as injunctive relief. On August 3, 2015, the plaintiff filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, the Company reached a preliminary agreement to settle this matter for payments in the aggregate amount of up to approximately $0.2 million. Once finalized, the settlement will be subject to court approval.

Based on the preliminary settlement agreements reached in connection with the two lawsuits by former Eat24 employees described above, the Company recognized a liability for each of the proposed settlement amounts as part of its accrued liabilities as of June 30, 2016. In February 2016, $1.1 million was released to the Company from the escrow fund established in connection with the acquisition of Eat24, to fund such settlement amounts and related legal expenses.

Indemnification Agreements In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by the Company or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain officers and employees that will require the Company to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees.

While the outcome of claims cannot be predicted with certainty, the Company does not believe that the outcome of any claims under the indemnification arrangements will have a material effect on the Company s financial position, results of operations or cash flows.

Payroll Tax Audit In June 2015, the Internal Revenue Service (IRS) began a payroll tax audit of the Company for 2014 and 2013. The Company has assessed the estimated range of such loss and, as of June 30, 2016, a liability of $0.5 million has been recorded. The Company expects the audits and any related assessments to be finalized by December 31, 2016.

12. STOCKHOLDERS EQUITY

The following table presents the number of shares authorized and issued and outstanding as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding
Stockholders equity:				
Class A common stock, $0.000001 par value	200,000,000	68,795,652	200,000,000	66,535,156
Class B common stock, $0.000001 par value	100,000,000	8,449,146	100,000,000	9,447,646
Common stock, $0.000001 par value	200,000,000	-	200,000,000	-
Undesignated Preferred Stock	10,000,000	-	10,000,000	-

Equity Incentive Plans

The Company has outstanding awards under three equity incentive plans: the Amended and Restated 2005 Equity Incentive Plan (the 2005 Plan), the 2011 Equity Incentive Plan (the 2011 Plan) and the 2012 Equity Incentive Plan, as amended (the 2012 Plan). In July 2011, the Company adopted the 2011 Plan, terminated the 2005 Plan and provided that no further stock awards were to be granted under the 2005 Plan. All outstanding stock awards under the 2005 Plan continue to be governed by their existing terms. Upon the effectiveness of the underwriting agreement in connection with the Company s initial public offering (IPO), the Company terminated the 2011 Plan and all shares that were reserved under the 2011 Plan but not issued were assumed by the 2012 Plan. No further awards will be granted pursuant to the 2011 Plan. All outstanding stock awards under the 2011 Plan continue to be governed by their existing terms. Under the 2012 Plan, the Company has the ability to issue incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock units (RSUs), restricted stock awards (RSAs), performance units and performance shares. Additionally, the 2012 Plan provides for the grant of performance cash awards to employees, directors and consultants.

Stock Options

Stock options granted under the 2012 Plan are granted at a price per share not less than the fair value of a share of the Company s common stock at date of grant. Options granted to date generally vest over a four-year period, on one of three schedules: (a) 25% vesting at the end of one year and the remaining shares vesting monthly thereafter; (b) 10% vesting over the first year, 20% vesting over the second year, 30% vesting over the third year and 40% vesting over the fourth year; or (c) ratably on a monthly basis. Options granted are generally exercisable for up to 10 years.

A summary of stock option activity for the six months ended June 30, 2016 is as follows:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding January 1, 2016	8,206,356	20.93	6.44	$ 92,454
Granted	1,199,768	21.94		
Exercised	(341,710)	9.89		
Canceled	(111,478)	38.66		
Outstanding June 30, 2016	8,952,936	21.27	6.48	$ 106,053
Options vested and exercisable as of June 30, 2016	6,302,577	18.03	5.72	$ 89,290

Aggregate intrinsic value represents the difference between the closing price of the Company s Class A common stock and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $3.2 million and $11.0 million for the three months ended June 30, 2016 and 2015, respectively, and $4.8 million and $21.2 million for the six months ended June 30, 2016 and 2015,

respectively.

The weighted-average grant date fair value of options granted was $9.18 and $20.64 per share for the three months ended June 30, 2016 and 2015, respectively, and $9.42 and $26.65 per share for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, total unrecognized compensation costs related to unvested stock options was approximately $31.2 million, which is expected to be recognized over a weighted-average time period of 1.97 years.

RSUs and RSAs

The cost of RSUs and RSAs is determined using the fair value of the Company s common stock on the date of grant. RSUs and RSAs generally vest over a four-year period, on one of three schedules: (a) 25% vesting at the end of one year and the remaining vesting quarterly or annually thereafter; (b) 10% vesting over the first year, 20% vesting over the second year, 30% vesting over the third year and 40% vesting over the fourth year; or (c) ratably on a quarterly basis.

A summary of RSU and RSA activity for the six months ended June 30, 2016 is as follows:

	Restricted Stock Units		**Restricted Stock Awards**	
	Number of Shares	**Weighted-Average Grant Date Fair Value**	**Number of Shares**	**Weighted-Average Grant Date Fair Value**
Unvested January 1, 2016	4,093,204	$ 39.45	312	$ 11.68
Granted	3,613,180	24.23	-	-
Released	(742,805)	37.60	(312)	11.68
Canceled	(518,876)	32.64	-	-
Unvested June 30, 2016	6,444,703	$ 31.69	-	$ -

As of June 30, 2016, the Company had approximately $184 million of unrecognized stock-based compensation expense related to RSUs and RSAs, which will be recognized over the remaining weighted-average vesting period of approximately 3.18 years.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of the Company s Class A common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations, during designated offering periods. At the end of each offering period, employees are able to purchase shares at 85% of the fair market value of the Company s Class A common stock on the last day of the offering period. There were 200,953 shares purchased by employees under the ESPP at a weighted-average purchase price of $22.26 per share during the three and six months ended June 30, 2016. There were 162,373 shares purchased by employees under the ESPP at a weighted-average purchase price of $31.17 per share during the three and six months ended June 30, 2015. The Company recognized $0.5 million and $1.3 million of stock-based compensation expense related to the ESPP in the three months ended June 30, 2016 and 2015, respectively, and $0.7 million and $2.7 million in the six months ended June 30, 2016 and 2015, respectively.

Stock-Based Compensation

The following table summarizes the effects of stock-based compensation expense related to stock-based awards in the condensed consolidated statements of operations during the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of revenue	$ 407	$ 222	$ 808	$ 346
Sales and marketing	6,843	5,654	13,185	10,591
Product development	8,413	6,065	16,443	11,170
General and administrative	5,063	3,575	9,400	7,080
Total stock-based compensation	20,726	15,516	39,836	29,187

The Company capitalized $1.2 million and $0.8 million of stock-based compensation expense as website development and internal-use software costs in the three months ended June 30, 2016 and 2015, respectively, and $2.0 million and $1.6 million in the six months ended June 30, 2016 and 2015, respectively.

13. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share attributable to common stockholders are presented in conformity with the two-class method required for participating securities. Shares of Class A and Class B common stock are the only outstanding equity in the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder, and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions, and in connection with certain other conversion events.

Basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. The Company s potential shares of common stock consist of the incremental shares of common stock issuable upon the exercise of stock options, shares issuable upon the vesting of RSUs and, to a lesser extent, unvested shares subject to RSAs and purchases related to the ESPP. The dilutive effect of these potential shares of common stock is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income (loss) per share of Class B common stock does not assume the conversion of Class B common stock.

The undistributed earnings are allocated based on the contractual participation rights of the Class A and Class B common stock as if the earnings for the year have been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B common stock is assumed in the computation of the diluted net income (loss) per share of Class A common stock, the undistributed earnings are equal to net income (loss) for that computation.

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Net income (loss) attributable to common stockholders	$ 399	$ 50	$ (1,138)	$ (167)
Basic Shares:				
Weighted-average common shares outstanding	68,018	8,449	65,107	9,524
Net income (loss) per share attributable to common stockholders				
Basic:	$ 0.01	$ 0.01	$ (0.02)	$ (0.02)

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Diluted net income (loss) per share attributable to common stock holders:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 399	$ 50	$ (1,138)	$ (167)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	50	-	-	-
Reallocation of undistributed earnings to Class B shares	-	7	-	-
Allocation of undistributed earnings (losses)	$ 449	$ 57	$ (1,138)	$ (167)
Denominator:				
Number of shares used in basic calculation	68,018	8,449	65,107	9,524
Weighted-average effect of dilutive securities				
Conversion of Class B to Class A shares	8,449	-	-	-
Stock options	2,106	1,591	-	-
Restricted stock units	398	-	-	-
Contingently issuable shares	309	-	-	-
Number of shares used in diluted calculation	79,280	10,040	65,107	9,524
Diluted net income (loss) per share attributable to common stockholders	$ 0.01	$ 0.01	$ (0.02)	$ (0.02)

	Six Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Net loss attributable to common stockholders	$ (13,303)	$ (1,700)	$ (2,252)	$ (337)
Basic Shares:				
Weighted-average common shares outstanding	67,542	8,634	64,363	9,646
Diluted Shares:				
Weighted-average shares used to compute diluted net loss per share	67,542	8,634	64,363	9,646
Net loss per share attributable to common stockholders				
Basic:	$ (0.20)	$ (0.20)	$ (0.03)	$ (0.03)
Diluted:	$ (0.20)	$ (0.20)	$ (0.03)	$ (0.03)

The following weighted-average stock-based instruments were excluded from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015

Stock options	3,385	8,562	8,953	8,562
Restricted stock units and awards	3,582	2,269	6,445	2,269
Contingently issuable shares	-	309	309	309
ESPP	-	22	-	22

14. INCOME TAXES

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely. The Company recorded an income tax benefit of $1.3 million and an income tax provision of $1.7 million for the three months ended June 30, 2016 and 2015, respectively, and an income tax provision of $0.2 million and an income tax benefit of $0.7 million for the six months ended June 30, 2016 and 2015, respectively. The tax provision for the six months ended June 30, 2016 is due to $0.1 million in U.S. federal and state and foreign income tax expense and $0.1 million of discrete expense. The tax benefit for the six months ended June 30, 2015 is due to $0.7 million in discrete benefits.

Accounting for income taxes for interim periods generally requires the provision for income taxes to be determined by applying an estimate of the annual effective tax rate for the full fiscal year to ordinary income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. For the three and six months ended June 30, 2016 a discrete effective tax rate method was used in jurisdictions where a small change in estimated ordinary income has a significant impact on the annual effective tax rate. The primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on certain of the Company s net operating losses, foreign tax rate differences, meals and entertainment, tax credits, and non-deductible stock-based compensation expense. Jurisdictions where no benefit is recorded on forecasted losses were excluded from the consolidated effective tax rate. As of June 30, 2016, the total amount of gross unrecognized tax benefits was $5.8 million, $5.0 million of which is subject to a full valuation allowance and would not affect the Company s effective tax rate if recognized. As of June 30, 2016, the Company had an immaterial amount related to the accrual of interest and penalties. During the three and six months ended June 30, 2016, the Company s gross unrecognized tax benefits increased by $0.2 million and $0.8 million, respectively, an immaterial amount of which would affect the Company s effective tax rate if recognized.

In addition, the Company is subject to the continuous examination of its income tax returns by the IRS and other tax authorities. The Company s federal and state income tax returns for fiscal years 2004 through 2015 remain open to examination. In the Company s most significant foreign jurisdictions Ireland, the United Kingdom and Germany the open tax years range from 2010 to 2015. The Company regularly assesses the likelihood of adverse outcomes resulting from examinations to determine the adequacy of its provision for income taxes, and monitors the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company s tax audits are resolved in a manner not consistent with management s expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although the timing of the resolution or closure of audits is not certain, the Company believes it is reasonably possible that its unrecognized tax benefits could be reduced by up to $0.2 million over the 12 months following December 31, 2015.

15. INFORMATION ABOUT REVENUE AND GEOGRAPHIC AREAS

The Company considers operating segments to be components of the Company in which separate financial information is available that is evaluated regularly by the Company s chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by product line and geographic region for purposes of allocating resources and evaluating financial performance.

The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single operating and reporting segment.

Net Revenue

The table below presents the Company s net revenue by product line for the periods presented (in thousands). Revenue by geography is based on the billing address of the customer.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue by product:				
Local	$ 151,879	$ 107,882	$ 289,996	$ 206,452
Transactions	15,518	11,304	30,016	17,910
Brand advertising	-	8,303	-	14,930
Other services	6,031	6,424	12,029	13,129
Total net revenue	$ 173,428	$ 133,913	$ 332,041	$ 252,421

During the three and six months ended June 30, 2016 and 2015, a substantial majority of the Company s revenue was generated in the United States. In addition, no individual customer accounted for 10% or more of consolidated net revenue in any such period.

Long-Lived Assets

The following table presents the Company s long-lived assets by geographic region for the periods indicated (in thousands):

	June 30, 2016	December 31, 2015
United States	$ 86,335	$ 78,675
All other countries	3,167	5,493
Total	$ 89,502	$ 84,168

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those discussed in the section titled Risk Factors included under Part II, Item 1A and elsewhere in this Quarterly Report. See Special Note Regarding Forward-Looking Statements in this Quarterly Report.

Overview

Yelp connects people with great local businesses by bringing word of mouth online and providing a platform for businesses and consumers to engage and transact. Our platform provides value to consumers and businesses alike by connecting consumers with great local businesses at the critical moment when they are deciding where to spend their money. Each day, millions of consumers use our platform to find and interact with local businesses, which in turn use our free and paid services to help them engage with consumers. The Yelp Platform, which allows consumers and businesses to transact directly on Yelp, provides consumers with a continuous experience from discovery to completion of transactions and local businesses with an additional point of consumer engagement.

Our success is primarily the result of significant investment in our communities, employees, content, brand and technology. We believe that continued investment in our business provides our largest opportunity for future growth and plan to continue to invest for long-term growth in our key strategies:

Network Effect. We plan to invest in marketing and product development aimed at both attracting more, and increasing the engagement of, consumers as we look to leverage our brand and benefit from network dynamics in Yelp communities. For example, in the second quarter of 2016, we expanded the Yelp Platform with the addition of five new partners, including TicketNetwork for purchasing tickets, delivery.com for scheduling laundry services and Peek.com for booking tours and activities, which we believe will drive daily engagement in our related verticals. We also launched a new television and digital advertising campaign in the second quarter of 2016 as part of our continued efforts to increase brand awareness.

Enhance Monetization. We plan to continue to invest in enhancing the opportunities in our local advertising business in the United States, which is our core strength. We will continue the expansion of the Yelp Platform, new business owner products and comprehensive tools to measure the effectiveness of our products, as well as our local business outreach. For example, in the second quarter of 2016, we enhanced our Request a Quote feature by making it easier for consumers to find businesses accepting requests, highlighting the most responsive businesses and making the feature available to businesses in additional categories.

Our overall strategy is to invest for long-term growth. During the remainder of 2016, we expect to continue to invest heavily in our sales and marketing efforts, including growing our sales force to reach more businesses and continuing our advertising campaigns to raise brand awareness. As of June 30, 2016, we had 4,154 employees, which represents an increase of 28% compared to June 30, 2015.

Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

Reviews

Number of reviews represents the cumulative number of reviews submitted to Yelp since inception, as of the period end, including reviews that were not recommended or had been removed from our platform. In addition to the text of the review, each review includes a rating of one to five stars. We include reviews that are not recommended and that have been removed because all of them are either currently accessible on our platform or were accessible at some point in time, providing information that may be useful to users to evaluate businesses and individual reviewers. Because our automated recommendation software continually reassesses which reviews to recommend based on new information that becomes available, the recommended or not recommended status of reviews may change over time. Reviews that are not recommended or that have been removed do not factor into a business s overall star rating. By clicking on a link on a reviewed business s page on our website, users can access the reviews that are not currently recommended for the business, as well as the star rating and other information about reviews that were removed for violation of our terms of service.

As of June 30, 2016, approximately 100.9 million reviews were available on business listing pages, including approximately 23.3 million reviews that were not recommended, and 7.4 million reviews had been removed from our platform, either by us for violation of our terms of service or by the users who contributed them. The following table presents the number of cumulative reviews as of the dates indicated:

	As of June 30,	
	2016	2015
	(in thousands)	
Reviews	108,251	83,102

Traffic

Traffic to our website and mobile app has three components: visitors to our non-mobile optimized website (our desktop website), visitors to our mobile-optimized website (our mobile website) and mobile devices accessing our mobile app. We use the following metrics to measure each of these traffic streams.

Desktop and Mobile Website Unique Visitors. We calculate desktop unique visitors as the number of users, as measured by Google Analytics, who have visited our desktop website at least once in a given month, averaged over a given three-month period. Similarly, we calculate mobile website unique visitors as the number of users who have visited our mobile website at least once in a given month, averaged over a given three-month period.

Google Analytics, a product from Google Inc. that provides digital marketing intelligence, measures users based on unique cookie identifiers. Because the numbers of desktop unique visitors and mobile website unique visitors are therefore based on unique cookies, an individual who accesses our desktop website or mobile website from multiple devices with different cookies may be counted as multiple desktop unique visitors or mobile website unique visitors, as applicable, and multiple individuals who access our desktop website or mobile website from a shared device with a single cookie may be counted as a single desktop unique visitor or mobile website unique visitor.

App Unique Devices. We calculate app unique devices as the number of unique mobile devices using our mobile app in a given month, averaged over a given three-month period. Under this method of calculation, an individual who accesses our mobile app from multiple mobile devices will be counted as multiple app unique devices. Multiple individuals who access our mobile app from a shared device will be counted as a single app unique device.

The following table presents our traffic for the periods indicated:

	Three Months Ended June 30,	
	2016	2015
	(in thousands)	
Desktop Unique Visitors	73,406	79,175
Mobile Website Unique Visitors	69,327	64,715
App Unique Devices	23,010	18,097

We anticipate that our mobile traffic will be the driver of our growth for the foreseeable future and that usage of our desktop website will continue to decline worldwide.

Claimed Local Business Locations

The number of claimed local business locations represents the cumulative number of business locations that have been claimed on Yelp worldwide since 2008, as of a given date. We define a claimed local business location as each business address for which a business representative has visited our website and claimed the free business listing page for the business located at that address. The following table presents the number of cumulative claimed local business locations as of the dates presented:

	As of June 30,	
	2016	2015

	(in thousands)	
Claimed Local Business Locations	3,010	2,349

Local Advertising Accounts

Local advertising accounts comprise all local business accounts from which we recognize local revenue in a given three-month period. The following table presents the number of local advertising accounts during the periods presented:

	Three Months Ended June 30,	
	2016	**2015**
	(in thousands)	
Local Advertising Accounts	128	97

Non-GAAP Financial Measures

Our consolidated financial statements are prepared in accordance with GAAP. However, we have also disclosed below adjusted EBITDA and non-GAAP net income, which are non-GAAP financial measures. We have included adjusted EBITDA and non-GAAP net income because they are key measures used by our management and board of directors to understand and evaluate our operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, the exclusion of certain expenses in calculating adjusted EBITDA and non-GAAP net income can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA and non-GAAP net income provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA and non-GAAP net income have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. In particular, adjusted EBITDA and non-GAAP net income should not be viewed as substitutes for, or superior to, net income (loss) prepared in accordance with GAAP as a measure of profitability or liquidity. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA and non-GAAP net income do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- adjusted EBITDA and non-GAAP net income do not consider the potentially dilutive impact of equity-based compensation;

- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and

- other companies, including companies in our industry, may calculate adjusted EBITDA and non-GAAP net income differently, which reduces their usefulness as comparative measures.

Because of these limitations, you should consider adjusted EBITDA and non-GAAP net income alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results. The tables below present reconciliations of adjusted EBITDA and non-GAAP net income to net income (loss), the most directly comparable GAAP financial measure in each case, for each of the periods indicated.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: provision (benefit) for income taxes; other income (expense), net; depreciation and amortization; stock-based compensation expense; and restructuring and integration costs. Adjusted EBITDA for the three and six months ended June 30, 2016 was $28.1 million and $41.1 million, respectively. The following is a reconciliation of adjusted EBITDA to net income (loss):

	Three Months Ended, June 30,		Six Months Ended, June 30,	
	2016	**2015**	**2016**	**2015**
	(in thousands)		**(in thousands)**	
Reconciliation of adjusted EBITDA to GAAP Net Income (Loss):				
Net income (loss)	$ 449	$ (1,305)	$ (15,003)	$ (2,589)
(Benefit) provision for income taxes	(1,269)	1,684	168	(719)
Other (income) expense, net	(367)	(329)	(625)	(891)
Depreciation and amortization	8,564	7,167	16,753	14,062
Stock-based compensation	20,726	15,516	39,836	29,187
Adjusted EBITDA	$ 28,103	$ 22,733	$ 41,129	$ 39,050

Non-GAAP Net Income

Non-GAAP net income is a non-GAAP financial measure that we calculate as net income (loss), adjusted to exclude: stock-based compensation expense; amortization of intangibles; the tax effect of stock-based compensation and amortization of intangibles; and the release of valuation allowance (net of tax). Non-GAAP net income for the three and six months ended June 30, 2016 was $12.5 million and $18.5 million, respectively. The following is a reconciliation of non-GAAP net income to net income (loss):

	Three Months Ended, June 30,		Six Months Ended, June 30,	
	2016	**2015**	**2016**	**2015**
	(in thousands)		**(in thousands)**	
Reconciliation of Non-GAAP Net Income to GAAP Net Income (Loss):				
GAAP net income (loss)	$ 449	$ (1,305)	$ (15,003)	$ (2,589)
Stock-based compensation	20,726	15,516	39,836	29,187
Amortization of intangible assets	1,730	1,803	3,442	3,034
Tax adjustments[1]	(10,389)	(6,660)	(9,796)	(12,376)
Non-GAAP net income	$ 12,516	$ 9,354	$ 18,479	$ 17,256

(1) Includes tax effects of stock-based compensation, amortization of intangibles, and valuation allowance.

Results of Operations

The following table sets forth our results of operations for the periods presented as a percentage of net revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of the results of operations to be anticipated for the full year 2016 or any future period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(as percentage of net revenue)			
Consolidated Statements of Operations Data:				
Net revenue by product:				
Local	88%	81%	87%	82%
Transactions	9	8	9	7
Brand advertising	-	6	-	6
Other services	3	5	4	5
Total net revenue	100%	100%	100%	100%
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	9%	10%	9%	9%
Sales and marketing	54	51	57	52
Product development	19	20	20	20
General and administrative	14	14	14	16
Depreciation and amortization	5	5	5	6
Total costs and expenses	101	100	105	102
Income (Loss) from operations	(1)	-	(5)	(2)
Other income (expense), net	-	-	-	-
Income (Loss) before income taxes	-	-	(5)	(1)
Benefit (Provision) for income taxes	1	(1)	-	-
Net income (loss)	0%	(1%)	(5%)	(1%)

Three and Six Months Ended June 30, 2016 and 2015

Net Revenue

We generate revenue from our local products, transactions, other services and, through the end of 2015, brand advertising.

Local. We generate local revenue from our local advertising programs, including enhanced listing pages and performance and impression-based advertising in search results and elsewhere on our website and mobile app. We also generate local revenue from monthly subscriptions to our Yelp Reservations product, which we previously referred to as our SeatMe reservation product.

Transactions. We generate revenue from various transactions with consumers, including through Eat24, Platform transactions and the sale of Yelp Deals and Gift Certificates. Our Eat24 business generates revenue through arrangements with restaurants, in which restaurants pay a commission percentage fee on orders placed through Eat24 s platform. We record revenue associated with Eat24 s transactions on a net basis. Our Platform partnerships are revenue-sharing arrangements that provide consumers with the ability to complete food delivery transactions, order flowers and book spa and salon appointments, among other products and services, through third parties directly on Yelp. We earn a fee on our Platform partnerships for acting as an agent for these transactions, which we record on a net basis and include in revenue upon completion of a transaction. Yelp Deals allow merchants to promote themselves and offer discounted goods and services on a real-time basis to consumers directly on our website and mobile app. We earn a fee on Yelp Deals for acting as an agent in these transactions, which we record on a net basis and include in revenue upon a consumer s purchase of a deal. Gift Certificates allow merchants to sell full-priced gift certificates directly to consumers through their business listing pages. We earn a fee based on the amount of the Gift Certificate sold, which we record on a net basis and include in revenue upon a consumer s purchase of the Gift Certificate.

Brand Advertising. Through the end of 2015, we generated revenue from brand advertising through the sale of display advertisements and brand sponsorships to national brands. We phased out these products to focus on our core strength of local advertising.

Other Services. We generate revenue through partner arrangements and monetization of remnant advertising inventory through third-party ad networks. These partner arrangements include allowing third-party data providers to update business listing information on behalf of businesses and resale of our local advertising products by certain partners. We also generate revenue through content licensing arrangements under our Yelp Knowledge social analytics program. These partner arrangements include granting third-party data providers access to Yelp data and reviews for analysis.

The following table provides a breakdown of our net revenue for the periods indicated.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	2015 to 2016 % Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	2015 to 2016 % Change
	(dollars in thousands)			(dollars in thousands)		
Net revenue by product:						
Local	$ 151,879	$ 107,882	41%	$ 289,996	$ 206,452	40%
Transactions	15,518	11,304	37	30,016	17,910	68
Brand advertising	-	8,303	(100)	-	14,930	(100)
Other services	6,031	6,424	(6)	12,029	13,129	(8)
Total net revenue	$ 173,428	$ 133,913	30%	$ 332,041	$ 252,421	32%
Percentage of total net revenue by product:						
Local	88%	81%		87%	82%	
Transactions	9	8		9	7	
Brand advertising	-	6		-	6	
Other services	3	5		4	5	
Total net revenue	100%	100%		100%	100%	

Total net revenue increased $39.5 million, or 30%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $79.6 million, or 32%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

Local revenue increased $44 million, or 41%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $83.5 million, or 40%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase in both periods was primarily due to a significant increase in the number of customers purchasing local advertising plans as we expanded our sales force to reach more local businesses. This growth was driven primarily by purchases of cost-per-click advertising in 2016. In the three and six months ended June 30, 2016, a majority of ad clicks were delivered on mobile.

Our transactions revenue increased $4.2 million, or 37%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $12.1 million, or 68%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase in both periods was primarily the result of revenue from Eat24, which we acquired in February 2015.

As of the beginning of 2016, we no longer offer brand advertising products. As a result, we generated no brand advertising revenue in the three and six months ended June 30, 2016, a decrease of $8.3 million and $14.9 million from the three and six months ended June 30, 2015, respectively.

Our other services revenue decreased $0.4 million, or 6%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $1.1 million, or 8%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This was primarily the result of decreased partnership activity in 2016 compared to 2015.

Cost of Revenue

Our cost of revenue consists primarily of web hosting costs and credit card processing fees, as well as salaries, benefits and stock-based compensation expense for our infrastructure teams related to the operation of our website and mobile app. It also includes costs associated with video production for our local advertisers as well as confirmation and delivery services associated with Eat24.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	2015 to 2016 % Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	2015 to 2016 % Change
	(dollars in thousands)			(dollars in thousands)		
Cost of revenue	$ 15,087	$ 13,057	16%	$ 30,165	$ 21,756	39%
Percentage of net revenue	9 %	10%		9%	9%	

Cost of revenue increased $2.0 million, or 16%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $8.4 million, or 39%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in the three and six months ended June 30, 2016 were primarily attributable to increases in merchant fees related to credit card transactions of $1.6 million and $3.5 million, respectively, primarily due to growth in local and transactions revenue. Set up and creative design costs, consisting primarily of video production costs, increased by $0.7 million and $1.4 million in the three and six months ended June 30, 2016, respectively, due to greater demand by local businesses for video on their business listing pages. External website hosting, Internet service fees, and the salaries and related expenses of the internal personnel that support the website infrastructure decreased by $0.2 million in the three months ended June 30, 2016. This decrease was due to improved pricing from key website hosting vendors achieved during the three months ended June 30, 2016. These costs increased by $3.0 million during the six months ended June 30, 2016, resulting from an increase in the number of visitors to our website compared to the prior year, as well as increased headcount for personnel supporting the website infrastructure.

Sales and Marketing

Our sales and marketing expenses primarily consist of salaries (including employer payroll taxes), benefits, travel expense and incentive compensation expense, including stock-based compensation expense, for our sales and marketing employees. In addition, sales and marketing expenses include business and consumer acquisition marketing, community management, branding and advertising costs, as well as allocated facilities, insurance, business taxes and other supporting overhead costs. Historically we have focused on organic and viral growth driven by the community development efforts of our community management team, which is responsible for growing and fostering local communities, as well as coordinating events to raise awareness of our brand. As a result, we historically incurred minimal sales and marketing expenses to increase consumer awareness of Yelp. While community development continues to be our primary marketing strategy, in the second half of 2014, we began selectively testing advertising to consumers and launched our first television advertising campaign in 2015. We launched additional advertising campaigns in the first half of 2016, and plan to continue investing in various advertising channels throughout the remainder of the year.

We expect our sales and marketing expenses to increase as we expand our communities, increase the number of local advertising accounts and continue to build our brand. The majority of these expenses will be related to hiring sales employees and Community Managers, as well as costs incurred with various third-party media outlets and other advertising channels. We expect sales and marketing expenses to increase and to be our largest expense for the foreseeable future.

	Three Months Ended June 30,		2015 to 2016 % Change	Six Months Ended June 30,		2015 to 2016 % Change
	2016	2015		2016	2015	
	(dollars in thousands)			(dollars in thousands)		
Sales and marketing	$ 94,402	$ 68,014	39%	$ 190,030	$ 131,280	45%
Percentage of net revenue	54%	51%		57%	52%	

Sales and marketing expenses increased $26.4 million, or 39%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $58.8 million, or 45%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in the three and six months ended June 30, 2016 were primarily attributable to $14.2 million and $29.7 million, respectively, in additional salaries, benefits, travel and other related expenses resulting from increased headcount, including increases of $1.2 million and $2.6 million, respectively, in stock-based compensation expense, as we expanded our sales organization to take advantage of the market opportunity created by increased recognition of the value of our advertising products and increased use of our free online business accounts. As a result of ongoing marketing campaigns, domestic and international marketing and advertising costs increased by $7.0 million and $15.3 million in the three and six months ended June 30, 2016, respectively. As a result of our increase in net revenue, our commission expense increased $2.4 million and $8.2 million in the three and six months ended June 30, 2016, respectively. In addition, we experienced increases in facilities, insurance, business taxes and other related allocations of $2.8 million and $5.6 million in the three and six months ended June 30, 2016, respectively.

Product Development

Our product development expenses primarily consist of salaries (including employer payroll taxes), various benefits, travel expense and stock-based compensation expense for our engineers, product management and information technology personnel. Product development expenses also include outside services and consulting, allocated facilities, insurance, business taxes and other supporting overhead costs. We believe that continued investment in features, software development tools and code modification is important to attaining our strategic objectives and, as a result, we expect product development expenses to increase for the foreseeable future.

	Three Months Ended June 30,		2015 to 2016 % Change	Six Months Ended June 30,		2015 to 2016 % Change
	2016	2015		2016	2015	
	(dollars in thousands)			(dollars in thousands)		
Product development	$ 33,098	$ 26,345	26%	$ 65,320	$ 50,305	30%
Percentage of net revenue	19%	20%		20%	20%	

Product development expenses increased $6.8 million, or 26%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $15.0 million, or 30%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in the three and six months ended June 30, 2016 were primarily attributable to $6.9 million and $15.4 million, respectively, in additional salaries, benefits, travel and related expenses associated with an increase in headcount, including increases of $2.3 million and $5.3 million, respectively, in stock-based compensation expense. In addition, we experienced increases in the three and six months ended June 30, 2016 in facilities, insurance, business taxes and other related allocations of $0.8 million and $1.4 million, respectively, as a result of the increases in headcount. These increases were partially offset by decreases in consulting costs of $0.9 million and $1.8 million, respectively, due to decreased reliance on outside consultants.

General and Administrative

Our general and administrative expenses primarily consist of salaries (including employer payroll taxes), various benefits, travel expense and stock-based compensation expense for our executive, finance, user operations, legal, human resources and other administrative employees. Our general and administrative expenses also include outside consulting, legal and accounting services, as well as facilities, insurance, business taxes and other supporting overhead costs not allocated to other departments. We expect our general and administrative expenses to increase for the foreseeable future as we continue to expand our business.

	Three Months Ended June 30,		2015 to 2016 % Change	Six Months Ended June 30,		2015 to 2016 % Change
	2016	2015		2016	2015	
	(dollars in thousands)			(dollars in thousands)		
General and Administrative	$ 23,464	$ 19,280	22%	$ 45,233	$ 39,217	15%
Percentage of net revenue	14%	14%		14%	16 %	

General and administrative expenses increased $4.2 million, or 22%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $6.0 million, or 15%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in the three and six months ended June 30, 2016 were primarily attributable to $3.2 million and $5.7 million, respectively, in additional salaries, benefits, travel and related expenses associated with an increase in headcount, including increases of $1.5 million and $2.3 million, respectively, in stock-based compensation expense, as well as bad debt expense of $1.5 million and $1.0 million, respectively. These increases were partially offset by decreases in the three and six months ended June 30, 2016 in consulting costs of $0.7 million and $1.3 million, respectively.

Depreciation and Amortization

Depreciation and amortization expenses primarily consist of depreciation on computer equipment, software, leasehold improvements, capitalized website and software development costs and amortization of purchased intangible assets. We expect depreciation and amortization expenses to increase for the foreseeable future as we continue to expand our technology infrastructure.

	Three Months Ended June 30,		2015 to 2016 % Change	Six Months Ended June 30,		2015 to 2016 % Change
	2016	2015		2016	2015	
	(dollars in thousands)			(dollars in thousands)		
Depreciation and amortization	$ 8,564	$ 7,167	19%	$ 16,753	$ 14,062	19%
Percentage of net revenue	5%	5%		5%	6 %	

Depreciation and amortization expenses increased $1.4 million, or 19%, in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, and $2.7 million, or 19%, in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases were primarily the result of our investments in expanding our technology infrastructure and capital assets. In the three and six months ended June 30, 2016, depreciation and amortization expenses related to our fixed assets and capitalized website and software development costs increased $1.5 million and $2.4 million, respectively.

Other Income, Net

Other income, net consists primarily of the interest income earned on our cash, cash equivalents and marketable securities, gains and losses on the disposal of assets and foreign exchange gains and losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands)		(dollars in thousands)	
Interest income, net	$ 414	$ 131	$ 725	$ 263
Transaction gain (loss) on foreign exchange	(39)	263	27	92
Other non-operating income (loss), net	(8)	(65)	(127)	536
Other income, net	$ 367	$ 329	$ 625	$ 891

In the three months ended June 30, 2016, other income, net was consistent with the three months ended June 30, 2015, and in the six months ended June 30, 2016, other income, net decreased by $0.3 million compared to the six months ended June 30, 2015. The decrease in other non-operating income (loss) in the six months ended June 30, 2015 was primarily due to the release of cash in escrow relating to the acquisition of Qype GmbH. The decreases were offset by increases in foreign exchange gain due to favorable foreign exchange rate movements.

Benefit (Provision) for Income Taxes

Benefit (provision) for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions, deferred income taxes reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and the realization of net operating loss carryforwards.

	Three Months Ended June 30,		2015 to 2016 % Change	Six Months Ended June 30,		2015 to 2016 % Change
	2016	2015		2016	2015	
	(dollars in thousands)			(dollars in thousands)		
Benefit (Provision) for taxes	$ 1,269	$ (1,684)	175%	$ (168)	$ 719	(123)%
Percentage of net revenue	1%	(1)%		-%	- %	

For the three months ended June 30, 2016, we recognized a tax benefit of $1.3 million primarily as a result of a reduction of tax expense due to an actual year-to-date rate used in jurisdictions where a small change in estimated ordinary income has a significant impact on the effective tax rate.

For the six months ended June 30, 2016, we recognized a tax provision of $0.2 million that primarily consisted of state and foreign income tax provision on year-to-date pre-tax loss, and discrete expense related to stock-based compensation.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash equivalents of $196.3 million. Cash and cash equivalents consist of both cash and money market funds. Our cash held internationally as of June 30, 2016 was $4.3 million. We did not have any outstanding bank loans or credit facilities in place as of June 30, 2016. Our investment portfolio is comprised of highly rated marketable securities, and our investment policy limits the amount of credit exposure to any one issuer. The policy generally requires securities to be investment grade (i.e. rated A or higher by bond rating firms) with the objective of minimizing the potential risk of principal loss. To date, we have been able to finance our operations and our acquisitions through proceeds from private and public financings, including our initial public offering in March 2012, our follow-on offering in October 2013, cash generated from operations and, to a lesser extent, cash provided by the exercise of employee stock options and purchases under our 2012 Employee Stock Purchase Plan (ESPP).

Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth under *Risk Factors* in this Quarterly Report. We believe that our existing cash and cash equivalents, together with any cash generated from operations, will be sufficient to meet our working capital requirements and anticipated purchases of property and equipment for at least the next 12 months. However, this estimate is based on a number of assumptions that may prove to be wrong and we could exhaust our available cash and cash

equivalents earlier than presently anticipated. We may require or otherwise seek additional funds in the next 12 months to respond to business challenges, including the need to develop new features and products or enhance existing services, improve our operating infrastructure or acquire complementary businesses and technologies, and, accordingly, we may need to engage in equity or debt financings to secure additional funds.

Amounts deposited with third-party financial institutions exceed the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance limits, as applicable. These cash and cash equivalents could be impacted if the underlying financial institutions fail or are subjected to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to our cash and cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2016	**2015**
	(dollars in thousands)	
Consolidated Statements of Cash Flows Data:		
Purchases of property, equipment and software	$ (12,438)	$ (18,059)
Depreciation and amortization	16,753	14,062
Cash provided by operating activities	46,510	43,665
Cash used in investing activities	(29,733)	(126,070)
Cash provided by financing activities	7,855	17,151

Operating Activities. We generated $46.5 million of cash in operating activities in the six months ended June 30, 2016, primarily resulting from our net loss of $15.0 million, which included non-cash depreciation and amortization expenses of $16.8 million, non-cash stock-based compensation expense of $39.8 million and non-cash provision for doubtful accounts and sales returns of $7.4 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- increase in accounts receivable of $13.2 million due to an increase in billings for local advertising plans, as well as the timing of payments from these customers;

- increase in accounts payable, accrued expenses and other liabilities of $6.0 million related to the growth in our business, increase in Eat24 restaurant payable, accrued vacation and employee-related expenses, and the timing of invoices and payments to vendors; and

- decrease in prepaids and other assets of $3.5 million primarily due to the collection of non-trade receivables of $6.5 million, offset by a $3.0 million increase in prepayments and other assets.

We generated $43.7 million of cash in operating activities in the six months ended June 30, 2015, primarily resulting from our net loss of $2.6 million, which was offset by non-cash depreciation and amortization of $14.1 million, non-cash stock-based compensation expense of $29.2 million, and non-cash provision for doubtful accounts of $6.1 million. In addition, significant changes in our operating assets and liabilities resulted from the following:

- increase in accounts receivable of $7.9 million due to an increase in billings for local advertising plans, as well as the timing of payments from these customers;

- increase in accounts payable, accrued expenses and other liabilities of $15.6 million related to the growth in our business, increase in Eat24 restaurant payable, accrued vacation and employee-related expenses, and the timing of invoices and payments to vendors; and

- increase in prepaids and other assets of $7.1 million relating to the increase in prepaid licenses and deferred tax benefits.

Investing Activities. Our primary investing activities in the six months ended June 30, 2016 consisted of purchases of marketable securities, purchases of property and equipment to support the ongoing build out of our leasehold improvements for our new facilities in San Francisco and other locations, the purchase of technology hardware to support our growth in headcount and software to support website and mobile app

development, website operations and our corporate infrastructure. Purchases of property, equipment and software may vary from period to period due to the timing of the expansion of our offices, operations and website and internal-use software and development. We expect to continue to invest in property, equipment and software during the remainder of 2016.

We used $29.7 million of cash in investing activities during the six months ended June 30, 2016. Cash used in investing activities primarily related to purchases of marketable securities of $161.9 million, an increase in expenditures related to website and internally developed software of $7.0 million and purchases of property, equipment and software of $12.4 million to support the growth in our business. In addition, as part of our lease agreements for additional office space, we were obligated to deliver additional letters of credit, which resulted in an increase of $0.8 million in restricted cash. Cash used in investing was offset by $152.5 million of maturities of investment securities held-to-maturity.

We used $126.1 million of cash in investing activities during the six months ended June 30, 2015. Cash used in investing activities primarily related to the $73.4 million cash portion of the purchase price of Eat24, purchases of marketable securities of $93.9 million, an increase in expenditures related to website and internally developed software of $6.0 million and purchases of property, equipment and software of $18.1 million to support our growth in the business. Cash used in investing was offset by $63.9 million of maturities of investment securities held-to-maturity and the release of restrictions on cash of $1.7 million.

Financing Activities. During the six months ended June 30, 2016, we generated $7.9 million from financing activities, primarily due to $3.4 million in net proceeds from the issuance of common stock upon the exercise of stock options and $4.5 million in net proceeds from the sale of shares of the Company s common stock under our ESPP.

During the six months ended June 30, 2015, we generated $17.2 million in financing activities, primarily due to $8.5 million in net proceeds from the issuance of common stock upon the exercise of stock options, $5.1 million in net proceeds from the sale of shares of the Company s common stock under our ESPP and $4.0 million in excess tax benefit from stock-based award activity.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements in 2015 or in the first six months of 2016.

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2016 to 2025. The terms of the lease agreements provide for rental payments on a graduated basis. We recognize rent expense on a straight-line basis over the lease periods. We do not have any debt or material capital lease obligations, and all of our property, equipment and software have been purchased with cash. As of June 30, 2016, we had no material long-term purchase obligations outstanding with vendors or third parties other than obligations related to the fit out of certain leasehold properties. As of June 30, 2016, the following table summarizes our future minimum payments under non-cancelable operating leases and purchase obligations for equipment and office facilities:

	Payments Due by Period				
	Total	Less Than 1 Year	1 3 Years	3 5 Years	More Than 5 Years
	(in thousands)				
Operating lease obligations	$ 327,364	$ 39,739	$ 133,866	$ 76,741	$ 77,018
Purchase obligations	$ 50,222	$ 21,405	$ 28,817	$ -	$ -

The contractual commitment amounts in the table above are associated with binding agreements and do not include obligations under contracts that we can cancel without a significant penalty. In addition, as of June 30, 2016, our total liability for uncertain tax positions was $0.6 million of the total unrecognized benefit of $5.8 million. We are not reasonably able to estimate the timing of future cash flow related to this liability. As a result, this amount is not included in the contractual obligations table above.

We have subleased certain office facilities under operating lease agreements that expire in 2021. The terms of these lease agreements provide for rental receipts on a graduated basis. We recognize sublease rentals on a straight-line basis over the lease periods reflected as a reduction in rental expense. As of June 30, 2016, our future minimum rental receipts to be received under non-cancelable subleases were $9.2 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of business. These risks include primarily interest rate, foreign exchange risks and inflation.

Interest Rate Fluctuation

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk.

Our cash and cash equivalents consist of cash and money market funds. We do not have any long-term borrowings. Because our cash and cash equivalents have a relatively short maturity, their fair value is relatively insensitive to interest rate changes. We believe a hypothetical 10% increase in the interest rates as of June 30, 2016 would not have a material impact on our cash and cash equivalents portfolio.

Our marketable securities are comprised of fixed-rate debt securities issued by U.S. corporations, U.S. government agencies and the U.S. Treasury; as such, their fair value may be affected by fluctuations in interest rates in the broader economy. As we have both the ability and intent to hold these securities to maturity, such fluctuations would have no impact on our results of operations.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally in the British pound sterling, Canadian dollar and the Euro. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Although we have experienced and will continue to experience fluctuations in net income (loss) as a result of transaction gains (losses), net related to revaluing certain cash balances, trade accounts receivable balances and intercompany balances that are denominated in currencies other than the U.S. dollar, we believe a hypothetical 10% strengthening/(weakening) of the U.S. dollar against the British pound sterling, either alone or in combination with a hypothetical 10% strengthening/(weakening) of the U.S. dollar against the Euro and Canadian dollar, would not have a material impact on our results of operations. In the event our foreign sales and expenses increase as a proportion of our overall sales and expenses, our operating results may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk, though we may in the future. It is difficult to predict the impact hedging activities would have on our results of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by the collusion of two or more people or by management override of controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In August 2014, two putative class action lawsuits alleging violations of federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants us and certain of our officers. The lawsuits allege violations of the Exchange Act by us and our officers for allegedly making materially false and misleading statements regarding our business and operations between October 29, 2013 and April 3, 2014. These cases were subsequently consolidated and, in January 2015, the plaintiffs filed a consolidated complaint seeking unspecified monetary damages and other relief. Following the court s dismissal of the consolidated complaint on April 21, 2015, the plaintiffs filed a first amended complaint on May 21, 2015. On November 24, 2015, the court dismissed the first amended complaint with prejudice, and entered judgment in our favor on December 28, 2015. The plaintiffs have appealed this judgment to the U.S. Court of Appeals for the Ninth Circuit.

On April 23, 2015, a putative class action lawsuit was filed by former Eat24 employees in the Superior Court of California for San Francisco County, naming as defendants us and Eat24. The lawsuit asserts that we failed to permit meal and rest periods for certain current and former employees working as Eat24 customer support specialists, and alleges violations of the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages in an unspecified amount and injunctive relief. On May 29, 2015, plaintiffs filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, we reached a preliminary agreement to settle this matter for payments in the aggregate amount of up to approximately $0.6 million, which the court preliminarily approved on June 27, 2016. The settlement is currently awaiting final court approval.

On June 24, 2015, a former Eat24 sales employee filed a lawsuit, on behalf of herself and a putative class of current and former Eat24 sales employees, against Eat24 in the Superior Court of California for San Francisco County. The lawsuit alleges that Eat24 failed to pay required wages, including overtime wages, allow meal and rest periods and maintain proper records, and asserts causes of action under the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiff seeks monetary damages and penalties in unspecified amounts, as well as injunctive relief. On August 3, 2015, the plaintiff filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act. In January 2016, we reached a preliminary agreement to settle this matter for payments in the aggregate amount of up to approximately $0.2 million. Once finalized, the settlement will be subject to court approval.

In addition, we are subject to legal proceedings arising in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently do not believe that the final outcome of any of these matters will have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

***If we are unable to increase traffic to our mobile app and website, or user engagement on our platform declines, our revenue, business and operating results may be harmed.**

We derive substantially all of our revenue from the sale of impression- and click-based advertising. Because traffic to our platform determines the number of ads we are able to show, affects the value of those ads to businesses and influences the content creation that drives further traffic, slower traffic growth rates may harm our business and financial results. As a result, our ability to grow our business depends on our ability to increase traffic to and user engagement on our platform. Our traffic could be adversely affected by factors including:

Reliance on Internet Search Engines. As discussed in greater detail below, we rely on Internet search engines to drive traffic to our platform, including our mobile app. However, the display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our direct control, and may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our platform may not be prominent enough to drive traffic to our platform, and we may not be in a position to influence the results. Although Internet search engine results have allowed us to attract a large audience with low organic traffic acquisition costs to date, if they fail to drive sufficient traffic to our platform in the future, we may need to increase our marketing expenses, which could harm our operating results.

Increasing Competition. The market for information regarding local businesses is intensely competitive and rapidly changing. If the popularity, usefulness, ease of use, performance and reliability of our products and services do not compare favorably to those of our competitors, traffic may decline.

Review Concentration. Our restaurant and shopping categories together accounted for approximately 40% of the businesses that had been reviewed on our platform and approximately 57% of the cumulative reviews as of June 30, 2016. If the high concentration of reviews in these categories generates a perception that our platform is primarily limited to these categories, traffic may not increase or may decline.

Our Recommendation Software. If our automated software does not recommend helpful content or recommends unhelpful content, consumers may reduce or stop their use of our platform. While we have designed our technology to avoid recommending content that we believe to be unreliable or otherwise unhelpful, we cannot guarantee that our efforts will be successful.

Content Scraping. From time to time, other companies copy information from our platform without our permission, through website scraping, robots or other means, and publish or aggregate it with other information for their own benefit. This may make them more competitive and may decrease the likelihood that consumers will visit our platform to find the local businesses and information they seek. Though we strive to detect and prevent this third-party conduct, we may not be able to detect it in a timely manner and, even if we could, may not be able to prevent it. In some cases, particularly in the case of third parties operating outside of the United States, our available remedies may be inadequate to protect us against such conduct.

Macroeconomic Conditions. Consumer purchases of discretionary items generally decline during recessions and other periods in which disposable income is adversely affected. As a result, adverse economic conditions may impact consumer spending, particularly with respect to local businesses, which in turn could adversely impact the number of consumers visiting our platform.

Internet Access. The adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, including laws impacting Internet neutrality, could decrease the demand for our services. Similarly, any actions by companies that provide Internet access that degrade, disrupt or increase the cost of user access to our platform could undermine our operations and result in the loss of traffic.

We also anticipate that our traffic growth rate will continue to slow over time, and potentially decrease in certain periods, as our business matures and we achieve higher penetration rates. In particular, the number of major geographic markets, especially within the United States, that we have not yet entered is declining; further expansion in smaller markets may not yield similar results or sustain our growth. That our traffic growth has slowed in recent quarters even as we have expanded our operations is a reflection of this trend. As our traffic growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement on our platform. This dependence may increase as the portion of our revenue derived from performance-based advertising increases. A number of factors may negatively affect our user engagement, including if:

users engage with other products, services or activities as an alternative to our platform;

there is a decrease in the perceived quality of the content contributed by our users;

we fail to introduce new and improved products or features, or we introduce new products or features that do not effectively address consumer needs or otherwise alienate consumers;

technical or other problems negatively impact the availability and reliability of our platform or otherwise affect the user experience;

users have difficulty installing, updating or otherwise accessing our platform as a result of actions by us or third parties that we rely on to distribute our products;

users believe that their experience is diminished as a result of the decisions we make with respect to the frequency, relevance and prominence of the advertising we display; and

we do not maintain our brand image or our reputation is damaged.

Consumers are increasingly using mobile devices to access online services. If our mobile platform and mobile advertising products are not compelling, or if we are unable to operate effectively on mobile devices, our business could be adversely affected.

The number of people who access information about local businesses through mobile devices, including smartphones, tablets and handheld computers, has increased dramatically over the past few years and is expected to continue to increase. Although many consumers access our platform both on their mobile devices and through personal computers, we have seen substantial growth in mobile usage. We anticipate that growth in use of our mobile platform will be the driver of our growth for the foreseeable future and that usage through personal computers may continue to decline worldwide. As a result, we must continue to drive adoption of and user engagement on our mobile platform, and our mobile app in particular. If we are unable to drive continued adoption of and engagement on our mobile app, our business may be harmed and we may be unable to decrease our reliance on traffic from Google and other search engines.

In order to attract and retain engaged users of our mobile platform, the mobile products and services we introduce must be compelling. However, the ways in which users engage with our platform and consume content has changed over time, and we expect it will continue to do so as users increasingly engage via mobile. This may make it more difficult to develop mobile products that consumers find useful or provide them with the information they seek, and may also negatively affect our content if users do not continue to contribute high quality content on their mobile devices. In addition, building an engaged base of mobile users may also be complicated by the frequency with which users change or upgrade their mobile services. In the event users choose mobile devices that do not already include or support our mobile app or do not install our mobile app when they change or upgrade their devices, our traffic and user engagement may be harmed.

Our success is also dependent on the interoperability of our mobile products with a range of mobile technologies, systems, networks and standards that we do not control, such as mobile operating systems like Android and iOS. We may not be successful in developing products that operate effectively with these technologies, systems, networks and standards or in creating, maintaining and developing relationships with key participants in the mobile industry, some of which may be our competitors. Any changes that degrade the functionality of our mobile products, give preferential treatment to competitive products or prevent us from delivering advertising could adversely affect mobile usage and monetization. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing products for these alternative devices and platforms, and we may need to devote significant resources to the creation, support and maintenance of such products. If we experience difficulties in the future integrating our mobile app into mobile devices, or we face increased costs to distribute our mobile app, our user growth and operating results could be harmed.

In addition, the mobile market remains a rapidly evolving market with which we have limited experience. As new devices and platforms are released, users may begin consuming content in a manner that is more difficult to monetize. Similarly, as mobile advertising products develop, demand may increase for products that we do not offer or that may alienate our user base. Although we currently deliver ads on both our mobile app and mobile website, with 63% of ad clicks delivered on mobile in the three months ended June 30, 2016, our continued success depends on our efforts to innovate and introduce enhanced mobile solutions. If our efforts to develop compelling mobile advertising products are not successful as a result of, for example, the difficulties detailed above advertisers may stop or reduce their advertising with us. At the same time, we must balance advertiser demands against our commitment to prioritizing the quality of user experience over short-term monetization. For example, we phased out our brand advertising products in part because demand in the brand advertising market has shifted toward products disruptive to the consumer experience, such as video ads. If we are not able to balance these competing considerations successfully, we may not be able to generate meaningful revenue from our mobile products despite the expected growth in mobile usage.

We rely on Internet search engines and application marketplaces to drive traffic to our platform, certain providers of which offer products and services that compete directly with our products. If links to our applications and website are not displayed prominently, traffic to our platform could decline and our business would be adversely affected.

Our success depends in part on our ability to attract users through unpaid Internet search results on search engines like Google and Bing. The number of users we attract from search engines to our website (including our mobile website) is due in large part to how and where information from and links to our website are displayed on search engine result pages. The display, including rankings, of unpaid search results can be affected by a number of factors, many of which are not in our direct control, and may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our platform may not be prominent enough to drive traffic to our platform, and we may not know how or otherwise be in a position to influence the results. In 2014, for example, Google made changes to its algorithms and methodologies that may be contributing to the slowing of our traffic growth rate and the decline in traffic in the fourth quarter of 2014. Google also announced that, beginning in the fourth quarter of 2015, the rankings of sites showing certain types of app install interstitials could be penalized on its mobile search results pages. While we believe the type of interstitial we currently use will not be penalized, the parameters of Google s policy may change from time to time, be poorly defined and inconsistently interpreted. As a result, Google may unexpectedly penalize our app install interstitials, which may cause links to our mobile website to be featured less prominently in Google s mobile search results page, and traffic to both our mobile website and mobile app may be harmed as a result. We cannot predict the long-term impact of these changes.

Although traffic to our mobile app is less reliant on search results than traffic to our website, growth in mobile device usage may not decrease our overall reliance on search results if mobile users use our mobile website rather than our mobile app. In fact, consumers increasing use of mobile devices may exacerbate the risks associated with how and where our website is displayed in search results because mobile device screens are smaller than personal computer screens and therefore display fewer search results.

We also rely on application marketplaces, such as Apple s App Store and Google s Play, to drive downloads of our applications. In the future, Apple, Google or other marketplace operators may make changes to their marketplaces that make access to our products more difficult. For example, our applications may receive unfavorable treatment compared to the promotion and placement of competing applications, such as the order in which they appear within marketplaces. Similarly, if problems arise in our relationships with providers of application marketplaces, our user growth could be harmed.

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In some instances, search engine companies and application marketplaces may change their displays or rankings in order to promote their own competing products or services or the products or services of one or more of our competitors. For example, Google has integrated its local product offering, Google + Local, with certain of its products, including search. The resulting promotion of Google s own competing products in its web search results has negatively impacted the search ranking of our website. Because Google in particular is the most significant source of traffic to our website, accounting for more than half of the visits to our website during the three months ended June 30, 2016, our success depends on our ability to maintain a prominent presence in search results for queries regarding local businesses on Google. As a result, Google s promotion of its own competing products, or similar actions by Google in the future that have the effect of reducing our prominence or ranking on its search results, could have a substantial negative effect on our business and results of operations.

If our users fail to contribute high quality content or their contributions are not valuable to other users, our traffic and revenue could be negatively affected.

Our success in attracting users depends on our ability to provide consumers with the information they seek, which in turn depends on the quantity and quality of the content contributed by our users. We believe that as the depth and breadth of the content on our platform grow, our platform will become more widely known and relevant to broader audiences, thereby attracting new consumers to our service. However, if we are unable to provide consumers with the information they seek, they may stop or reduce their use of our platform, and traffic to our website and on our mobile app will decline. If our user traffic declines, our advertisers may stop or reduce the amount of advertising on our platform and our business could be harmed. Our ability to provide consumers with valuable content may be harmed:

- if our users do not contribute content that is helpful or reliable;
- if our users remove content they previously submitted;
- as a result of user concerns that they may be harassed or sued by the businesses they review, instances of which have occurred in the past and may occur again in the future; and
- as users increasingly contribute content through our mobile platform, because content contributed through mobile devices tends to be shorter than desktop contributions.

Similarly, if robots, shills or other spam accounts are able to contribute a significant amount of recommended content, or consumers perceive a significant amount of our recommended content to be from such accounts, our traffic and revenue could be negatively affected. Although we do not believe content from these sources has had a material impact to date, if our automated software recommends a substantial amount of such content in the future, our ability to provide high quality content would be harmed and the consumer trust essential to our success could be undermined.

In addition, if our platform does not provide current information about local businesses or users do not perceive reviews on our platform as relevant, our brand and business could be harmed. For example, we do not phase out or remove dated reviews, and consumers may view older reviews as less relevant, helpful or reliable than more recent reviews.

If we fail to maintain and expand our base of advertisers, our revenue and our business will be harmed.

Our ability to grow our business depends on our ability to maintain and expand our advertiser base. To do so, we must convince existing and prospective advertisers alike that our advertising products offer a material benefit and can generate a competitive return relative to other alternatives. Our ability to do so depends on factors including:

- *Acceptance of Online Advertising*. We believe that the continued growth and acceptance of our online advertising products will depend on the perceived effectiveness and acceptance of online advertising models generally, which is outside of our control. For example, if ad-blocking programs that affect the delivery of online advertising gain further visibility or traction, the perceived value of online advertising, and that of our advertising products in turn, may be harmed. Many advertisers still have limited experience with online advertising and, as a result, may continue to devote significant portions of their advertising budgets to traditional, offline advertising media, such as newspapers or print yellow pages directories.
- *Competitiveness of Our Products*. We must deliver ads in an effective manner. We may be unable to attract new advertisers if our products are not compelling or we fail to innovate and introduce enhanced products meeting advertiser expectations. However, we must balance advertiser demands against our commitment to providing a good user experience. For example, we phased out our brand advertising products in part because demand in the brand advertising market has shifted toward products disruptive to the consumer experience. In addition, we must provide accurate analytics and measurement solutions that demonstrate the value of our advertising products compared to

those of our competitors. Similarly, if the pricing of our advertising products does not compare favorably to those of our competitors, advertisers may reduce their advertising with us or choose not to advertise with us at all. The widespread adoption of any technologies that make it more difficult for us to deliver ads, such as ad-blocking programs, could also decrease our value proposition to businesses and reduce demand for our products.

Traffic Quality. The success of our advertising program depends on delivering positive results to our advertising customers. Low-quality or invalid traffic, such as robots, spiders and the mechanical automation of clicking, may be detrimental to our relationships with advertisers and could adversely affect our advertising pricing and revenue. If we fail to detect and prevent click fraud or other invalid clicks on ads, the affected advertisers may experience or perceive a reduced return on their investments, which could lead to dissatisfaction with our products, refusals to pay, refund demands or withdrawal of future business.

Perception of Our Platform. Our ability to compete effectively for advertiser budgets depends on our reputation and perceptions regarding our platform. For example, we may face challenges expanding our advertiser base in businesses outside the restaurant and shopping categories if businesses believe that consumers perceive the utility of our platform to be limited to finding businesses in these categories. The ratings and reviews that businesses receive from our users may also affect their advertising decisions. Favorable ratings and reviews, on the one hand, could be perceived as obviating the need to advertise. Unfavorable ratings and reviews, on the other, could discourage businesses from advertising to an audience that they perceive as hostile or cause them to form a negative opinion of our products and user base.

Macroeconomic Conditions. Adverse macroeconomic conditions can have a negative impact on the demand for advertising, particularly with respect to online advertising products. We rely heavily on small and medium-sized businesses, which often have limited advertising budgets and may be disproportionately affected by economic downturns. In addition, such business may view online advertising as lower priority than offline advertising.

As is typical in our industry, our advertisers generally do not have long-term obligations to purchase our products. Their decisions to renew depend on the degree of satisfaction with our products as well as a number of factors that are outside of our control, including their ability to continue their operations and spending levels. Small and medium-sized local businesses in particular have historically experienced high failure rates. As a result, we may experience attrition in our advertisers in the ordinary course of business resulting from several factors, including losses to competitors, declining advertising budgets, closures and bankruptcies. In addition, our recent phase out of our brand advertising products, which had been an additional source of revenue for us, may make us more susceptible to fluctuations and attrition from small and medium-sized businesses. To grow our business, we must continually add new advertisers to replace advertisers who choose not to renew their advertising, or who go out of business or otherwise fail to fulfill their advertising contracts with us, which we may not be able to do.

If we fail to further develop our markets effectively, including our international markets where we have limited operating experience and may be subject to increased risks, our revenue and business will be harmed.

We intend to further develop our operations both domestically and abroad. Our current and future plans will require significant resources and management attention, and the returns on such investments may not be achieved for several years, or at all. For example, our plans include efforts to further develop and tailor our products and marketing to local needs in certain international communities, where we have limited operating experience and familiarity with the local competitive environments.

Our communities in many of the largest markets in the United States are in a relatively late stage of development, and further development of smaller markets may not yield similar results. As a result, our continued growth depends on our ability to successfully develop our international communities and operations. We have a limited operating history in international markets, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful. If we are not able to develop our international markets as we expect, or if we fail to address the needs of those markets, our business will be harmed. Expanding our international operations may also subject us to risks that we have not faced before or that increase our exposure to risks that we currently face, including risks associated with:

- operating a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, regulatory systems and commercial infrastructures;

- recruiting and retaining qualified, multi-lingual employees, including sales personnel;

- increased competition from local websites and guides, and potential preferences by local populations for local providers;

- potentially lower levels of advertiser demand and user engagement;

our ability to achieve prominent display of our content in unpaid search results, which may be more difficult in newer markets where we may have less content and more competitors than in more established markets;

providing solutions in different languages for different cultures, which may require that we modify our solutions and features to ensure that they are culturally relevant in different countries;

compliance with applicable foreign laws and regulations, including different privacy, censorship and liability standards;

the enforceability of our intellectual property rights;

credit risk and higher levels of payment fraud;

currency exchange rate fluctuations;

compliance with anti-bribery laws, including but not limited to the Foreign Corrupt Practices Act and the U.K. Bribery Act;

foreign exchange controls that might prevent us from repatriating cash earned outside the United States;

political and economic instability in some countries;

double taxation of our international earnings and potential adverse tax consequences due to changes in the tax laws of the United States or foreign jurisdictions in which we operate; and

higher costs of doing business internationally.

We may acquire other companies or technologies, which could divert our management s attention, result in additional dilution to our stockholders and otherwise disrupt our operations and harm our operating results. We may also be unable to realize the expected benefits and synergies of any acquisitions.

Our success will depend, in part, on our ability to expand our product offerings and grow our business in response to changing technologies, user and advertiser demands and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses or technologies rather than through internal development. For example, in February 2015, we acquired Eat24 to obtain an online food ordering solution. We have limited experience as a company in the complex process of acquiring other businesses and technologies. The pursuit of potential future acquisitions may divert the attention of management and cause us to incur expenses in identifying, investigating and pursuing acquisitions, whether or not they are consummated.

Acquisitions that are consummated could result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations. The incurrence of debt in particular could result in increased fixed obligations or include covenants or other restrictions that would impede our ability to manage our operations. In addition, any acquisitions we announce could be viewed negatively by users, businesses or investors. We may also discover liabilities or deficiencies associated with the companies or assets we acquire that we did not identify in advance, which may result in significant unanticipated costs. For example, in 2015, two lawsuits were filed against us by former Eat24 employees alleging that Eat24 failed to comply with certain labor laws prior to the acquisition. The effectiveness of our due diligence review and our ability to evaluate the results of such due diligence are dependent upon the accuracy and completeness of statements and disclosures made by the companies we acquire or their representatives, as well as the limited amount of time in which acquisitions are executed. We may also fail to accurately forecast the financial impact of an acquisition transaction, including tax and accounting charges.

In order to realize the expected benefits and synergies of any acquisition that is consummated, we must meet a number of significant challenges that may create unforeseen operating difficulties and expenditures, including:

integrating operations, strategies, services, sites and technologies of the acquired company;

managing the combined business effectively;

retaining and assimilating the employees of the acquired company;

retaining existing customers and strategic partners and minimizing disruption to existing relationships as a result of any integration of new personnel;

difficulties in the assimilation of corporate cultures;

implementing and retaining uniform standards, controls, procedures, policies and information systems; and

addressing risks related to the business of the acquired company that may continue to impact the business following the acquisition.

Any inability to integrate services, sites and technologies, operations or personnel in an efficient and timely manner could harm our results of operations. Transition activities are complex and require significant time and resources, and we may not manage the process successfully, particularly if we are managing multiple integrations concurrently. Our ability to integrate complex acquisitions is unproven, particularly with respect to companies that have significant operations or that develop products with which we do not have prior experience. For example, Eat24 was larger and more complex than companies we had previously acquired. In addition, Eat24 operates a business that is new to us, and we did not have significant experience or structure in place to support this business prior to the acquisition. We plan to invest resources to support this and any future acquisitions, which will result in ongoing operating expenses and may divert resources and management attention from other areas of our business. We cannot assure you that these investments will be successful. Even if we are able to integrate the operations of any acquired company successfully, these integrations may not result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from the combination of the businesses, or we may not achieve these benefits within a reasonable period of time.

We rely on third-party service providers and strategic partners for many aspects of our business, and any failure to maintain these relationships could harm our business.

We rely on relationships with various third parties to grow our business, including strategic partners and technology and content providers. For example, we rely on third parties for data about local businesses, mapping functionality, payment processing and administrative software solutions. We also rely on partners for various transactions available through the Yelp Platform, including Booker for spa and salon appointments, Locu for menu data and BloomNation for flower deliveries, among others. Identifying, negotiating and maintaining relationships with third parties require significant time and resources, as does integrating their data, services and technologies onto our platform. It is possible that these third parties may not be able to devote the resources we expect to the relationships. We may also have competing interests and obligations with respect to our partners in particular, which may make it difficult to maintain, grow or maximize the benefit for each partnership. For example, our entry into the online reservations space with SeatMe and Yelp Reservations put us in competition with OpenTable, which led to the end of our partnership in 2015. Our focus on integrating additional partners to expand the Yelp Platform may exacerbate this risk.

If our relationships with our partners and providers deteriorate, we could suffer increased costs and delays in our ability to provide consumers and advertisers with content or similar services. We have had, and may in the future have, disagreements or disputes with our partners about our respective contractual obligations, which could result in legal proceedings or negatively affect our brand and reputation. In addition, we exercise limited control over our third-party partners and vendors, which makes us vulnerable to any errors, interruptions or delays in their operations. If these third parties experience any service disruptions, financial distress or other business disruption, or difficulties meeting our requirements or standards, it could make it difficult for us to operate some aspects of our business. For example, we rely on a single supplier to process payments of all transactions made on the Yelp Platform and for purchases of Yelp Deals and Gift Certificates. Any disruption or problems with this supplier or its services could have an adverse effect on our reputation, results of operations and financial results. Similarly, upon expiration or termination of any of our agreements with third-party providers, we may not be able to replace the services provided to us in a timely manner or on terms that are favorable to us, if at all, and a transition from one partner or provider to another could subject us to operational delays and inefficiencies.

We face competition for both local business directory traffic and advertiser spending, and expect competition to increase in the future.

The market for information regarding local businesses and advertising is intensely competitive and rapidly changing. With the emergence of new technologies and market entrants, competition is likely to intensify in the future. We compete for consumer traffic with traditional, offline local business guides and directories, Internet search engines, such as Google and Bing, review and social media websites and various other online service providers. These competitors may include regional review websites that may have strong positions in particular countries. We also compete with these companies for the content of contributors, and may experience decreases in both traffic and user engagement if our competitors offer more compelling environments.

Although advertisers are allocating an increasing amount of their overall marketing budgets to online advertising, such spending lags behind growth in Internet and mobile usage generally, making the market for online advertising intensely competitive. We compete for a share of local businesses overall advertising budgets with traditional, offline media companies and service providers, as well as Internet marketing providers. Many of these companies have established marketing relationships with local businesses, and certain of our online competitors have substantial proprietary advertising inventory and web traffic that may provide a significant competitive advantage.

Certain competitors could use strong or dominant positions in one or more markets to gain competitive advantage against us in areas in which we operate, including by: integrating review platforms or features into products they control, such as search engines, web browsers or mobile device operating systems; making acquisitions; changing their unpaid search result rankings to promote their own products; refusing to enter into or renew licenses on which we depend; limiting or denying our access to advertising measurement or delivery systems; limiting our ability to target or measure the effectiveness of ads; or making access to our platform more difficult. This risk may be exacerbated by the trend in recent years toward consolidation among online media companies, potentially allowing our larger competitors to offer bundled or integrated products

that feature alternatives to our platform.

Our competitors may also enjoy competitive advantages, such as greater name recognition, longer operating histories, substantially greater market share, large existing user bases and substantially greater financial, technical and other resources. Traditional television and print media companies, for example, have large established audiences and more traditional and widely accepted advertising products. These companies may use these advantages to offer products similar to ours at a lower price, develop different products to compete with our current solutions and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements. In particular, major Internet companies, such as Google, Facebook, Yahoo! and Microsoft, may be more successful than us in developing and marketing online advertising offerings directly to local businesses, and may leverage their relationships based on other products or services to gain additional share of advertising budgets.

To compete effectively, we must continue to invest significant resources in product development to enhance user experience and engagement, as well as sales and marketing to expand our base of advertisers. However, there can be no assurance that we will be able to compete successfully for users and advertisers against existing or new competitors, and failure to do so could result in loss of existing users, reduced revenue, increased marketing expenses or diminished brand strength, any of which could harm our business.

Our business depends on a strong brand, and any failure to maintain, protect and enhance our brand would hurt our ability to retain and expand our base of users and advertisers, as well as our ability to increase the frequency with which they use our products.

We have developed a strong brand that we believe has contributed significantly to the success of our business. Maintaining, protecting and enhancing the Yelp brand are critical to expanding our base of users and advertisers and increasing the frequency with which they use our solutions. Our ability to do so will depend largely on our ability to maintain consumer trust in our products and in the quality and integrity of the user content and other information found on our platform, which we may not do successfully. We dedicate significant resources to these goals, primarily through our automated recommendation software, sting operations targeting the buying and selling of reviews, our consumer alerts program, coordination with consumer protection agencies and law enforcement, and, in certain egregious cases, taking legal action against business we believe to be engaged in deceptive activities. We also endeavor to remove content from our platform that violates our terms of service.

Despite these efforts, we cannot guarantee that each of the 77.6 million reviews on our platform that have been recommended and that have not been removed as of June 30, 2016 is useful or reliable, or that consumers will trust the integrity of our content. For example, if our recommendation software does not recommend helpful content or recommends unhelpful content, consumers and businesses alike may stop or reduce their use of our platform and products. Some consumers and businesses have alternately expressed concern that our technology either recommends too many reviews, thereby recommending some reviews that may not be legitimate, or too few reviews, thereby not recommending some reviews that may be legitimate. If consumers do not believe our recommended reviews to be useful and reliable, they may seek other services to obtain the information for which they are looking, and may not return to our platform as often in the future, or at all. This would negatively impact our ability to retain and attract users and advertisers and the frequency with which they use our platform.

Consumers may also believe that the reviews, photos and other user content contributed by our Community Managers or other employees are influenced by our advertising relationships or are otherwise biased. Although we take steps to prevent this from occurring by, for example, identifying Community Managers as Yelp employees on their account profile pages and explaining their role on our platform, the designation does not appear on the page for each review contributed by the Community Manager and we may not be successful in our efforts to maintain consumer trust. Similarly, the actions of our partners may affect our brand if users do not have a positive experience on the Yelp Platform. If others misuse our brand or pass themselves off as being endorsed or affiliated with us, it could harm our reputation and our business could suffer. For example, we have encountered instances of reputation management companies falsely representing themselves as being affiliated with us when soliciting customers; this practice could be contributing to rumors that business owners can pay to manipulate reviews, rankings and ratings. Our website and mobile app also serve as a platform for expression by our users, and third parties or the public at large may also attribute the political or other sentiments expressed by users on our platform to us, which could harm our reputation.

In addition, negative publicity about our company, including our technology, sales practices, personnel, customer service, litigation, strategic plans or political activities could diminish confidence in our brand and the use of our products. Certain media outlets have previously reported allegations that we manipulate our reviews, rankings and ratings in favor of our advertisers and against non-advertisers. In order to demonstrate that our automated recommendation software applies in a nondiscriminatory manner to both advertisers and non-advertisers, we allow users to access reviews that are both recommended and not recommended by our software. We have also allowed businesses to comment publicly on reviews so that they can provide a response. Nevertheless, our reputation and brand, the traffic to our website and mobile app and our business may suffer if negative publicity about our company persists or if users otherwise perceive that our content is manipulated or biased. Allegations and complaints regarding our business practices, and any resulting negative publicity, may also result in increased regulatory scrutiny of our company. In addition to requiring management time and attention, any regulatory inquiry or investigation could itself result in further negative publicity regardless of its merit or outcome.

Maintaining and enhancing our brand may also require us to make substantial investments, and these investments may not be successful. For example, our trademarks are an important element of our brand. We have faced in the past, and may face in the future, oppositions from third parties to our applications to register key trademarks in foreign jurisdictions in which we expect to expand our presence. If we are unsuccessful in defending against these oppositions, our trademark applications may be denied. Whether or not our trademark applications are denied, third parties may claim that our trademarks infringe their rights. As a result, we could be forced to pay significant settlement costs or cease the use of these trademarks and associated elements of our brand in certain jurisdictions. Doing so could harm our brand recognition and adversely affect our business. If we fail to maintain and enhance our brand successfully, or if we incur excessive expenses in this effort, our business and financial results may be adversely affected.

If we fail to manage our growth effectively, our brand, results of operations and business could be harmed.

We have experienced rapid growth in our headcount and operations, including through our acquisitions of other businesses, such as Eat24 in February 2015, which places substantial demands on management and our operational infrastructure. Most of our employees have been with us for fewer than two years; to manage the expected growth of our operations, we will need to continue to increase the productivity of our current employees and hire, train and manage new employees. In particular, we intend to continue to make substantial investments in our engineering, sales and marketing and community management organizations. As a result, we must effectively integrate, develop and motivate a large number of new employees, including employees in international markets and from any acquired businesses, while maintaining the beneficial aspects of our company culture.

As our business matures, we make periodic changes and adjustments to our organization in response to various internal and external considerations, including market opportunities, the competitive landscape, new and enhanced products, acquisitions, sales performance, increases in headcount and cost levels. In some instances, these changes have resulted in a temporary lack of focus and reduced productivity, which may occur again in connection with any future changes to our organization and may negatively affect our results of operations. Similarly, any significant changes to the way we structure compensation of our sales organization may be disruptive and may affect our ability to generate revenue.

To manage our growth, we may need to improve our operational, financial and management systems and processes, which may require significant capital expenditures and allocation of valuable management and employee resources, as well as subject us to the risk of over-expanding our operating infrastructure. However, if we fail to scale our operations successfully and increase productivity, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

We make the consumer experience our highest priority. Our dedication to making decisions based primarily on the best interests of consumers may cause us to forgo short-term gains and advertising revenue.

We base many of our decisions on the best interests of the consumers who use our platform. In the past, we have forgone, and we may in the future forgo, certain expansion or revenue opportunities that we do not believe are in the best interests of consumers, even if such decisions negatively impact our results of operations in the short term. For example, we phased out our brand advertising products in part because demand in the brand advertising market has shifted toward products disruptive to the consumer experience, such as video ads. Our approach of putting consumers first may negatively impact our relationship with existing or prospective advertisers. For example, unless we believe that a review violates our terms of service, such as reviews that contain hate speech or bigotry, we will allow the review to remain on our platform, even if the business disputes its accuracy. Certain advertisers may therefore perceive us as an impediment to their success as a result of negative reviews and ratings. This practice could result in a loss of advertisers, which in turn could harm our results of operations. However, we believe that this approach has been essential to our success in attracting users and increasing the frequency with which they use our platform. As a result, we believe this approach has served the long-term interests of our company and our stockholders and will continue to do so in the future.

We rely on the performance of highly skilled personnel, and if we are unable to attract, retain and motivate well-qualified employees, our business could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our employees, including our senior management team, software engineers, marketing professionals and advertising sales staff. All of our officers and other U.S. employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. Any changes in our senior management team in particular may be disruptive to our business. If our senior management team, including any new hires that we may make, fails to work together effectively or execute our plans and strategies on a timely basis, our business could be harmed.

Our future also depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Identifying, recruiting, training and integrating new hires will require significant time, expense and attention, and qualified individuals are in high demand; as a result, we may incur significant costs to attract them before we can validate their productivity. Volatility in the price of our Class A common

stock may make it more difficult or costly in the future to use equity compensation to motivate, incentivize and retain our employees. If we fail to manage our hiring needs effectively, our efficiency and ability to meet our forecasts, as well as employee morale, productivity and retention, could suffer, and our business and operating results could be adversely affected.

Risks Related to Our Technology

Our business is dependent on the uninterrupted and proper operation of our technology and network infrastructure. Any significant disruption in our service could damage our reputation, result in a potential loss of users and engagement and adversely affect our results of operations.

It is important to our success that users in all geographies be able to access our platform at all times. We have previously experienced, and may experience in the future, service disruptions, outages and other performance problems. Such performance problems may be due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints due to an overwhelming number of users accessing our platform simultaneously. Our products and services are highly technical and complex, and may contain errors or vulnerabilities that could result in unanticipated downtime for our platform and harm to our reputation and business. Users may also use our products in unanticipated ways that may cause a disruption in service for other users attempting to access our platform. We may encounter such difficulties more frequently as we acquire companies and incorporate their technologies into our service. It may also become increasingly difficult to maintain and improve the availability of our platform, especially during peak usage times, as our products become more complex and our user traffic increases.

In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. If our platform is unavailable when users attempt to access it or it does not load as quickly as they expect, users may seek other services to obtain the information for which they are looking, and may not return to our platform as often in the future, or at all. This would negatively impact our ability to attract users and advertisers and increase the frequency with which they use our platform. We expect to continue to make significant investments to maintain and improve the availability of our platform and to enable rapid releases of new features and products. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

Our systems are also vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks and similar events. Our U.S. corporate offices and one of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. In addition, acts of terrorism, which may be targeted at metropolitan areas that have higher population densities than rural areas, could cause disruptions in our or our advertisers businesses or the economy as a whole. We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting the San Francisco Bay Area, and our business interruption insurance may be insufficient to compensate us for losses that may occur. Our disaster recovery program contemplates transitioning our platform and data to a backup center in the event of a catastrophe. Although this program is functional, if our primary data center shuts down, there will be a period of time that our services will remain shut down while the transition to the back-up data center takes place. During this time, our platform may be unavailable in whole or in part to our users.

If our security measures are compromised, or if our platform is subject to attacks that degrade or deny the ability of users to access our content, users may curtail or stop use of our platform.

Our platform involves the storage and transmission of user and business information, some of which may be private, and security breaches could expose us to a risk of loss of this information, which could result in potential liability and litigation. Computer viruses, break-ins, malware, phishing attacks, attempts to overload servers with denial-of-service or other attacks and similar disruptions from unauthorized use of computer systems have become more prevalent in our industry, have occurred on our systems in the past and are expected to occur periodically on our systems in the future. We may be a particularly compelling target for such attacks as a result of our brand recognition. User and business owner accounts and listing pages could be hacked, hijacked, altered or otherwise claimed or controlled by unauthorized persons. For example, we enable businesses to create free online accounts and claim the business listing pages for each of their business locations. Although we take steps to confirm that the person setting up the account is affiliated with the business, our verification systems could fail to confirm that such person is an authorized representative of the business, or mistakenly allow an unauthorized person to claim the business s listing page. In addition, we face risks associated with security breaches affecting our third-party partners and service providers. A security breach at any such third party could be perceived by consumers as a security breach of our systems and result in negative publicity, damage to our reputation and expose us to other losses.

Although none of the disruptions we have experienced to date have had a material effect on our business, any future disruptions could lead to interruptions, delays or website shutdowns, causing loss of critical data or the unauthorized disclosure or use of personally identifiable or other confidential information. Even if we experience no significant shutdown or no critical data is lost, obtained or misused in connection with an attack, the occurrence of such attack or the perception that we are vulnerable to such attacks may harm our reputation, our ability to retain existing users and our ability to attract new users. Although we have developed systems and processes that are designed to protect our data and prevent data loss and other security breaches, the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, often are not recognized until launched against a target or long after, and may originate from less regulated and more remote areas around the world. As a result, these preventative measures may not be adequate and we cannot assure you that they will provide absolute

security.

Any or all of these issues could negatively impact our ability to attract new users, deter current users from returning to our platform, cause existing or potential advertisers to cancel their contracts or subject us to third-party lawsuits or other liabilities. For example, we work with a third-party vendor to process credit card payments by users and businesses, and are subject to payment card association operating rules. Compliance with applicable operating rules will not necessarily prevent illegal or improper use of our payment systems, or the theft, loss or misuse of payment information, however. If our security measures fail to prevent fraudulent credit card transactions and protect payment information adequately as a result of employee error, malfeasance or otherwise, or we fail to comply with the applicable operating rules, we could be liable to the users and businesses for their losses, as well as the vendor under our agreement with it, and be subject to fines and higher transaction fees. In addition, government authorities could also initiate legal or regulatory actions against us in connection with such incidents, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices.

Some of our products contain open source software, which may pose particular risks to our proprietary software and solutions.

We use open source software in our products and will use open source software in the future. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software (which could include our proprietary source code), or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a negative effect on our business and operating results.

Failure to protect or enforce our intellectual property rights could harm our business and results of operations.

We regard the protection of our trade secrets, copyrights, trademarks and domain names as critical to our success. In particular, we must maintain, protect and enhance the Yelp brand. We pursue the registration of our domain names, trademarks and service marks in the United States and in certain jurisdictions abroad. We strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We typically enter into confidentiality and invention assignment agreements with our employees and contractors, as well as confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation or disclosure of our proprietary information or deter independent development of similar technologies by others.

Effective trade secret, copyright, trademark and domain name protection is expensive to develop and maintain, both in terms of initial and ongoing registration requirements and expenses and the costs of defending our rights. Seeking protection for our intellectual property, including trademarks and domain names, is an expensive process and may not be successful, and we may not do so in every location in which we operate. Litigation may become necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of proprietary rights claimed by others. For example, we may incur significant costs in enforcing our trademarks against those who attempt to imitate our Yelp brand. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business and operating results.

We may be unable to continue to use the domain names that we use in our business, or prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks.

We have registered domain names for the websites that we use in our business, such as Yelp.com. If we lose the ability to use a domain name, whether due to trademark claims, failure to renew the applicable registration or any other cause, we may be forced to market our products under a new domain name, which could cause us substantial harm or cause us to incur significant expense in order to purchase rights to the domain name in question. In addition, our competitors and others could attempt to capitalize on our brand recognition by using domain names similar to ours. Domain names similar to ours have been registered by others in the United States and elsewhere. We may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to or otherwise decrease the value of our brand or our trademarks or service marks. Protecting and enforcing our rights in our domain names may require litigation, which could result in substantial costs and diversion of management s attention.

Risks Related to Our Financial Statements and Tax Matters

We have incurred significant operating losses in the past, and we may not be able to generate sufficient revenue to regain profitability. Our recent growth rate will likely not be sustainable, and a failure to maintain an adequate growth rate will adversely affect our business and results of operations.

Since our inception, we have incurred significant operating losses and, as of June 30, 2016, we had an accumulated deficit of approximately $81 million. Although our revenues have grown rapidly in the last several years, increasing from $12.1 million in 2008 to $549.7 million in 2015, our revenue growth rate has declined in recent periods as a result of a variety of factors, including the maturation of our business and the gradual decline in the number of major geographic markets, especially within the United States, to which we have not already expanded. In addition, we incurred net losses in the year ended December 31, 2015 and in the first quarter of 2016. As a result, you should not rely on the revenue growth of any prior quarterly or annual period, or the net income we realized in 2014, as an indication of our future performance. Historically, our costs have increased each year and we expect our costs to increase in future periods as we continue to expend substantial financial resources on:

- sales and marketing;
- our technology infrastructure;
- product and feature development;
- domestic and international expansion efforts;
- strategic opportunities, including commercial relationships and acquisitions; and
- general administration, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. Our costs may also increase as we hire additional employees, particularly as a result of the significant competition that we face to attract and retain technical talent. Our expenses may grow faster than our revenue and may be greater than we anticipate in a particular period or over time. If we are unable to maintain adequate revenue growth and to manage our expenses, we may continue to incur significant losses in the future and may not be able to regain profitability.

We have a limited operating history in an evolving industry, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have a limited operating history in an evolving industry that may not develop as expected, if at all. As a result, our historical operating results may not be indicative of our future operating results, making it difficult to assess our future prospects. You should consider our business and prospects in light of the risks and difficulties we may encounter in this rapidly evolving industry, which we may not be able to address successfully. These risks and difficulties include our ability to, among other things:

- increase the number of users of our website and mobile app and the number of reviews and other content on our platform;
- attract and retain new advertising clients, many of which may have limited or no online advertising experience;
- forecast revenue and adjusted EBITDA accurately, which may be more difficult as we sell more performance-based advertising, as well as appropriately estimate and plan our expenses;
- continue to earn and preserve a reputation for providing meaningful and reliable reviews of local businesses;
- effectively monetize our mobile products as usage continues to migrate toward mobile devices;
- successfully compete with existing and future providers of other forms of offline and online advertising;
- successfully compete with other companies that are currently in, or may in the future enter, the business of providing information regarding local businesses;
- successfully manage our growth, including in international markets;
- successfully develop and deploy new features and products;

manage and integrate successfully any acquisitions of businesses, solutions or technologies, such as Eat24;

avoid interruptions or disruptions in our service or slower than expected load times;

develop a scalable, high-performance technology infrastructure that can efficiently and reliably handle increased usage globally, as well as the deployment of new features and products;

- hire, integrate and retain talented sales and other personnel;
- effectively manage rapid growth in our sales force, other personnel and operations; and
- effectively identify, engage and manage third-party partners and service providers.

If the demand for information regarding local businesses does not develop as we expect, or if we fail to address the needs of this demand, our business will be harmed. We may not be able to address successfully these risks and difficulties or others, including those described elsewhere in these risk factors. Failure to address these risks and difficulties adequately could harm our business and cause our operating results to suffer.

We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.

Our operating results could vary significantly from period to period as a result of a variety of factors, many of which may be outside of our control. This volatility increases the difficulty in predicting our future performance and means comparing our operating results on a period-to-period basis may not be meaningful. In addition to the other risk factors discussed in this section, factors that may contribute to the volatility of our operating results include:

- changes in the products we offer, such as our phase out of brand advertising products;
- changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;
- cyclicality and seasonality, which may become more pronounced as our growth rate slows;
- the effects of changes in search engine placement and prominence;
- the adoption of any laws or regulations that adversely affect the growth, popularity or use of the Internet, such as laws impacting Internet neutrality;
- the success of our sales and marketing efforts;
- costs associated with defending intellectual property infringement and other claims and related judgments or settlements;
- interruptions in service and any related impact on our reputation;
- the impact of fluctuations in currency exchange rates;
- changes in advertiser budgets or the market acceptance of online advertising solutions;
- changes in consumer behavior with respect to local businesses;
- changes in our tax rates or exposure to additional tax liabilities;
- the impact of worldwide economic conditions, including the resulting effect on consumer spending at local businesses and the level of advertising spending by local businesses; and
- the effects of natural or man-made catastrophic events.

Because we recognize most of the revenue from our advertising products over the term of an agreement, a significant downturn in our business may not be immediately reflected in our results of operations.

We recognize revenue from sales of our advertising products over the terms of the applicable agreements, which are generally three, six or 12 months. As a result, a significant portion of the revenue we report in each quarter is generated from agreements entered into during previous quarters. Consequently, a decline in new or renewed agreements in any one quarter may not significantly impact our revenue in that quarter but will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in advertising sales may not be reflected in our short-term results of operations.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

We have recorded a significant amount of goodwill related to our acquisitions to date, and a significant portion of the purchase price of any companies we acquire in the future may be allocated to acquired goodwill and other intangible assets. Under accounting principles generally

accepted in the United States (GAAP), we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value of our goodwill and other intangible assets may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered include declines in our stock price, market capitalization and future cash flow projections. If our acquisitions do not yield expected returns, our stock price declines or any other adverse change in market conditions occurs, a change to the estimation of fair value could result. Any such change could result in an impairment charge to our goodwill and intangible assets, particularly if such change impacts any of our critical assumptions or estimates, and may have a negative impact on our financial position and operating results.

We may require additional capital to support business growth, and such capital might not be available on acceptable terms, if at all.

We intend to continue to invest in our business and may require or otherwise seek additional funds to respond to business challenges, including the need to develop new features and products, enhance our existing services, improve our operating infrastructure and acquire complementary businesses and technologies. As a result, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of our Class A common stock. Any future debt financing we secure could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and respond to business challenges could be significantly impaired, and our business may be harmed.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we develop, value and use our intellectual property and the valuations of our intercompany transactions. For example, our corporate structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. statutory tax rate. Our intercompany arrangements allocate income to such entities in accordance with arm s length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. statutory rate will have a beneficial impact on our worldwide effective tax rate.

However, significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in foreign currency exchange rates or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations.

In addition, the application of the tax laws of various jurisdictions, including the United States, to our international business activities is subject to interpretation and depends on our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing, or determine that the manner in which we operate our business does not achieve the intended tax consequences, which could increase our worldwide effective tax rate and harm our financial position and results of operations. As we operate in numerous taxing jurisdictions, the application of tax laws can also be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. It is not uncommon for taxing authorities in different countries to have conflicting views, for instance, with respect to, among other things, the manner in which the arm s-length standard is applied for transfer pricing purposes, or with respect to the valuation of intellectual property.

Changes in tax laws or tax rulings, or the examination of our tax positions, could materially affect our financial position and results of operations.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits that we intend to eventually derive could be undermined due to changing tax laws. In particular, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority, resulting in uncertainty not only with respect to the future corporate tax rate, but also the U.S. tax consequences of income derived from income related to intellectual property earned overseas in low tax jurisdictions. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, as well as changes to U.S. tax laws that may be enacted in the future, could affect the tax treatment of our foreign earnings. In addition, many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in many countries where we do business. Due to the expanding scale of our international business activities, any changes in the taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

In addition, the taxing authorities in the United States and other jurisdictions where we do business regularly examine our income and other tax returns. The ultimate outcome of these examinations cannot be predicted with certainty. Should the IRS or other taxing authorities assess additional taxes as a result of examinations, we may be required to record charges to our operations, which could harm our business, operating results and financial condition.

Our business and results of operations may be harmed if we are deemed responsible for the collection and remittance of state sales taxes for Eat24 s restaurants.

If we are deemed an agent for the restaurants in our Eat24 network under state tax law, we may be deemed responsible for collecting and remitting sales taxes directly to certain states. It is possible that one or more states could seek to impose sales, use or other tax collection obligations on us with regard to such food sales. These taxes may be applicable to past sales. A successful assertion that we should be collecting additional sales, use or other taxes or remitting such taxes directly to states could result in substantial tax liabilities for past sales and additional administrative expenses, which would harm our business and results of operations. In addition, we rely on the restaurants in our Eat24 network to provide us with the correct sales tax rates for each individual order. If such information proves incorrect, we may be liable for the under or over collection of sales tax from Eat24 customers.

We rely on data from both internal tools and third parties to calculate certain of our performance metrics. Real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We track certain performance metrics including the number of unique devices accessing our mobile app in a given period, page views and calls and clicks for directions and map views with internal tools, which are not independently verified by any third party. Our internal tools have a number of limitations and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including key metrics that we report. For example, our metrics may be affected by mobile applications that automatically contact our servers for regular updates with no discernable user action involved; this activity can cause our system to count the device associated with the app as a unique app device in a given period. If the internal tools we use to track these metrics over- or under-count performance or contain algorithm or other technical errors, the data we report may not be accurate. In addition, limitations or errors with respect to how we measure data may affect our understanding of certain details of our business, which could affect our longer-term strategies.

In addition, certain of our key metrics the number of our desktop unique visitors and mobile website unique visitors are calculated relying on data from third parties. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, our third-party providers periodically encounter difficulties in providing accurate data for such metrics as a result of a variety of factors, including human and software errors. We expect these challenges to continue to occur, and potentially to increase as our traffic grows.

There are also inherent challenges in measuring usage across our large user base around the world. For example, because these metrics are based on users with unique cookies, an individual who accesses our website from multiple devices with different cookies may be counted as multiple unique visitors, and multiple individuals who access our website from a shared device with a single cookie may be counted as a single unique visitor. In addition, although we use technology designed to block low-quality traffic, such as robots, spiders and other software, we may not be able to prevent all such traffic, and such technology may have the effect of blocking some valid traffic. For these and other reasons, the calculations of our desktop unique visitors and mobile website unique visitors may not accurately reflect the number of people actually using our platform.

Our measures of traffic and other key metrics may differ from estimates published by third parties (other than those whose data we use to calculate our key metrics) or from similar metrics of our competitors. We are continually seeking to improve our ability to measure these key metrics, and regularly review our processes to assess potential improvements to their accuracy. However, if our users, advertisers, partners and stockholders do not perceive our metrics to be accurate representations, or if we discover material inaccuracies in our metrics, our reputation may be harmed.

Risks Related to Regulatory Compliance and Legal Matters

****We are, and may be in the future, subject to disputes and assertions by third parties that we violate their rights. These disputes may be costly to defend and could harm our business and operating results.***

We currently face, and we expect to face from time to time in the future, allegations that we have violated the rights of third parties, including patent, trademark, copyright and other intellectual property rights, and the rights of current and former employees, users and business owners. For example, various businesses have sued us alleging that we manipulate Yelp reviews in order to coerce them and other businesses to pay for Yelp advertising. The nature of our business also exposes us to claims relating to the information posted on our platform, including claims for defamation, libel, negligence and copyright or trademark infringement, among others. Businesses have in the past claimed, and may in the future

claim, that we are responsible for the defamatory reviews posted by our users. We expect claims like these to continue, and potentially increase in proportion to the amount of content on our platform. In some instances, we may elect or be compelled to remove the content that is the subject of such claims, or may be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims. If we elect or are compelled to remove content from our platform, our products and services may become less useful to consumers and our traffic may decline, which would have a negative impact on our business.

We are also regularly exposed to claims based on allegations of infringement or other violations of intellectual property rights. Companies in the Internet, technology and media industries own large numbers of patent and other intellectual property rights, and frequently enter into litigation. Various non-practicing entities that own patents and other intellectual property rights also often aggressively attempt to assert their rights in order to extract value from technology companies. From time to time, we receive notice letters from patent holders alleging that certain of our products and services infringe their patent rights, and we are presently involved in numerous patent lawsuits, including lawsuits involving plaintiffs targeting multiple defendants in the same or similar suits. While we are pursuing a number of patent applications, we currently have only one issued patent, and the contractual restrictions and trade secrets that protect our proprietary technology provide only limited safeguards against infringement. This may make it more difficult to defend certain of our intellectual property rights, particularly related to our core business.

We expect other claims to be made against us in the future, and as we face increasing competition and gain an increasingly high profile, we expect the number of claims against us to accelerate. The results of litigation and claims to which we may be subject cannot be predicted with any certainty. Even if the claims are without merit, the costs associated with defending against them may be substantial in terms of time, money and management distraction. In particular, patent and other intellectual property litigation may be protracted and expensive, and the results may require us to stop offering certain features, purchase licenses or modify our products and features while we develop non-infringing substitutes, or otherwise involve significant settlement costs. The development of alternative non-infringing technology or practices could require significant effort and expense or may not be feasible. Even if claims do not result in litigation or are resolved in our favor without significant cash settlements, such matters, and the time and resources necessary to resolve them, could harm our business, results of operations and reputation.

Our business is subject to complex and evolving U.S. and foreign regulations and other legal obligations related to privacy, data protection and other matters. Our actual or perceived failure to comply with such regulations and obligations could harm our business.

We are subject to a variety of laws in the United States and abroad that involve matters central to our business, including laws regarding privacy, data retention, distribution of user-generated content and consumer protection, among others. For example, because we receive, store and process personal information and other user data, including credit card information, we are subject to numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other user data. We are also subject to a variety of laws, regulations and guidelines that regulate the way we distinguish paid search results and other types of advertising from unpaid search results.

The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. For example, we rely on laws limiting the liability of providers of online services for activities of their users and other third parties. These laws are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users. It is difficult to predict how existing laws will be applied to our business, and if our business grows and evolves and our solutions are used in a greater number of countries, we will also become subject to laws and regulations in additional jurisdictions, which may be inconsistent with the laws of the jurisdictions to which we are currently subject. For example, the risk related to liability for third-party actions may be greater in certain jurisdictions outside the United States where our protection from such liability may be unclear.

It is also possible that the interpretation and application of various laws and regulations may conflict with other rules or our practices, such as industry standards to which we adhere, our privacy policies and our privacy-related obligations to third parties (including, in certain instances, voluntary third-party certification bodies). Similarly, our business could be adversely affected if new legislation or regulations are adopted that require us to change our current practices or the design of our platform, products or features. For example, regulatory frameworks for privacy issues are currently in flux worldwide, and are likely to remain so for the foreseeable future due to increased public scrutiny of the practices of companies offering online services with respect to personal information of their users. The U.S. government, including the White House, the Federal Trade Commission, the Department of Commerce and many state governments are reviewing the need for greater regulation of the collection, processing, storage and use of information about consumer behavior on the Internet, including regulation aimed at restricting certain targeted advertising practices. The European Commission recently approved a new safe harbor program, the E.U.-U.S. Privacy Shield, covering the transfer of personal data from the European Union to the United States, and a new general data protection regulation is expected to take effect in the European Union by 2018, each of which may be subject to varying interpretations and evolving practices, which would create uncertainty for us and possibly result in significantly greater compliance burdens for companies such as us with users and operations in Europe. Changes like these could increase our administrative costs and make it more difficult for consumers to use our platform, resulting in less traffic and revenue. Such changes could also make it more difficult for us to provide effective advertising tools to businesses on our platform, resulting in fewer advertisers and less revenue.

We believe that our policies and practices comply with applicable laws and regulations. However, if our belief proves incorrect, if these guidelines, laws or regulations or their interpretations change or new legislation or regulations are enacted, or if the third parties with whom we share user information fail to comply with such guidelines, laws, regulations or their contractual obligations to us, we may be forced to implement new measures to reduce our legal exposure. This may require us to expend substantial resources, delay development of new products or discontinue certain products or features, which would negatively impact our business. For example, if we fail to comply with our privacy-related obligations to users or third parties, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, we may be compelled to provide additional disclosures to our users, obtain additional consents from our users before collecting or using their information or implement new safeguards to help our users manage our use of their information, among other changes. We may also face litigation, governmental enforcement actions or negative publicity, which could cause our users and advertisers to lose trust in us and have an adverse effect on our business. For example, from time to time we receive inquiries from government agencies regarding our business practices. Although the internal resources expended and expenses incurred in connection with such inquiries and their resolutions have not been material to date, any resulting negative publicity could adversely affect our reputation and brand. Responding to and resolving any future litigation, investigations, settlements or other regulatory actions may require significant time and resources, and could diminish confidence in and the use of our products.

Domestic and foreign laws may be interpreted and enforced in ways that impose new obligations on us with respect to Yelp Deals, which may harm our business and results of operations.

Our Yelp Deals products may be deemed gift certificates, store gift cards, general-use prepaid cards or other vouchers, or gift cards, subject to, among other laws, the federal Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit CARD Act) and similar state and foreign laws. Many of these laws include specific disclosure requirements and prohibitions or limitations on the use of expiration dates and the imposition of certain fees. Various companies that provide deal products similar to ours have been subject to allegations that their deal products are subject to and violate the Credit CARD Act and various state laws governing gift cards. Lawsuits have also been filed in other locations in which we sell or plan to sell our Yelp Deals, such as the Canadian province of Ontario, alleging similar violations of provincial legislation governing gift cards.

The application of various other laws and regulations to our products, and particularly our Yelp Deals and Gift Certificates, is uncertain. These include laws and regulations pertaining to unclaimed and abandoned property, partial redemption, refunds, revenue-sharing restrictions on certain trade groups and professions, sales and other local taxes and the sale of alcoholic beverages. In addition, we may become, or be determined to be, subject to federal, state or foreign laws regulating money transmitters or aimed at preventing money laundering or terrorist financing, including the Bank Secrecy Act, the USA PATRIOT Act and other similar future laws or regulations.

If we become subject to claims or are required to alter our business practices as a result of current or future laws and regulations, our revenue could decrease, our costs could increase and our business could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, fines, judgments or settlements could harm our business.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange and other applicable securities rules and regulations. Compliance with these rules and regulations has increased, and will likely continue to increase, our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and place significant strain on our personnel, systems and resources. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time. This could result in continuing uncertainty regarding compliance matters, higher administrative expenses and a diversion of management s time and attention. Further, if our compliance efforts differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Being a public company that is subject to these rules and regulations also makes it more expensive for us to obtain and retain director and officer liability insurance, and we may in the future be required to accept reduced coverage or incur substantially higher costs to obtain or retain adequate coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors and qualified executive officers.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our stock prior to our initial public offering, including our founders, directors, executive officers and employees and their affiliates, and limiting our other stockholders ability to influence corporate matters.

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As a result, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock even when the shares of Class B common stock represent a small minority of all outstanding shares of our capital stock. The current holders of our Class B common stock collectively are able to control all matters submitted to our stockholders for approval even though their stock holdings represent less than 50% of the outstanding shares of our common stock. All shares of Class A and Class B common stock will automatically convert into a single class of common stock upon the earlier of (x) the date on which the number of outstanding shares of Class B common stock represents less than 10% of the aggregate combined number of outstanding shares of Class A and Class B common stock, and (y) March 1, 2019.

As of June 30, 2016, stockholders who held shares of Class B common stock, including certain of our founders, directors, executive officers, employees and their affiliates, together beneficially owned approximately 11% of the outstanding shares of our Class A and Class B common stock, representing approximately 55% of the voting power of our outstanding capital stock. Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares, which may include existing founders, officers, directors and their affiliates. This concentrated control could limit our other stockholders ability to influence corporate matters through as late as March 2019 and even when the shares of Class B common stock represent as little as 10% of the outstanding shares of our capital stock. As a result, the market price of our Class A common stock could be adversely affected.

Our share price has been and will likely continue to be volatile.

The trading price of our Class A common stock has been, and is likely to continue to be, highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. During 2015, our Class A common stock s daily closing price ranged from $20.87 to $57.47, and was $31.93 on August 4, 2016. In addition to the factors discussed in this Risk Factors section and elsewhere in this Quarterly Report, factors that may cause volatility in our share price include:

- actual or anticipated fluctuations in our financial condition and operating results;
- changes in projected operating and financial results;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of technological innovations or new offerings by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- additions or departures of key personnel;
- actions of securities analysts who cover our company, such as publishing research or forecasts about our business (and our performance against such forecasts), changing the rating of our Class A common stock or ceasing coverage of our company;
- investor sentiment with respect to our competitors, business partners and industry in general;
- reporting on our business by the financial media, including television, radio and press reports and blogs;
- fluctuations in the value of companies perceived by investors to be comparable to us;
- changes in the way we measure our key metrics;
- sales of our Class A or Class B common stock;

- changes in laws or regulations applicable to our solutions;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- general economic and market conditions such as recessions, interest rate changes or international currency fluctuations.

Furthermore, the stock markets have recently experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. For example, in August 2014, we and certain of our officers were sued in two similar putative class action lawsuits alleging violations of the federal securities laws for allegedly making materially false and misleading statements. We may be the target of additional litigation of this type in the future as well. Securities litigation against us could result in substantial costs and divert our management s time and attention from other business concerns, which could harm our business.

We do not intend to pay dividends for the foreseeable future, and as a result, our stockholders ability to achieve a return on their investment will depend on appreciation in the price of our Class A common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize future gains on their investments.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our Company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change in control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation; and
- reflect two classes of common stock, as discussed above.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder.

****Future sales of our Class A common stock in the public market could cause our share price to decline.***

Sales of a substantial number of shares of our Class A common stock in the public market, particularly sales by our directors, officers, employees and significant stockholders, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. As of June 30, 2016, we had 68,795,652 shares of Class A common stock and 8,449,146 shares of Class B common stock outstanding. Although a public market exists for our Class A common stock only, shares of our Class B common stock are generally convertible into an equivalent number of shares of Class A common stock at the option of the holder or upon transfer (subject to certain exceptions).

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

The board of directors has established June 15, 2017 as the date of our 2017 Annual Meeting of Stockholders (the 2017 Annual Meeting). Because the date of the 2017 Annual Meeting will be more than 30 days after the anniversary of our 2016 Annual Meeting of Stockholders, we are informing stockholders of the change in accordance with Rule 14a-5(f) under the Exchange Act.

For stockholders who wish to present a proposal to be considered for inclusion in our proxy materials for the 2017 Annual Meeting, we have set a new deadline for the receipt of such proposals in accordance with Rule 14a-8 under the Exchange Act. To be considered timely, stockholders must submit their proposals, in writing, by January 16, 2017 to our Corporate Secretary at 140 New Montgomery Street, 9th Floor, San Francisco, California 94105, which we have determined to be a reasonable time before we begin to print and mail our proxy materials. Stockholder proposals must also comply with all applicable requirements of Rule 14a-8.

Because the 2017 Annual Meeting will be more than 30 days after the anniversary of the 2016 Annual Meeting of Stockholders, our Bylaws provide that stockholders who wish to bring a proposal or nominate a director at the 2017 Annual Meeting, but who are not requesting that the proposal or nomination be included in our proxy materials, must notify our Corporate Secretary, in writing, not earlier than the close of business on February 15, 2017 and not later than the close of business on March 17, 2017. Stockholders are advised to review the Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

ITEM 6. EXHIBITS

A list of exhibits filed with this report or incorporated herein by reference is found in the Exhibit Index immediately following the signature page of this report and is incorporated into this Item 6 by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

YELP INC.

Date: August 9, 2016

/s/ Charles Baker
Charles Baker
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Signatory)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Yelp Inc.	8-K	001-35444	3.1	3/9/2012	
3.2	Amended and Restated Bylaws of Yelp Inc.	S-1/A	333-178030	3.4	2/3/2012	
4.1	Reference is made to Exhibits 3.1 and 3.2.					
4.2	Form of Class A Common Stock Certificate.	S-1/A	333-178030	4.1	2/3/2012	
4.3	Form of Class B Common Stock Certificate.	S-1/A	333-178030	4.2	2/3/2012	
10.1	2012 Equity Incentive Plan, as amended.	8-K	001-35444	10.1	4/18/2016	
10.2	Employment Offer Letter, dated April 15, 2016, between Yelp Inc. and Charles Baker.	8-K	001-35444	10.1	4/21/2016	
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a).					X
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a).					X
32.1	Certifications of Chief Executive Officer and Chief Financial Officer.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Yelp Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.