

YELP INC
Form 10-K
February 27, 2013

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

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2012

OR

**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.)

706 Mission Street, 7th Floor
San Francisco, California 94103
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (415) 908-3801

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value \$0.000001 per share	New York Stock Exchange LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$370,387,191 as of June 30, 2012, the last day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price on the New York Stock Exchange LLC reported for June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter. Excludes an aggregate of 4,000 shares of the registrant's Class A common stock and an aggregate of 44,891,408 shares of the registrant's Class B common stock held by officers, directors, affiliated stockholders and The Yelp Foundation. For purposes of determining whether a stockholder was an affiliate of the registrant at June 30, 2012, the registrant assumed that a stockholder was an affiliate of the registrant at June 30, 2012 if such stockholder (i) beneficially owned 10% or more of the registrant's capital stock, as determined based on public filings, and/or (ii) was an executive officer or director, or was affiliated with an executive officer or director, of the registrant at June 30, 2012. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 15, 2013, there were 24,644,817 shares of registrant's Class A Common Stock, par value \$0.000001 per share, issued and outstanding and 39,069,059 shares of registrant's Class B Common Stock, par value \$0.000001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

YELP INC.
2012 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business.	1
Item 1A.	Risk Factors.	9
Item 1B.	Unresolved Staff Comments.	29
Item 2.	Properties.	30
Item 3.	Legal Proceedings.	30
Item 4.	Mine Safety Disclosures.	30
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	31
Item 6.	Selected Financial Data.	33
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	36
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	56
Item 8.	Financial Statements and Supplementary Data.	57
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	57
Item 9A.	Controls and Procedures.	57
Item 9B.	Other Information.	58
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance.	59
Item 11.	Executive Compensation.	59
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	59
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	59
Item 14.	Principal Accounting Fees and Services.	59
PART IV		
Item 15.	Exhibits, Financial Statement Schedules.	60
SIGNATURES		61
FINANCIAL STATEMENTS		
	Report of Independent Registered Public Accounting Firm	F-1
	Consolidated Balance Sheets	F-2
	Consolidated Statements of Operations	F-3
	Consolidated Statements of Comprehensive Loss	F-4
	Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)	F-5
	Consolidated Statements of Cash Flows	F-6
	Notes to Consolidated Financial Statements	F-7

Unless the context suggests otherwise, references in this Annual Report on Form 10-K, or Annual Report, to "Yelp," the "Company," "we," "us" and "our" refer to Yelp Inc. and, where appropriate, its subsidiaries.

Yelp, Yelp Inc., the Yelp logo and other trade names, trademarks or service marks of Yelp appearing in this Annual Report are the property of Yelp. Trade names, trademarks and service marks of other companies appearing in this Annual Report are the property of their respective holders.

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

The key metrics presented in this Annual Report as of and for the quarter and year ended December 31, 2012 do not reflect traffic, content or local business activity of Qype GmbH, or Qype, a Germany-based reviews website we acquired in the fourth quarter of 2012.

During the year ended December 31, 2012, we revised the criteria by which we determine the local businesses that are deemed to be part of the cities and regions comprising certain Yelp markets. As a result, the U.S. market cohort data presented in this Annual Report may not be directly comparable to the corresponding information presented in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on March 2, 2012. These changes did not affect the calculation of our key metrics in any period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve risks and uncertainties, as well as 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 Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, project, seek, should, target, will, would and similar expressions or variations thereof, which are forward-looking statements. These statements are based on the beliefs and assumptions of our management 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 identified below, and those discussed in the section titled *Risk Factors* included under Part I, 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.

PART I

Item 1. Business.

Company Overview

Yelp connects people with great local businesses. Our users have contributed a total of approximately 36.0 million cumulative reviews of almost every type of local business, from restaurants, boutiques and salons to dentists, mechanics, plumbers and more. These reviews are written by people using Yelp to share their everyday local business experiences, giving voice to consumers and bringing word of mouth online. The information these reviews provide is valuable for consumers and businesses alike. Approximately 86.3 million unique visitors used our website, and our mobile application was used on approximately 9.2 million unique mobile devices, on a monthly average basis during the quarter ended December 31, 2012. Businesses of all sizes use our platform to engage with consumers at the critical moment when they are deciding where to spend their money. Our business revolves around three key constituencies: the contributors who write reviews, the consumers who read them and the local businesses that they describe.

Contributors. We foster and support vibrant communities of contributors in local markets across the United States, Canada, Europe, Singapore and Australia. These contributors provide rich, firsthand information about local businesses, such as reviews, ratings and photos. Yelp users have contributed a total of approximately 36.0 million cumulative reviews, which include, as of December 31, 2012, approximately 25.1 million unfiltered reviews that appear directly on business profile pages, approximately 8.1 million reviews that were being filtered and can be accessed by clicking on a link on business profile pages and approximately 2.7 million reviews that had been removed from our platform.

Consumers. Our platform is transforming the way people discover local businesses and is attracting a large audience of geographically and demographically diverse consumers. Every day, millions of consumers visit our website or use our mobile app to find great local businesses. Our strong brand and the quality of the review content on our platform have enabled us to attract this large audience with almost no traffic acquisition costs.

Local Businesses. Our platform provides local businesses with a variety of free and paid services that help them engage with consumers at the critical moment when they are deciding where to spend their money. Local businesses can register a business account for free and claim their Yelp business page for each of their locations, allowing them to enhance the page with additional information about their businesses and respond to consumer reviews, among other features. Local businesses can also pay for premium services to promote themselves through targeted search advertising, discounted offers and further enhancements to their business page.

Powerful Network Effect. Our platform helps people find great local businesses to meet their everyday needs. As more people use our platform, more of them write reviews, add photos and tips. Each review, photo or tip that a user contributes helps expand the breadth and depth of the content on our platform, drawing in more consumers and more prospective contributors. This increase in consumer traffic and content improves our value proposition to local businesses as they seek low-cost, easy-to-use and effective advertising solutions to target a large number of intent-driven consumers.

Yelp Mobile. We help consumers make decisions on the go through both our mobile app and versions of our website dedicated to mobile-based browsers, which we refer to as our mobile website. Our mobile app was ranked as the #1 free travel app in the Apple App Store as of January 20, 2013, was recognized by Time magazine as one of the 50 Best iPhone apps in 2012 and was recognized by PC Magazine as one of the 50 Best Free iPhone Apps in 2012. Our mobile app accounted for approximately 46% of all searches on our platform in the quarter ended December 31, 2012, and approximately 28% of our unique visitors in the quarter ended December 31, 2012 were to our mobile website. We expect mobile device usage to continue to grow and believe that use of our mobile app and mobile website are complementary to the use of our website on personal computers. However, if mobile device usage is substituting for, rather than incremental to, usage of our website on personal computers and our mobile advertising solutions prove ineffective, this trend could adversely impact our business.

As our community has grown and our product offerings have expanded, we have seen significant growth in reviews, traffic, claimed local business locations and active local business accounts:

- Our users have contributed a total of approximately 36.0 million cumulative reviews to our platform as of December 31, 2012, up 45% from the prior year. Of these reviews, approximately 25.1 million were available on business profile pages, approximately 8.1 million were being filtered and approximately 2.7 million had been removed from our platform, as of December 31, 2012. Although they do not factor into a business's overall star rating, we provide access to filtered reviews because they provide additional perspectives and information on reviewed businesses, as well as transparency of the efficacy of the filtering process.
- We had approximately 86.3 million unique visitors on a monthly average basis for the quarter ended December 31, 2012, up 31% from the same period in the prior year.
- We had approximately 994,000 claimed business locations as of December 31, 2012, up 64% from the prior year.
- We recognized revenue from approximately 40,000 active local business accounts for the quarter ended December 31, 2012, up 68% from the same quarter in the prior year.

The approximately 36.0 million cumulative reviews our users contributed through December 31, 2012 cover a wide set of local business categories, including restaurants, shopping, beauty and fitness, arts, entertainment and events, home and local services, health, nightlife, travel and hotel, auto and other categories. We believe this breadth of content across business categories provides consumers with a wide-ranging selection of reviewed businesses as they search across many categories. We highlight below the breakdown by industry of local businesses that have received reviews on our platform and the breakdown by industry of reviews contributed to our platform through December 31, 2012. The charts below include information based upon all contributed reviews and include some businesses that have only received reviews that are being filtered or have been removed.

We generate revenue primarily from the sale of advertising on our website and mobile app to local businesses and on our website to national brands that seek to reach our growing audience of consumers. During the year ended December 31, 2012, we generated net revenue of \$137.6 million, representing 65% growth over 2011, a net loss of \$19.1 million and an adjusted EBITDA of \$4.6 million. For information on how we define and calculate number of contributed reviews, unique visitors, claimed local business locations, active local business accounts and adjusted EBITDA, and a reconciliation of adjusted EBITDA to net loss, see *Selected Financial Data* in this Annual Report. The top five industry categories accounted for an aggregate of approximately 76% of our local advertising revenue for the quarter ended December 31, 2012, broken down as follows: Home & Local Services, 22%; Restaurants, 17%; Beauty & Fitness, 15%; Health, 11%; Shopping, 11%.

Our Growth Strategy

We intend to grow our platform and our business by focusing on the following key growth strategies:

Growth in Existing Markets

- *Increase the Number of Reviews.* We will continue to explore ways to enable contributors to share their local experiences through detailed reviews, photos, tips and other forms of content contribution across our platform. As we continue to grow our contributor and consumer footprint within our existing markets, we expect to benefit from accelerating network effect dynamics, further driving the growth of reviews, consumers and local business activity.
- *Attract More Users.* We believe that we can increase the number of consumers that use our platform. In December 2012, less than 16% of the total U.S. online audience visited our website or mobile app, as reported by comScore, Inc., a company providing digital marketing intelligence. We believe that as our brand recognition increases and the number of reviews on our platform grows, our platform will become more widely known and relevant to broader audiences, thus attracting new consumers to use our service.
- *Increase Usage of Current Users.* By continuing to expand the number of reviews across diverse categories, driving more claimed business pages and providing a more feature-rich experience, we can increase the number of visits and searches per user. Many consumers begin using Yelp to search for restaurants and boutiques, but more than half of reviewed businesses are in categories outside of restaurants and shopping. We believe that there is a substantial opportunity for a larger percentage of our user base to use Yelp to search in more categories.

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- *Attract More Businesses.* As of December 31, 2012, only approximately 994,000 local business locations out of the approximately 47 million local businesses on our platform had claimed their Yelp pages. We believe the continued increase in the size of our audience of consumers, as well as our efforts to provide additional tools to measure the effectiveness of our products, will encourage local businesses to advertise on our platform.

Expand to New Geographic Markets

- *United States.* While we have reviews and local business listings that span the entire United States, we see a large opportunity to continue expanding our footprint in the United States by hiring Community Managers – local residents whose responsibilities include writing a weekly Yelp email newsletter and organizing events for Yelp contributors – in new markets. Our aim is to leverage our capabilities, brand and know-how to create a trusted online platform to connect people to great local businesses across the United States.
- *International.* We are active in 44 international markets, all of which are in Canada, Europe, Singapore and Australia. In the third quarter of 2012, we began selling our advertising products internationally, specifically in London. In addition, in the fourth quarter of 2012, we acquired Qype, a Germany-based company centered around connecting consumers with local businesses through user-generated reviews, which we acquired to accelerate the expansion of our international footprint. We plan to continue to expand internationally by making our platform available in additional international markets and in more languages, as we seek to replicate internationally the powerful network effect that has driven our historic growth in the United States.

Platform Expansion

- *Website and Mobile.* We plan to continue to innovate and introduce new products for our website and mobile app, making it even easier for consumers to find the most relevant information on Yelp as they look for a local business. For example, during 2012, we launched our redesigned homepage, which places greater emphasis on mobile activity and the user's social graph, and enhanced the mobile experience by adding features such as check-in comments and likes. We are highly focused on the quality of the user experience and will not incorporate advertising or other products or solutions that we believe may excessively degrade the mobile device user experience and potentially alienate users, even if they might result in increased short-term monetization. We plan to continue to explore opportunities to monetize our mobile products while adhering to high standards of user experience.
- *Alternative Platforms.* We also plan to continue to innovate and introduce our content and solutions on new platforms and distribution channels such as automobile navigation systems, web-enabled televisions and voice-enabled mobile devices. For example, Yelp-branded content has been incorporated into Mercedes and Lexus in-vehicle infotainment systems. We also have relationships with several companies like Microsoft Corporation and Apple Inc. to make our content and solutions available on its website and consumer devices, respectively.

Enhance Monetization

- *Grow Our Sales Force.* We plan to continue to grow our sales force so we can reach more businesses. In the fourth quarter of 2012, we expanded our European sales operations through our acquisition of Qype and its established European sales force. We believe this ongoing investment in our sales force will drive an increase in active local business accounts. In the quarter ended December 31, 2012, we recognized revenue from approximately 40,000 local business accounts on our platform, a fraction of the approximately 994,000 claimed local business locations and approximately 47 million local businesses on our platform.
- *Expand Our Portfolio of Revenue-Generating Products.* We plan to continue to grow and develop advertising and e-commerce products and partner arrangements that provide incremental value to our advertisers and business partners to encourage them to increase their advertising budgets allocated towards our platform.

Market Development Strategy

As of December 31, 2012, we were active in 53 Yelp markets in the United States and 44 Yelp markets internationally. This footprint represents a small fraction of the potential markets that we are currently targeting for expansion. Our market development strategy consists of the following:

Identification. We select new markets based on a number of different city- or country-specific criteria, including but not limited to population size, local gross domestic product, pre-existing base of reviews on our platform, Internet and wireless penetration, proximity to existing markets, number of local businesses and local ad market growth rate.

Preparation and Launch. Before launching a market in any country, we license business listing information from third-party data providers and create individual pages for each business location in the entire country. We sometimes hire temporary local employees, called scouts, to provide additional rich content, such as reviews, photos and hours of operation. To bolster the integrity of the content they provide, we closely monitor their contributions to the platform, prohibit them from reviewing businesses with which they have a conflict of interest and identify them in their public profiles as paid contributors. At launch, consumers can read and write reviews about any business on our platform and contribute information about businesses that are not already listed. We have active Yelp markets in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Growth. After launch, we focus on attracting contributors, consumers and local businesses to our platform. In each Yelp market, we hire a Community Manager, whose primary responsibilities include:

- planning and executing fun and engaging events for the community, such as parties, outings and activities at restaurants, museums, hotels and other local places of interest;
- getting to know our users and helping them get to know one another as a way to foster an offline community experience that can be transferred online;
- promoting Yelp, including guest appearances on local television and radio and at local events like concerts and street fairs; and
- writing weekly e-mail newsletters to share information with the community about local businesses, events and activities.

Through these activities, we believe Community Managers help us increase awareness of our platform and build avid communities of users who are willing to contribute content to our platform. These active contributors may be invited to attend sponsored social events but do not receive compensation. In time, this community growth drives a network effect whereby contributed reviews expand the breadth and depth of our review base. This expansion draws an increasing number of consumers to access the content on our platform, thus inspiring new and existing contributors to create additional reviews that can be shared with this growing audience.

Scale. At scale, our platform reaches a critical mass of reviews, consumers and claimed local business accounts, and we begin an active sales effort with local businesses. Thereafter, our largest expense is related to sales efforts to attract local business advertising customers. In Yelp markets that have attained this level of development, we expect to achieve economies of scale and operating cost leverage.

To further illustrate the development of our markets as they scale, we highlight below our review and revenue metrics for three cohorts of Yelp markets in the United States: the Yelp markets that we launched in 2005-2006; the Yelp markets that we launched in 2007-2008; and the Yelp markets that we launched in 2009-2010. In the markets we have entered, review growth and consumer activity are generally followed by revenue generated from local businesses.

Year-Over-Year

Year-Over-Year

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U.S. Market Cohort		Number of Yelp Markets ⁽¹⁾	Average Cumulative Reviews in 2012 ⁽²⁾	Growth in Average Cumulative Reviews ⁽³⁾	Average Local Advertising Revenue in 2012 ⁽⁴⁾	Growth in Average Local Advertising Revenue ⁽⁵⁾
2005	2006	6	2,683	37%	9,316	59%
2007	2008	14	561	42%	2,082	86%
2009	2010	18	164	65%	397	177%

- (1) A Yelp market is defined as a city or region in which we have hired a Community Manager.
- (2) Average cumulative reviews is defined as the total cumulative reviews of the cohort as of December 31, 2012 (in thousands), including reviews that were then being filtered or had been removed from our platform, divided by the number of Yelp markets in the cohort.
- (3) Year-over-year growth in average cumulative reviews compares average cumulative reviews as of December 31, 2012 with average cumulative reviews as of December 31, 2011.
- (4) Average local advertising revenue is defined as the total local advertising revenue from businesses in the cohort for the year ended December 31, 2012 (in thousands) divided by the number of Yelp markets in the cohort.
- (5) Year-over-year growth in average local advertising revenue compares local advertising revenue for the year ended December 31, 2012 with local advertising revenue for the year ended December 31, 2011.

For a table showing the year of launch of each of the Yelp markets in which we are currently active, see *Management's Discussion and Analysis of Results of Operations and Financial Condition Overview*. In general, the Yelp markets in our earlier U.S. market cohorts are more populous than those in later cohorts, and we have already entered many of the largest markets in the United States. For these and other reasons, further expansion into additional U.S. markets may not yield results similar to those of our existing U.S. markets.

We have made a significant investment in support of our market development initiatives. For the year ended December 31, 2012, our total costs and expenses were \$156.3 million, an increase of approximately 57% over the year ended December 31, 2011. Over the same period, total net revenue also increased by approximately 65%. Because most of our costs and expenses relate to personnel and activities that support multiple markets, we do not record costs and expenses separately by market or cohort.

Products

We provide both free and paid products to local businesses. In addition, we enable local businesses and national advertisers to deliver targeted advertising to large local audiences through our platform. We have also entered into revenue sharing arrangements with other companies, such as OpenTable and Orbitz.

Local Business

Free Online Business Account

We enable businesses to create a free online business account and claim the page for each of their business locations. Business representatives can verify their affiliation with the business through an automated telephone verification process which requires that they be reachable at the phone number that is publicly displayed for their business listing on our platform. With their free business accounts, businesses can view business trends (e.g., statistics and charts reflecting the performance of a business's page on our platform), message customers (e.g., by replying to reviews either publicly or privately), update information (e.g., address, hours of operation) and offer Yelp Deals and Gift Certificates.

Enhanced Listing

Our enhanced listing solution eliminates search advertising from the businesses' profile pages and allows them to incorporate a video clip or photo slide show on the pages.

Search and Other Ads

We allow local businesses to promote themselves as a sponsored search result on our platform or on related business pages.

Yelp Deals

Our Yelp Deals product allows local business owners to create promotional discounted deals for their products and services, which are marketed to consumers through our platform. Yelp Deals typically have a fee structure based solely on transaction volume with no upfront costs, and we typically earn a fee based on the discounted price of each deal sold. We process all customer payments and remit to the business the revenue share of any Yelp Deal purchased. We primarily offer deals on our platform that are focused on demand fulfillment where businesses can target intent-driven consumers who are specifically searching for a product or service on our platform.

Gift Certificates

Our Gift Certificates product allows local business owners to sell full-price gift certificates directly to customers through their business profile page. The business chooses the price points to offer (from \$10 to \$500), and the buyer may purchase a Gift Certificate in one of those amounts. We earn a fee based on the amount of the Gift Certificate sold. We process all consumer payments and remit to the business the revenue share of any Gift Certificate purchased.

National/Brand Advertisers*Traditional Display Advertising*

We offer our advertising solution for national brands that want to improve their local presence. These solutions consist of search and display ads (both graphic and text) on our website, which are typically sold to advertisers on a per-impression basis. Our national advertisers include leading brands in the automobile, financial services, logistics, consumer goods and health and fitness industries.

Transaction Partners*OpenTable*

Our partnership, through a written agreement, with OpenTable provides consumers the ability to reserve seats directly on the business listing pages of restaurants that participate in OpenTable's network.

Orbitz

Our partnership, through a written agreement, with Orbitz allows consumers to quickly book rooms directly on the business listing pages of hotels that affiliate with Orbitz.

The following table provides a breakdown of our revenue by product as a percentage of net revenue for the years indicated:

	Year Ended December 31,		
	2012	2011	2010
Percentage of total net revenue by product:			
Local advertising	79%	70%	71%
Brand advertising	15	21	25
Other services	6	9	4
Total	100%	100%	100%

Technology

Product development and innovation are core pillars of our strategy. We aim to delight our users and business partners with our products. We provide our web-based and mobile services using a combination of in-house and third-party technology solutions and products.

- *Our Search and Ranking Technology.* We leverage the data stored on our platform and our proprietary indexing and ranking techniques to provide our users with contextual, relevant and up-to-date results to their search queries. For example, a consumer desiring environmentally-friendly carpet cleaners does not have to call individual cleaners and inquire about their use of chemical-based cleaning solutions. Instead the consumer can search for environmentally-friendly carpet cleaners on Yelp and discover cleaners with the best service and green cleaning products that serve a specific neighborhood.
- *Our Filtering Technology.* In order to maintain and enhance the quality, authenticity and integrity of the reviews on our platform, we employ proprietary filtering technology to analyze and screen all of our reviews. Our filtering software looks at a wide range of data associated with each review and reviewer in order to determine the review's relevance and reliability. Our filtering software operates continually, and the results of its determinations with respect to particular reviews may change over time as it factors in new information. This can result in reviews that were previously unfiltered becoming filtered and reviews that were previously filtered being restored to unfiltered status. Filtered reviews do not factor into a business's overall star rating and are segregated from unfiltered reviews on our website. By clicking on a link on a reviewed business's page on our website, users can access the filtered reviews for that business, as well as the star rating and other information about reviews that we have removed for violation of our terms of service. We believe our filtering technology is one of the key contributors to the quality, authenticity and integrity of the reviews on our platform and the success of our service.
- *Our Mobile Solutions.* We identified mobile as a key area for our business as early as 2006. We have since invested significant resources into the development of a comprehensive mobile app platform, supporting the major smartphone operating systems available to consumers today, including iOS, Android, BlackBerry and Windows Mobile. In addition, we maintain versions of our website

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dedicated to mobile-based browsers. Over time we have enhanced the functionality of our mobile app, such that it provides similar and, in some areas, greater functionality than our website. Some of the innovations we introduced through our mobile app include check-ins, tips, comments and Monocle, our augmented reality feature, among others.

- *Infrastructure.* Our web and mobile properties are currently hosted from two locations. The primary location is within a shared data center environment in San Francisco, California. We are in the process of deploying an additional location within a shared data center environment in Virginia as a fully redundant backup for our primary location, and to increase performance and reliability of our platform. We are currently using the second data center to serve mobile and international traffic, and expect this location to be fully redundant by mid-2013. We also currently use a third-party leased server provider as our second hosting location to optimize performance as an interim solution until our redundant location is fully deployed; we expect to cease using this interim solution in late 2013. Our web and mobile properties are designed to have high availability, from the Internet connectivity providers we choose, to the servers, databases and networking hardware that we deploy. We design our systems such that the failure of any individual component is not expected to affect the overall availability of our platform. We also leverage other third-party Internet based (cloud) services including rich-content storage, map related services, ad serving and bulk processing.
- *Network Security.* Our platform includes a host of encryption, antivirus, firewall and patch-management technology to protect and maintain the systems located at the data center as well as other systems and computers across our business.
- *Internal Management Systems.* We rely on third-party off-the-shelf technology solutions and products as well as internally developed and proprietary systems to ensure rapid, high-quality customer service, software development and website integration, update and maintenance.

Sales and Marketing

We have a team of Community Managers based in 97 Yelp markets in the United States and internationally, whose primary goals are to build a local community of contributors, raise brand awareness, organize events for the best contributors in their respective cities and engage with the surrounding community. These efforts foster and support vibrant communities of contributors in local markets across the United States, Canada, Europe, Singapore and Australia. We believe that continuing to serve our contributors is a critical factor in improving the value of our platform and facilitating the network effect that has helped to attract approximately 86.3 million unique visitors, on a monthly average basis for the quarter ended December 31, 2012, to our website with almost no traffic acquisition costs.

Our sales force is concentrated in five primary locations San Francisco, California, Scottsdale, Arizona, New York City, New York, London, United Kingdom and Hamburg, Germany. Our sales force primarily focuses on gaining new active local business accounts by identifying and contacting local businesses through direct engagement, direct marketing campaigns and weekly emails to claimed local businesses. Our sales force is also responsible for attracting national brand advertisers to our platform.

Competition

We compete for consumer traffic with traditional, offline local business guides and directories and with other online providers of local and web search on the basis of a number of factors, including the reliability of our content, breadth, depth and timeliness of information and the strength and recognition of our brand. We also compete for a share of local businesses overall advertising budgets with traditional, offline media companies and other Internet marketing providers on the basis of a number of factors, including our large consumer audience, effectiveness of our advertising solutions, our pricing structure and recognition of our brand. Our competitors include the following types of businesses:

- *Offline.* We primarily compete with offline media companies and service providers who typically have existing advertising relationships with local businesses. Services provided by competitors range from yellow pages listings to direct mail campaigns to advertising and listings services on local newspapers, magazines, television and radio.
- *Online.* We compete with Internet search engines, such as, Google, Yahoo! and Bing. We also compete with various other online service providers and review websites.

Culture and Employees

We take great pride in our company culture and consider it to be one of our competitive strengths. Our culture helps drive our business forward and is a part of everything we do; it allows us to attract and retain a talented group of employees, create an energetic work environment and continue to innovate in a highly competitive market.

Our culture extends beyond our offices and into the local communities in which people use Yelp. Our full-time Community Managers responsibilities include supporting the sharing of experiences by consumers in the local market that they serve and increasing brand awareness. In addition, we organize events several times a year to recognize our most important contributors, fostering face-to-face interaction, build the Yelp brand and foster the sense of true community in which we believe so strongly. Our culture is at the foundation of our success, and our core values remain a pivotal part of our everyday operations.

As of December 31, 2012, we had 1,387 full-time employees globally. None of our employees are covered by collective bargaining agreements, and we consider our relations with our employees to be good.

The Yelp Foundation

In November 2011, our board of directors approved the establishment of The Yelp Foundation, a non-profit organization designed to support consumers and businesses in the communities in which we operate. In the quarter ended December 31, 2011, our board of directors approved the contribution and issuance to The Yelp Foundation of 520,000 shares of our common stock, of which The Yelp Foundation sold 50,000 shares in our initial public offering. The Yelp Foundation currently holds 470,000 shares of Class B common stock, representing less than 1% of our outstanding capital stock. We did not make any contributions in 2012 and we do not expect to make future contributions to The Yelp Foundation.

Intellectual Property

We rely on federal, state, common law and international rights, as well as contractual restrictions, to protect our intellectual property. We control access to our proprietary technology and algorithms by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties.

In addition to these contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks and domain names to protect our intellectual property. We pursue the registration of our copyrights, trademarks, service marks and domain names in the United States and in certain locations outside the United States. As of December 31, 2012, we had approximately 84 trademarks and service marks registered or pending in approximately 26 countries or regions. Our registration efforts have focused on gaining protection of the following trademarks (among others): Yelp and the Yelp burst logo. These marks are material to our business as they enable others to easily identify us as the source of the services offered under these marks and are essential to our brand identity.

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in the United States or other countries in which we operate. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time-consuming. Any unauthorized disclosure or use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in the Internet, media and other industries may own large numbers of patents, copyrights and trademarks and may frequently request license agreements, threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We are currently subject to, and expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

Government Regulation

As a company conducting business on the Internet, we are subject to a number of foreign and domestic laws and regulations relating to consumer protection, information security, data protection and privacy, among other things. Many of these laws and regulations are still evolving and could be interpreted in ways that could harm our business. In the area of information security and data protection, the laws in several states require companies to implement specific information security controls to protect certain types of information. Likewise, all but a few states have laws in place requiring companies to notify users if there is a security breach that compromises certain categories of their information. Any failure on our part to comply with these laws may subject us to significant liabilities.

Information About Segment and Geographic Revenue

Information about segment and geographic revenue is set forth in Note 15 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Seasonality

Our business is affected by both cyclicalities in business activity and seasonal fluctuations in Internet usage and advertising spending. We believe our rapid growth has masked the cyclicalities and seasonality of our business. As our revenue growth rate slows, we expect that the cyclicalities and seasonality in our business may become more pronounced and may in the future cause our operating results to fluctuate.

Corporate and Available Information

We were incorporated in Delaware on September 3, 2004 under the name Yelp, Inc., and we changed our name in late September 2004 to Yelp! Inc. and in February 2012 to Yelp Inc. Our principal executive offices are located at 706 Mission Street, San Francisco, California 94103, and our telephone number is (415) 908-3801. Our website address is www.yelp.com. Information contained on or accessible through our website is not incorporated into, and does not form a part of, this Annual Report.

We file or furnish electronically with the Securities and Exchange Commission, or SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make available free of charge on or through our website copies of these reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov. You may also read and copy any of our materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our Class A common stock. You should carefully consider the risks and uncertainties described below before making an investment decision. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations.

Risks Related to Our Business and Industry

We have a short 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 short operating history in an evolving industry that may not develop as expected, if at all. This short operating history makes 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. 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;
- increase the revenue from advertisers on our website and mobile app;
- 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;
- manage, measure and demonstrate the effectiveness of our advertising solutions and attract and retain new advertising clients, many of which may only have limited or no online advertising experience;
- 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 expand our business in new and existing markets, both domestic and international;
- successfully develop and deploy new features and products;
- effectively integrate businesses we may acquire, including Qype;
- 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, personnel and operations; and
- effectively partner with other companies.

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 successfully address 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 have incurred significant operating losses in the past, and we may not be able to generate sufficient revenue to achieve or maintain profitability, particularly given our significant ongoing sales and marketing expenses. Our recent growth rate will likely not be sustainable, and a failure to maintain an adequate growth rate will adversely affect our results of operations and business.

Since our inception, we have incurred significant operating losses, and, as of December 31, 2012, we had an accumulated deficit of approximately \$60.4 million. Although our revenues have grown rapidly, increasing from \$12.1 million in 2008 to \$137.6 million in 2012, we expect that our revenue growth rate will decline in the future 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, and you should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. We also expect our costs to increase in future periods as we continue to expend substantial financial resources on:

- sales and marketing;
- product and feature development;
- our technology infrastructure;

- 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. 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 achieve or maintain profitability.

We rely on traffic to our website from search engines like Google, Bing and Yahoo!, some of which offer products and services that compete directly with our solutions. If our website fails to rank prominently in unpaid search results, traffic to our website 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, Bing and Yahoo!. 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 our website ranks in unpaid search results. These rankings can be affected by a number of factors, many of which are not in our direct control, and they may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our website may not be prominent enough to drive traffic to our website, and we may not know how or otherwise be in a position to influence the results. In some instances, search engine companies may change these rankings in order to promote their own competing products or services or the products or services of one or more of our competitors. 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 at the expense of our mobile app. In fact, growth in mobile device usage may exacerbate the risks associated with how and where we rank in search results because mobile device screens are smaller than desktop computer screens and therefore display fewer search results. Our website has experienced fluctuations in search result rankings in the past, and we anticipate fluctuations in the future. Any reduction in the number of users directed to our website could adversely impact our business and results of operations.

Google in particular is the most significant source of traffic to our website, accounting for more than half of the visits to our website from Internet searches during the three months and year ended December 31, 2012. Our success depends on our ability to maintain a prominent presence in search results for queries regarding local businesses on Google. Google has removed links to our website from portions of its web search product and has promoted its own competing products, including Google's local products, in its search results. Given the large volume of traffic to our website and the importance of the placement and display of results of a user's search, similar actions in the future could have a substantial negative effect on our business and results of operations.

If we fail to generate and maintain sufficient high quality content from our users, we will be unable to provide consumers with the information they are looking for, which could negatively impact our traffic and revenue.

Our success depends on our ability to provide consumers with the information they seek, which in turn depends on the quantity and quality of the content provided by our users. For example, we may be unable to provide consumers with the information they seek if our users do not contribute content that is helpful and reliable, or if they remove content they previously submitted. For example, our ability to provide high quality content may be harmed as consumers increasingly contribute content through our mobile website and mobile app because desktop contributions tend to be longer than content contributed through mobile devices. Similarly, we may be unable to provide consumers with the information they seek if our users are unwilling to contribute content because of 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. In addition, we may not be able to provide users the information they seek if the information on our platform is not up-to-date. We do not phase out or remove dated reviews, and consumers may view older reviews as less relevant, helpful or reliable. If our platform does not provide current information about local businesses or users perceive reviews on our platform as less relevant, our brand and our business could be harmed.

If we are unable to provide consumers with the information they seek, or if they can find equivalent content on other services, 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 business may be harmed if users view our platform as primarily limited to reviews of restaurants and shopping experiences.

Our user traffic could be adversely affected if consumers perceive the utility of our platform to be limited to finding businesses in the restaurant and shopping categories, which together accounted for approximately 44% of the businesses that have been reviewed on our platform and 61% of our cumulative reviews through December 31, 2012. We believe that this concentration of reviews is primarily due to the frequency with which individuals visit specific businesses or engage in certain activities versus others. For example, an individual may eat at a restaurant three times in one week or go shopping once a week, but the same individual is unlikely to visit a mechanic, get a haircut or use a home or local service with the same frequency. However, if the high concentration of reviews in the restaurant and shopping categories generates a perception that our platform is primarily limited to these categories, traffic may decline and advertising customers may be less likely to perceive value from using our services, which could harm our business.

If our technology filters helpful content or fails to filter unhelpful content, consumers and businesses alike may stop or reduce their use of our platform and products, and our business could suffer.

While we have designed our technology to filter content that we believe may be offensive, biased, unreliable or otherwise unhelpful, we cannot guarantee that our efforts will be effective or adequate. In addition, some consumers and businesses have expressed concern that our technology inappropriately filters legitimate reviews, which may cause them to stop or reduce their use of our platform or our advertising solutions. If the performance of our filter proves inadequate or ineffective, our reputation and brand may be harmed, users may stop using our products and our business and results of operations could be adversely affected.

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

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 is critical to expanding our base of users and advertisers and increasing the frequency with which they use our solutions, and will depend largely on our ability to maintain consumer trust in our solutions and in the quality and integrity of the user content and other information found on our website and mobile app, which we may not do successfully. If we do not successfully maintain a strong brand, our business could be harmed.

For example, consumers may believe that the reviews, photos and other 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, displaying an ambassador badge on the account profile pages for each of our Community Managers identifying them as Yelp employees 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. As a result, our brand and our business could be harmed.

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 registration 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 those or other jurisdictions. Doing so could harm our brand or brand recognition and adversely affect our business, financial condition and results of operation.

Negative publicity could adversely affect our reputation and brand.

Negative publicity about our company, including our technology, sales practices, personnel or customer service, could diminish confidence in and the use of our products. The media has previously reported allegations that we manipulate our reviews, rankings and ratings in favor of our advertisers and against non-advertisers. These allegations, though untrue, could adversely affect our reputation and brand, require significant management time and attention, and subject us to inquiries or investigations. In order to demonstrate that our filtering process applies in a nondiscriminatory manner to both advertisers and non-advertisers, we have made all filtered reviews accessible on our platform. We have also allowed businesses to publicly comment on negative reviews so that they can provide their 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 content on our website and mobile app is manipulated or biased. In addition, our website and mobile app serve as a platform for expression by our users, and third parties or the public at large may attribute the political or other sentiments expressed by users on our platform to us, which could harm our reputation.

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

For the three months and year ended December 31, 2012, substantially all of our revenue was generated by the sale of advertisin