YELP INC
Form 10-Q
July 31, 2014
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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, 2014

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

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 x NO o

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

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

As of July 25, 2014, there were 61,694,162 shares of registrant s Class A common stock, par value $0.000001 per share, issued and outstanding and 10,387,357 shares of registrant s Class B common stock, par value $0.000001 per share, issued and outstanding.

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Unless the context otherwise indicates, where we refer in this Quarterly Report on Form 10-Q 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.

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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, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 290,386	$ 389,764
Short-term marketable securities	60,429	
Accounts receivable (net of allowance for doubtful accounts of $985 and $810 at June 30, 2014 and December 31, 2013, respectively)	25,450	21,317
Prepaid expenses and other current assets	7,960	5,752
Total current assets	384,225	416,833
Long-term marketable securities	61,704	
Property, equipment and software, net	37,462	30,666
Goodwill	59,271	59,690
Intangibles, net	3,996	5,235
Restricted cash	3,684	3,247
Other assets	2,814	306
Total assets	$ 553,156	$ 515,977
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,680	$ 3,364
Accrued liabilities	21,621	19,004
Deferred revenue	2,186	2,621
Total current liabilities	25,487	24,989
Long-term liabilities	6,424	4,505
Total liabilities	31,911	29,494
Commitments and contingencies (Note 10)		
Stockholders equity		
Common stock, $0.000001 par value per share 500,000,000 shares authorized; 71,995,243 and 70,874,493 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively		
Additional paid-in capital	588,829	553,753
Accumulated other comprehensive income	2,764	3,186
Accumulated deficit	(70,348)	(70,456)
Total stockholders equity	521,245	486,483

Total liabilities and stockholders equity	$ 553,156	$ 515,977

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net revenue	$ 88,787	$ 55,023	$ 165,194	$ 101,156
Costs and expenses				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	5,845	4,018	10,922	7,358
Sales and marketing	47,798	30,803	92,919	58,997
Product development	14,726	7,997	28,708	15,233
General and administrative	13,257	10,148	26,427	18,912
Depreciation and amortization	4,034	2,637	7,695	5,115
Restructuring and integration				675
Total costs and expenses	85,660	55,603	166,671	106,290
Income (loss) from operations	3,127	(580)	(1,477)	(5,134)
Other expense, net	(15)	(66)	(17)	(267)
Income (loss) before income taxes	3,112	(646)	(1,494)	(5,401)
Benefit (provision) for income taxes	(369)	(232)	1,602	(276)
Net income (loss) attributable to common stockholders (Class A and B)	$ 2,743	$ (878)	$ 108	$ (5,677)
Net income (loss) per share attributable to common stockholders (Class A and Class B)				
Basic	$ 0.04	$ (0.01)	$ 0.00	$ (0.09)
Diluted	$ 0.04	$ (0.01)	$ 0.00	$ (0.09)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders (Class A and Class B)				
Basic	71,714	64,576	71,444	64,163
Diluted	77,056	64,576	76,903	64,163

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income (loss)	$ 2,743	$ (878)	$ 108	$ (5,677)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(338)	714	(422)	(995)
Other comprehensive income (loss)	(338)	714	(422)	(995)
Comprehensive income (loss)	$ 2,405	$ (164)	$ (314)	$ (6,672)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
OPERATING ACTIVITIES:		
Net income (loss)	$ 108	$ (5,677)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,695	5,115
Provision for doubtful accounts and sales returns	2,581	1,301
Stock-based compensation	19,539	10,873
Loss on disposal of assets and website development costs	(5)	94
Premium amortization, net, on securities held-to-maturity	93	
Excess tax benefit from share-based award activity	(460)	
Changes in operating assets and liabilities:		
Accounts receivable	(6,716)	(4,404)
Prepaid expenses and other assets	(5,980)	(2,318)
Accounts payable and accrued expenses	3,567	215
Deferred revenue	(433)	(85)
Net cash provided by operating activities	19,989	5,114
INVESTING ACTIVITIES:		
Purchases of property, equipment and software	(7,212)	(4,966)
Capitalized website and internally developed software costs	(4,327)	(2,139)
Change in restricted cash	(397)	(1,768)
Proceeds from sale of property and equipment	14	
Goodwill measurement period adjustment		1,153
Purchases of marketable securities	(122,226)	
Net cash used in investing activities	(134,148)	(7,720)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee stock options	10,841	4,604
Proceeds from issuance of common stock for Employee Stock Purchase Plan	4,087	
Excess tax benefit from share-based award activity	460	
Repurchase of common stock	(642)	(193)
Net cash provided by financing activities	14,746	4,411
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	35	(134)
CHANGE IN CASH AND CASH EQUIVALENTS	(99,378)	1,671
CASH AND CASH EQUIVALENTS Beginning of period	389,764	95,124
CASH AND CASH EQUIVALENTS End of period	$ 290,386	$ 96,795
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 260	$ 83
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		

Purchases of property and equipment recorded in accounts payable and accruals	$	1,185	$	1,736
Capitalized website and software development costs recorded in accounts payable and accruals	$	25	$	

See notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF BUSINESS AND BASIS OF 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. Yelp s users have contributed millions of reviews of almost every type of local business, giving a voice to consumers and bringing word of mouth online. 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 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 March 3, 2014 (the Annual Report). The unaudited condensed consolidated balance sheet as of December 31, 2013 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 and, in the opinion of management, include all adjustments of a normal recurring nature necessary for the fair presentation of the interim periods presented.

Significant Accounting Policies

The Company determines the classification of its marketable securities at the time of purchase and re-evaluates these determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost and are periodically assessed for other-than-temporary impairment. Amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, and is included in interest income. Held-to-maturity securities with less than one year to maturity are included in short-term marketable securities. All other held-to-maturity securities are classified as long-term.

There have been no other material changes to the Company s significant accounting policies, as compared to the significant accounting policies described in the Annual Report.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The updated standard will replace most existing GAAP revenue recognition guidance when it becomes effective, and permits the use of either the retrospective or cumulative effect transition method. Early adoption of this accounting standard is not permitted. ASU 2014-09 will become effective for the Company in the first quarter of the year ending December 31, 2017. The Company has not yet selected a transition method and is currently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

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.

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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 at fair value in the condensed consolidated balance sheets. 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 the quoted prices in active markets that are observable directly or indirectly, or

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

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company s money market funds and U.S. government bonds 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 and agency bonds 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, 2014 and December 31, 2013 (in thousands):

	June 30, 2014				December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds[1]	$ 243,489	$	$	$ 243,489	$ 360,690	$	$	$ 360,690
Commercial paper		31,979		31,979				
Corporate bonds		30,510		30,510				
Agency bonds		54,554		54,554				
U.S. government bonds	5,011			5,011				
Total	$ 248,500	$ 117,043	$	$ 365,543	$ 360,690	$	$	$ 360,690

(1) Included in cash and cash equivalents on the condensed consolidated balance sheets.

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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, 2014 are as follows (in thousands):

	As of June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	$ 31,979	$	$	$ 31,979
Corporate bonds	18,450		(20)	18,430
Agency bonds	10,000		(2)	9,998
U.S. government bonds				
	$ 60,429	$	$ (22)	$ 60,407
Long-term marketable securities:				
Corporate bonds	$ 12,103	$ 2	$ (25)	$ 12,080
Agency bonds	44,591	2	(37)	44,556
U.S. government bonds	5,010	1		5,011
	$ 61,704	$ 5	$ (62)	$ 61,647
Total marketable securities	$ 122,133	$ 5	$ (84)	$ 122,054

The following table presents gross unrealized losses and fair values for those securities that were in an unrealized loss position as of June 30, 2014, 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, 2014					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 25,427	$ (45)	$	$	$ 25,427	$ (45)
Agency bonds	43,054	(39)			43,054	(39)
Total	$ 68,481	$ (84)	$	$	$ 68,481	$ (84)

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 recovery of their amortized cost basis, and whether the amortized cost basis cannot be recovered as a result of credit losses. During the three months ended June 30, 2014, the Company did not recognize any other-than-temporary impairment loss. The Company had no investments in marketable securities outside of money market funds prior to April 1, 2014.

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4. ACQUISITIONS

SeatMe, Inc.

On July 24, 2013, the Company acquired SeatMe, Inc. (SeatMe). In connection with the acquisition, all of the outstanding capital stock and options to purchase capital stock of SeatMe were converted into the right to receive an aggregate of approximately $2.2 million in cash and 260,901 shares of Yelp Class A common stock with an aggregate fair value of approximately $9.7 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, $0.1 million in cash and 31,236 shares of Yelp Class A common stock were initially held in escrow to secure indemnification obligations. The key factor underlying the acquisition was securing the technology to provide online reservations directly through the Company s website with minimal product and engineering work.

The acquisition was accounted for as a business combination in accordance with Accounting Standards Codification Topic 805, *Business Combinations* (ASC 805), with the results of SeatMe s operations included in the Company s consolidated financial statements starting on July 24, 2013. The following table summarizes the consideration paid for SeatMe and the preliminary allocation of the purchase price, based on the estimated fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	July 24, 2013		
Fair value of purchase consideration:			
Cash:			
Distributed to SeatMe equity holders	$		2,057
Held in escrow account			56
Class A common stock:			
Distributed to SeatMe equity holders			8,420
Held in escrow account			1,246
Total purchase consideration	$	11,779	
Fair value of net assets acquired:			
Cash and cash equivalents	$		56
Property and equipment			47
Intangibles			1,440
Goodwill			10,279
Other assets			117
Total assets acquired			11,939
Total liabilities assumed			160
Net assets acquired	$	11,779	

Estimated useful lives of the intangible assets acquired are shown below:

Intangible Type	Useful Life
Developed technology	6 years
Customer relationships	2 years
Trade name	2 years
Weighted average	5.6 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 offer its customers and leverage the SeatMe web- and app-based reservation solution. None of the goodwill is deductible for tax purposes.

Net revenues, earnings since the acquisition and pro forma results of operations for this acquisition have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

Qype GmbH

On October 23, 2012, the Company, through its wholly-owned subsidiary, Yelp Ireland Ltd., completed the acquisition of all the outstanding equity interests of Qype GmbH and its subsidiaries (collectively, Qype) for approximately $24.3 million in cash and Yelp Class A common stock with an approximate fair value of $23.3 million. Of the total consideration paid in connection with the acquisition, $10.3 million was held in the form of cash in escrow to secure indemnification obligations. The balance remaining in the escrow fund relating to this acquisition was approximately $9.5 million as of June 30, 2014. The acquisition was accounted for as a business combination in accordance with ASC 805, with the results of Qype s operations included in the Company s consolidated financial statements starting on October 23, 2012. The key factors underlying the acquisition were to secure an established European market presence, obtain Qype s content and traffic and the opportunity for expansion.

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In October 2012, following the acquisition of Qype, the Company announced its plan to reduce the size of the Qype workforce and terminate several of Qype s leases. These actions were made in order to reduce the Company s cost structure, enhance operating efficiencies and strengthen the Company s business to achieve long-term profitable growth. As a result of this plan, the Company incurred restructuring charges during the fourth quarter of 2012 and the first quarter of 2013, which were included in the restructuring and integration costs in the consolidated statements of operations for such periods. The Company recorded restructuring charges of $1.9 million through December 31, 2013. The remaining restructuring liability was immaterial as of June 30, 2014 and as of December 31, 2013.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014 and December 31, 2013 consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Cash and cash equivalents		
Cash	$ 46,897	$ 29,074
Money market funds	243,489	360,690
Total cash and cash equivalents	$ 290,386	$ 389,764

In addition, the lease agreements for certain of the Company s offices require the Company to maintain letters of credit issued to 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, 2014 and December 31, 2013, the Company had restricted cash in the aggregate amount of $3.7 million and $3.2 million, respectively, related to such letters of credit.

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2014 and December 31, 2013 consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Computer equipment	$ 14,965	$ 13,348
Software	613	541
Capitalized website and internal-use software development costs	19,036	13,878
Furniture and fixtures	5,152	4,388
Leasehold improvements	18,497	13,984
Telecommunication	2,521	2,179
Total	60,784	48,318
Less accumulated depreciation	(23,322)	(17,652)
Property, equipment and software, net	$ 37,462	$ 30,666

Depreciation expense for the three months ended June 30, 2014 and 2013 was approximately $3.1 million and $1.7 million, respectively, and for the six months ended June 30, 2014 and 2013, depreciation expense was approximately $5.9 million and $3.4 million, respectively.

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7. GOODWILL AND INTANGIBLE ASSETS

The Company s goodwill is the result of the acquisition of Qype on October 23, 2012 and the acquisition of SeatMe on July 24, 2013, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired.

The changes in the carrying amount of goodwill during the six months ended June 30, 2014 were as follows (in thousands):

Balance as of December 31, 2013	$	59,690
Effect of currency translation		(419)
Balance as of June 30, 2014	$	59,271

Intangible assets at June 30, 2014 and December 31, 2013 consist of the following (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
June 30, 2014:				
Content	$ 3,434	$ (1,159)	$ 2,275	3.3 years
Advertiser relationships	2,062	(1,740)	322	0.3 years
Developed technology	1,846	(664)	1,182	4.7 years
Trade name and other	550	(412)	138	0.7 years
Domains	250	(171)	79	3.7 years
	$ 8,142	$ (4,146)	$ 3,996	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
December 31, 2013:				
Content	$ 3,413	$ (811)	$ 2,602	3.8 years
Advertiser relationships	2,045	(1,214)	831	2.0 years
Developed technology	1,851	(422)	1,429	4.8 years
Trade name and other	553	(276)	277	1.1 years
Domains	250	(154)	96	3.9 years
	$ 8,112	$ (2,877)	$ 5,235	

Amortization expense was $0.6 million and $0.5 million for the three months ended June 30, 2014 and 2013, respectively, and $1.3 million and $1.1 million for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014, the estimated future amortization of purchased intangible assets for (i) the remaining six months of 2014, (ii) each of the succeeding four years and (iii) the succeeding fifth year and thereafter are as follows (in thousands):

Year Ending December 31,	Amount
2014 (from July 1, 2014)	$ 974
2015	961
2016	921
2017	787
2018	227
2019 and thereafter	126

Total amortization	$	3,996

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8. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2014 and December 31, 2013 consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Accrued employee related expenses	$ 1,454	$ 1,784
Accrued vacation	4,324	2,950
Accrued bonus and commissions	4,501	3,707
Deferred rent	738	298
Accrued legal	897	656
Accrued taxes	1,240	1,837
Accrued payroll tax	2,096	1,508
Merchant revenue share liability	727	932
Fixed asset purchase commitments	1,143	2,247
Other accrued expenses	4,501	3,085
Total	$ 21,621	$ 19,004

9. OTHER EXPENSE, NET

Other expense, net for the three and six months ended June 30, 2014 and 2013 consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	$ 202	$ 14	$ 236	$ 30
Transaction gain (loss) on foreign exchange	(128)	(61)	(177)	(223)
Other non-operating income (loss), net	(89)	(19)	(76)	(74)
Other expense, net	$ (15)	$ (66)	$ (17)	$ (267)

10. COMMITMENTS AND CONTINGENCIES

Office Facility Leases The Company leases its office facilities under operating lease agreements that expire from November 2014 to September 2021. 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 $3.7 million and $1.6 million for the three months ended June 30, 2014 and 2013, respectively, and was $7.3 million and $3.2 million for the six months ended June 30, 2014 and 2013, 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 February and March 2010, the Company was sued in two putative class actions on behalf of local businesses asserting various causes of action based on claims that the Company manipulated the ratings and reviews on its platform to coerce local businesses to buy its advertising products. These cases were subsequently consolidated in an action asserting claims for violation of the California Business and Professions Code, extortion and attempted extortion based on the conduct the plaintiffs allege and seeking monetary relief in an unspecified amount and injunctive relief. In October 2011, the court dismissed this consolidated action with prejudice. The plaintiffs have appealed to the U.S. Court of Appeals for the Ninth Circuit, which heard the appeal on July 11, 2013. The Ninth Circuit has not yet issued a decision. Accordingly, the Company is currently unable to reasonably estimate either the probability of incurring a loss or an estimated range of such loss, if any, from this appeal.

In March 2011, the Company was sued in an action on behalf of certain current and former employees asserting claims for violations of the federal Fair Labor Standards Act, the California Labor Code and the California Business and Professions Code seeking monetary relief in an unspecified amount. In December 2012, the court issued a judgment giving final approval to a settlement of this matter, without any admission of liability on the Company s part, for payments by the Company in an aggregate amount of approximately $0.8 million. The Company had originally accrued for a settlement of approximately $1.3 million in the year ended December 31, 2010. The accrual was adjusted in the quarter ended December 31, 2012 for the final settlement amount, which was paid in the first quarter of 2013.

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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, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees.

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

11. STOCKHOLDERS EQUITY

Follow-on Offering

In October 2013, the Company closed a follow-on offering of 4,312,500 shares of its Class A common stock (inclusive of 562,500 shares of Class A common stock from the full exercise of the option to purchase additional shares granted to the underwriters). The public offering price of the shares sold in the offering was $67.00 per share. The total gross proceeds from the offering to the Company were $288.9 million. After deducting underwriting discounts and commissions and offering expenses payable by the Company, the aggregate net proceeds received by the Company totaled approximately $276.5 million.

The following table presents the shares authorized and issued and outstanding as of the periods presented:

	June 30, 2014		**December 31, 2013**	
	Shares Authorized	**Shares Issued and Outstanding**	**Shares Authorized**	**Shares Issued and Outstanding**
Stockholders equity:				
Class A common stock, $0.000001 par value per share	200,000,000	61,529,053	200,000,000	59,163,134
Class B common stock, $0.000001 par value per share	100,000,000	10,466,190	100,000,000	11,711,359
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 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), 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.

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Stock Options

Stock options granted under the 2012 Plan are granted at a price per share not less than the fair value at date of grant. Options granted to date generally vest either over a four-year period with 25% vesting at the end of one year and the remaining vesting monthly thereafter, or over a four-year period with 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. Options granted generally are exercisable for up to 10 years. A summary of stock option activity for the six months ended June 30, 2014, 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 , 2014	11,101,166	$ 18.24	8.17	$ 562,855
Granted	129,050	81.25		
Exercised	(956,385)	11.34		
Canceled	(362,360)	32.98		
Outstanding June 30, 2014	9,911,471	$ 19.19	7.71	$ 570,413
Options vested and expected to vest as of June 30, 2014	9,440,657	$ 18.70	7.67	$ 547,924
Options vested and exercisable as of June 30, 2014	4,148,881	$ 11.06	6.90	$ 272,265

Aggregate intrinsic value represents the difference between the closing price of the Company s Class A common stock on the New York Stock Exchange on June 30, 2014 of $76.68 and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $15.3 million and $18.8 million for the three months ended June 30, 2014 and 2013, respectively, and $67.3 million and $34.8 million for the six months ended June 30, 2014 and 2013, respectively. The weighted-average grant date fair value of options granted was $41.30 and $16.83 per share for the three months ended June 30, 2014 and 2013, respectively, and $44.73 and $13.75 per share for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014, total unrecognized compensation costs, adjusted for estimated forfeitures, related to unvested stock options was approximately $68.4 million, which is expected to be recognized over a weighted-average time period of 2.39 years.

RSUs and RSAs

The cost of RSUs and RSAs are determined using the fair value of the Company s common stock on the date of grant. RSUs and RSAs generally vest either over a four-year period with 25% vesting at the end of one year and the remaining vesting quarterly or annually thereafter, or over a four-year period with 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.

A summary of RSU and RSA activity for the six months ended June 30, 2014 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, 2014	443,603	$ 44.66	73,470	$ 9.41
Granted	428,589	75.56		
Released	(36,633)	37.19	(19,063)	9.12
Canceled	(43,424)	55.39		

Unvested June 30, 2014	792,135	$ 61.14	54,407	$ 9.51

As of June 30, 2014, the Company had approximately $43.9 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to RSUs and RSAs, which will be recognized over the remaining weighted-average vesting period of approximately 3.48 years.

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Employee Stock Purchase Plan

Concurrent with the effectiveness of the underwriting agreement in connection with the IPO on March 1, 2012, the Company s 2012 Employee Stock Purchase Plan (the ESPP) became effective. 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 lower of the fair market value of the Company s Class A common stock on the first trading day of the offering period or on the last day of the offering period. There were 133,905 shares purchased by employees under the ESPP at a weighted-average purchase price of $30.52 per share for the three and six months ended June 30, 2014. There were no shares purchased by employees under the ESPP for the three and six months ended June 30, 2013. The Company recognized $1.1 million and $0.1 million of stock-based compensation related to the ESPP during the three months ended June 30, 2014 and 2013, respectively, and $2.2 million and $0.1 million for the six months ended June 30, 2014 and 2013, respectively.

Stock-Based Compensation

The following table summarizes the effects of stock-based compensation 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,	
	2014	2013	2014	2013
Stock-based compensation effects in loss before income taxes:				
Cost of revenue	$ 119	$ 105	$ 269	$ 177
Sales and marketing	3,728	2,282	7,125	4,270
Product development	3,456	1,040	6,498	1,856
General and administrative	2,780	2,286	5,647	4,015
Restructuring and integration				555
Total stock-based compensation	$ 10,083	$ 5,713	$ 19,539	$ 10,873

During the three and six months ended June 30, 2013, the Company recognized zero and $0.6 million of stock-based compensation, respectively, related to the acceleration of vesting of RSUs associated with the Qype restructuring plan described in Note 4. The Company capitalized stock-based compensation as website development costs of $0.5 million and $0.1 million in the three months ended June 30, 2014 and 2013, respectively, and $0.8 million and $0.2 million in the six months ended June 30, 2014 and 2013, respectively.

12. 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. Immediately prior to the consummation of the IPO in March 2012, all outstanding shares of preferred stock and common stock were converted to Class B common stock. As a result, 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 10 votes per share. Shares of Class B common stock may be converted into Class A common stock on a share-for-share basis at any time at the option of the stockholder, and are automatically converted into Class A common stock upon sale or transfer, subject to certain limited exceptions, and in connection with certain other conversion events.

Basic net income per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income 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, and to a lesser extent, shares issuable upon the vesting of RSUs, 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 per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income 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 per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

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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, 2014		2013	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings	$ 2,341	$ 402	$ (421)	$ (457)
Denominator:				
Weighted-average shares outstanding	61,208	10,506	30,940	33,636
Basic net income (loss) per share attributable to common stockholders	$ 0.04	$ 0.04	$ (0.01)	$ (0.01)
Diluted net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 2,341	$ 402	$ (421)	$ (457)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	402			
Reallocation of undistributed earnings to Class B shares		79		
Allocation of undistributed earnings	$ 2,743	$ 481	$ (421)	$ (457)
Denominator:				
Number of shares used in basic calculation	61,208	10,506	30,940	33,636
Weighted-average effect of dilutive securities				
Conversion of Class B to Class A shares	10,506			
Stock options	4,963	2,959		
Other dilutive securities	379	48		
Number of shares used in diluted calculation	77,056	13,513	30,940	33,636
Diluted net income (loss) per share attributable to common stockholders	$ 0.04	$ 0.04	$ (0.01)	$ (0.01)

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	Six Months Ended June 30, 2014		2013	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings	$ 92	$ 16	$ (2,099)	$ (3,578)
Denominator:				
Weighted-average common shares outstanding	60,576	10,868	23,724	40,439
Basic net income (loss) per share attributable to common stockholders	$ 0.00	$ 0.00	$ (0.09)	$ (0.09)
Diluted net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 92	$ 16	$ (2,099)	$ (3,578)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	16			
Reallocation of undistributed earnings to Class B shares		4		
Allocation of undistributed earnings	$ 108	$ 20	$ (2,099)	$ (3,578)
Denominator:				
Number of shares used in basic calculation	60,576	10,868	23,724	40,439
Weighted-average effect of dilutive securities				
Conversion of Class B to Class A shares	10,868			
Stock options	5,146	3,000		
Other dilutive securities	313	48		
Number of shares used in diluted calculation	76,903	13,916	23,724	40,439
Diluted net income (loss) per share attributable to common stockholders	$ 0.00	$ 0.00	$ (0.09)	$ (0.09)

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,	
	2014	2013	2014	2013
Stock options	411	11,630	86	11,630
Restricted stock units		254		254
Restricted stock awards		97		97
Employee stock purchase plan		12		12

13. 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 provision of $0.4 million and $0.2 million for the three months ended June 30, 2014 and 2013, respectively, and an income tax benefit of $1.6 million and an income tax provision of $0.3 million for the six months ended June 30, 2014 and 2013, respectively. The tax benefit for the six months ended June 30, 2014 is due to recognition of an income tax benefit of approximately $2.0 million related to the release of valuation allowance on foreign net operating losses offset by approximately $0.4 million in foreign income taxes and state minimum taxes. The tax expense for the six months ended June 30, 2013 related to foreign income taxes and state minimum taxes. Based on the available objective evidence during the six months ended June 30, 2014, management believes it is more likely than not that the tax benefits of the U.S. losses incurred during the six months ended June 30, 2014 will not be realized by the end of the 2014 fiscal year. Accordingly, the Company did not record the tax benefits of the U.S. losses incurred during the six months ended June 30, 2014. 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, and non-deductible stock-based compensation expense.

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As of June 30, 2014, the total amount of gross unrecognized tax benefits was $1.9 million, $1.7 million of which is subject to a full valuation allowance and would not affect the Company s effective tax rate if recognized. Included in the balance of unrecognized tax benefits as of June 30, 2014, is an immaterial amount of tax benefits that, if recognized, would affect the effective tax rate. As of June 30, 2014, the Company had an immaterial amount related to the accrual of interest and penalties. During the six months ended June 30, 2014, the Company s gross unrecognized tax benefits increased by $0.2 million, $0.1 million of which would affect the Company s effective tax rate if recognized. The Company does not have any tax positions as of June 30, 2014 for which it is reasonably possible that the total amount of gross unrecognized tax benefits will significantly increase or decrease within the next 12 months.

14. 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.

Revenue by geography is based on the billing address of the customer. The following tables present the Company s net revenue by product line and long-lived assets by geographic region for the periods presented (in thousands):

Net Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net revenue by product:				
Local advertising	$ 75,685	$ 44,797	$ 140,880	$ 83,764
Brand advertising	9,055	7,048	16,510	11,806
Other services	4,047	3,178	7,804	5,586
Total net revenue	$ 88,787	$ 55,023	$ 165,194	$ 101,156

During the three and six months ended June 30, 2014 and 2013, 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 either period.

Long-Lived Assets

	June 30, 2014	December 31, 2013
United States	$ 35,498	$ 29,186
All Other Countries	4,778	1,786
Total long-lived assets	$ 40,276	$ 30,972

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (the Quarterly Report).

Forward Looking Information

This Quarterly 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 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, contir could, estimate, expect, intend, look, may, might, plan, project, seek, should, strategy, target, will, would an intended to identify 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 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.

Company Overview

Yelp connects people with great local businesses. Our users have contributed a total of approximately 61.3 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 137.8 million unique visitors used our website on a monthly average basis during the quarter ended June 30, 2014 according to Google Analytics, a product that provides digital marketing intelligence. Approximately 67.9 million mobile unique visitors used our mobile website and our mobile application on a monthly average basis during the quarter ended June 30, 2014. 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 communities of contributors who write reviews, the consumers who read them and the local businesses that they describe.

Our success is primarily the result of significant investment in our communities, employees, content, brand and technology. We expect to invest in features aimed at both attracting more, and increasing the usage of, users and businesses as we look to leverage our brand and benefit from accelerating network effect dynamics in our existing markets. In addition, we expect to invest further in product development to expand our platform by innovating and introducing new products to our website and mobile applications. For example, during the six months ended June 30, 2014, we launched Yelp Reservations, a tool that allows businesses in the restaurant and nightlife categories to take online reservations, and added the ability for consumers to message business owners directly through Yelp.

We also plan to continue investing in additional domestic and international markets. As of June 30, 2014, we are active in 61 Yelp markets in the United States and 63 Yelp markets internationally. Our domestic expansion plans include growth in our existing markets as well as expansion into new markets, many of which are smaller than our current markets, as we look to expand our breadth of coverage. Internationally, as we are in the early stages of establishing our footprint, we are targeting a mix of both large and small markets. For the three months ended June 30, 2014, revenue generated internationally accounted for three percent of our total revenue.

While our core local advertising business in the United States has a significant and growing base of revenue, we have invested, and will continue to invest, in initiatives to enhance our monetization opportunities. In particular, 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. In 2013, we introduced the Yelp Platform, which allows consumers to transact directly on Yelp through partnerships with third parties. Our current offerings include the ability to complete food delivery transactions and book spa appointments, and we expect to add the ability to complete transactions ranging from scheduling yoga sessions to making dentist appointments in the remainder of 2014.

Our overall strategy is to invest for long-term growth. During the remainder of 2014, we expect to continue to invest heavily in our sales and marketing efforts to grow domestically and internationally, and to continue the integration of SeatMe, Inc., the web- and app-based reservation solution for restaurant and nightlife establishments that we acquired in 2013 (SeatMe). As of June 30, 2014, we had 2,345 employees, which represents an increase of 53% compared to June 30, 2013.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, website and internal-use software development costs, business combinations, income taxes and stock-based compensation have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration expected to be received in exchange for those goods or services. The updated standard will replace most existing GAAP revenue recognition guidance when it becomes effective, and permits the use of either the retrospective or cumulative effect transition method. Early adoption of this accounting standard is not permitted. ASU 2014-09 will become effective for us in the first quarter of the year ending December 31, 2017. We have not yet selected a transition method and are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

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 are not recommended or that have 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 for users to evaluate businesses and individual reviewers. Because our automated recommendation software continually reassesses which reviews to recommend based on new information, 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 a link on a reviewed business s page on our website, users can access the reviews that are not recommended for the business, as well as the star rating and other information about reviews that we removed for violation of our terms of service. As of June 30, 2014, approximately 57.0 million reviews were available on business profile pages, including approximately 14.5 million reviews that were not recommended, after accounting for 4.3 million reviews that 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 presented:

	As of June 30,	
	2014	**2013**
	(in thousands)	
Reviews	61,342	42,526

- *Unique Visitors.* Unique visitors represent the average number of monthly unique visitors over a given three-month period. We define monthly unique visitors as the total number of unique visitors who have visited our website at least once in a given month, and we average the number of monthly unique visitors in each month of a given three-month period to calculate average monthly unique visitors. We calculate unique visitors as the number of users measured by Google Analytics, based on the use of unique cookie identifiers. Unique visitors do not include users who access our platform solely through our mobile app. Because the number of unique visitors is 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.

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The following table presents the average monthly number of unique visitors during the periods presented:

	Three Months Ended June 30, 2014	2013
	(in thousands)	
Unique Visitors	137,761	108,058

- *Mobile Unique Visitors.* Since unique visitors do not include users who access our platform solely through our mobile app, we also separately calculate mobile unique visitors to gauge mobile usage. We define mobile unique visitors for a given three-month period to be the sum of (i) the average number of monthly unique visitors who have visited our mobile website during that period (measured as described above) and (ii) unique mobile devices using our mobile app on a monthly average basis over that period. Under this method of calculation, an individual who accesses both our mobile website and our mobile app, or accesses either our mobile website or our mobile app from multiple mobile devices, will be counted as multiple mobile unique visitors. Multiple individuals who access either our mobile website or mobile app from a shared device will be counted as a single mobile unique visitor.

  The following table presents the average monthly number of mobile unique visitors during the periods presented:

	Three Months Ended June 30, 2014	2013
	(in thousands)	
Mobile Unique Visitors	67,886	45,064

- *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 visits our website and claims 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, 2014	2013
	(in thousands)	
Claimed Local Business Locations	1,751	1,222

- *Active Local Business Accounts.* The number of active local business accounts represents the number of active local business accounts from which we recognized revenue in a given three-month period. We treat business accounts that have the same payment and/or user information as a single business account.

  The following table presents the number of active local business accounts from which we recognized revenue in the given three-month periods presented:

	Three Months Ended June 30, 2014	2013
	(in thousands)	
Active Local Business Accounts	80	51

- *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 expense, net; interest income; depreciation and amortization; stock-based compensation; and restructuring and integration costs. We believe that adjusted EBITDA provides useful information to investors in understanding and evaluating our operating results in the same manner as our management and our board of directors. This non-GAAP information is not necessarily comparable to non-GAAP information of other companies. Non-GAAP information should not be viewed as a substitute for, or superior to, net income (loss) prepared in accordance with GAAP as a measure of our profitability or liquidity. Users of this financial information should consider the types of events and transactions for which adjustments have been made.

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The following is a reconciliation of adjusted EBITDA to net income (loss) below for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net income (loss)	$ 2,743	$ (878)	$ 108	$ (5,677)
(Benefit) provision for income taxes	369	232	(1,602)	276
Other expense, net	15	66	17	267
Depreciation and amortization	4,034	2,637	7,695	5,115
Stock-based compensation (1)	10,083	5,713	19,539	10,318
Restructuring and integration				675
Adjusted EBITDA	$ 17,244	$ 7,770	$ 25,757	$ 10,974

(1) The stock-based compensation amount of $5.7 million and $10.3 million for the three and six months ended June 30, 2013, respectively, excludes approximately zero and $0.6 million of stock-based compensation, respectively, related to the acquisition of Qype GmbH and its subsidiaries (collectively, Qype) already included in restructuring and integration costs.

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed in the table above and elsewhere in this Quarterly Report adjusted EBITDA, a non-GAAP financial measure. We have provided a reconciliation above of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included adjusted EBITDA in this Quarterly Report because it is a key measure used by our management and our board of directors to understand and evaluate our core 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 can provide a useful measure for period-to-period comparisons of our core business. Accordingly, we believe that adjusted EBITDA provides 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 has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. 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 does 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 does 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;
- adjusted EBITDA does not take into account any restructuring and integration costs associated with our acquisition of Qype; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

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 (certain items may not foot due to rounding). The period-to-period comparison of financial results is not necessarily indicative of the results of operations to be anticipated for the full year 2014 or any future period.

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	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(as percentage of net revenue)			
Consolidated Statements of Operations Data:				
Net revenue by product:				
Local advertising	85%	81%	85%	83%
Brand advertising	10	13	10	12
Other services	5	6	5	5
Total net revenue	100%	100%	100%	100%
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	7%	7%	7%	7%
Sales and marketing	54	56	56	58
Product development	17	15	17	15
General and administrative	15	18	16	19
Depreciation and amortization	5	5	5	5
Restructuring and integration				1
Total costs and expenses	96	101	101	105
Income (loss) from operations	4	(1)	(1)	(5)
Other expense, net				
Income (loss) before income taxes	4	(1)	(1)	(5)
Benefit (provision) for income taxes			1	
Net income (loss)	3%	(1)%	%	(6)%

Three and Six Months Ended June 30, 2014 and 2013

Net Revenue

We generate revenue from local advertising, brand advertising and other services, which includes Yelp Deals, Gift Certificates and partner arrangements. The following provides a description of our revenue by product:

Local Advertising. We generate revenue from local advertising programs, including enhanced profile pages and performance and impression-based advertising in search results and elsewhere on our website and our mobile app.

Brand Advertising. We generate revenue from brand advertising through the sale of advertising solutions for national brands that want to improve their local presence in the form of display advertisements and brand sponsorships. Our national advertisers include leading brands in the automobile, financial services, logistics, consumer goods and health and fitness industries.

Other Services. We generate other revenue through partner arrangements, the sale of Yelp Deals and Gift Certificates, and monetization of remnant advertising inventory through third-party ad networks. Our revenue-sharing partner arrangements provide consumers with the ability to complete food delivery transactions and make online reservations through third parties directly on Yelp. 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 the deal. Gift Certificates allow merchants to sell full-priced gift certificates directly to customers through their business profile page. 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.

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	Three Months Ended June 30, 2014	2013	2013 to 2014 % Change	Six Months Ended June 30, 2014	2013	2013 to 2014 % Change
	(dollars in thousands)			(dollars in thousands)		
Net revenue by product:						
Local advertising	$ 75,685	$ 44,797	69%	$ 140,880	$ 83,764	68%
Brand advertising	9,055	7,048	28	16,510	11,806	40
Other services	4,047	3,178	27	7,804	5,586	40
Total net revenue	$ 88,787	$ 55,023	61%	$ 165,194	$ 101,156	63%
Net revenue by product:						
Local advertising	85%	81%		85%	83%	
Brand advertising	10	13		10	12	
Other services	5	6		5	5	
Total net revenue	100%	100%		100%	100%	

Total net revenue increased $33.8 million, or 61%, in the three months ended June 30, 2014, compared to the three months ended June 30, 2013. Our local advertising revenue increased $30.9 million, or 69%, 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. Our brand advertising revenue increased $2.0 million, or 28%, primarily due to an increase in the average spend per brand advertiser driven by increased advertising impressions per brand advertiser. In addition, our other services revenue increased by $0.9 million, or 27%, primarily due to an increase in revenue from partnership arrangements, the sale of Yelp Deals and remnant advertising inventory.

Total net revenue increased $64.0 million, or 63%, in the six months ended June 30, 2014, compared to the six months ended June 30, 2013. Our local advertising revenue increased $57.1 million, or 68%, 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. Our brand advertising revenue increased $4.7 million, or 40%, primarily due to an increase in the average spend per brand advertiser driven by increased advertising impressions per brand advertiser. In addition, our other services revenue increased by $2.2 million, or 40%, primarily due to an increase in revenue from partnership arrangements, the sale of Yelp Deals and remnant advertising inventory.

Cost of Revenue

Our cost of revenue consists primarily of credit card processing fees, web hosting expenses, Internet services costs and salaries, benefits and stock-based compensation for our infrastructure teams related to operating our website, as well as creative design for brand advertising, video production expenses and allocated facilities costs. We currently expect cost of revenue to increase on an absolute basis and remain relatively flat as a percentage of revenue in the near term as we continue to expand data center capacity and headcount associated with supporting our website and mobile app.

	Three Months Ended June 30, 2014	2013	2013 to 2014 % Change	Six Months Ended June 30, 2014	2013	2013 to 2014 % Change
	(dollars in thousands)			(dollars in thousands)		
Cost of revenue	$ 5,845	$ 4,018	45%	$ 10,922	$ 7,358	48%
Percentage of net revenue	7%	7%		7%	7%	

In the three months ended June 30, 2014, cost of revenue increased $1.8 million, or 45%, compared to the three months ended June 30, 2013. This increase was primarily attributable to an increase of $1.0 million in outside hosting and Internet service fees, which are necessary to support the increase in visitors to our website and transactions completed on our website. In addition, setup costs, including video production, for active local business pages increased by $0.2 million due to increased demand by local businesses for video on their business pages, and expenses related to creative design for brand advertising customers increased $0.1 million. Merchant fees related to credit card transactions for local advertising also increased $0.5 million.

In the six months ended June 30, 2014, cost of revenue increased $3.6 million, or 48%, compared to the six months ended June 30, 2013. This increase was primarily attributable to an increase of $1.8 million in outside hosting and Internet service fees, which are necessary to support the increase in visitors to our website and transactions completed on our website. In addition, setup costs, including video production for active local business pages, increased by $0.3 million due to increased demand by local businesses for video on their business pages and expenses related to creative design for brand advertising customers increased $0.2 million. Merchant fees related to credit card transactions for local advertising also increased $1.2 million, and we added personnel to support our website infrastructure resulting in an increase of $0.1 million.

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Sales and Marketing

Our sales and marketing expenses primarily consist of salaries, benefits, stock-based compensation, travel expense and incentive compensation for our sales and marketing employees. In addition, sales and marketing expenses include business acquisition marketing, community management, branding and advertising costs, as well as allocated facilities and other supporting overhead costs. We incur almost no sales and marketing expenses to acquire traffic to our website. Our Community Managers are responsible for growing and fostering local communities, and coordinating events to raise awareness of our brand. We expect our community management costs to increase as we continue to expand to new markets and within existing markets. We expect our sales and marketing expenses to increase both domestically and internationally as we expand our domestic and international footprint, increase the number of active local business accounts and continue to build our brand. The substantial majority of these expenses will be related to hiring Community Managers and sales employees. We expect sales and marketing expenses to increase and to be our largest expense for the foreseeable future. For the three months ended June 30, 2014, we spent $6.0 million related to our international sales and marketing operations compared to $5.1 million for the three months ended June 30, 2013. For the six months ended June 30, 2014, we spent $11.1 million related to our international sales and marketing operations compared to $10.4 million for the six months ended June 30, 2013.

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	2013 to 2014 % Change	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	2013 to 2014 % Change
	(dollars in thousands)			(dollars in thousands)		
Sales and Marketing	$ 47,798	$ 30,803	55%	$ 92,919	$ 58,997	57%
Percentage of net revenue	54%	56%		56%	58%	

In the three months ended June 30, 2014, sales and marketing expenses increased $17.0 million, or 55%, compared to the three months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $11.0 million, including an increase in stock-based compensation of $1.5 million, as we expanded our sales organization to take advantage of the market opportunity created by increased recognition of the value of our platform and increased use of our free online business accounts. As a result of our increase in net revenue, our commission expenses also increased $1.5 million. In addition, we experienced an increase in facilities and related allocations of $3.1 million and domestic and international marketing and advertising costs of $1.4 million.

In the six months ended June 30, 2014, sales and marketing expenses increased $33.9 million, or 57%, compared to the six months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $20.6 million, including an increase in stock-based compensation of $2.9 million, as we expanded our sales organization to take advantage of the market opportunity created by increased recognition of the value of our platform and increased use of our free online business accounts. As a result of our increase in net revenue, our commission expenses also increased $4.3 million. In addition, we experienced an increase in facilities and related allocations of $6.1 million and domestic and international marketing and advertising costs of $2.9 million.

Product Development

Our product development expenses primarily consist of salaries, benefits and stock-based compensation for our engineers, product management and information technology personnel. In addition, product development expenses include outside services and consulting, allocated facilities 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, 2014	Three Months Ended June 30, 2013	2013 to 2014 % Change	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	2013 to 2014 % Change
	(dollars in thousands)			(dollars in thousands)		
Product development	$ 14,726	$ 7,997	84%	$ 28,708	$ 15,233	88%
Percentage of net revenue	17%	15%		17%	15%	

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In the three months ended June 30, 2014, product development expenses increased $6.7 million, or 84%, compared to the three months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $6.4 million, including an increase in stock-based compensation of $2.4 million, and an increase in facilities and related expenses of $0.6 million. The increase was offset by a decrease of $0.3 million in the use of outside consultants as work was transitioned internally.

In the six months ended June 30, 2014, product development expenses increased $13.5 million, or 88%, compared to the six months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $12.9 million, including an increase in stock-based compensation of $4.6 million, and an increase in facilities and related expenses of $1.2 million. The increase was offset by a decrease of $0.6 million in the use of outside consultants as work was transitioned internally.

General and Administrative

Our general and administrative expenses primarily consist of salaries, benefits and stock-based compensation for our executive, finance, user operations, legal, human resources and other administrative employees. In addition, general and administrative expenses include outside consulting, legal and accounting services, and facilities and other supporting overhead costs not allocated to other departments. We expect general and administrative expenses to increase for the foreseeable future as we continue to expand our business and incur additional expenses associated with being a publicly traded company.

	Three Months Ended June 30,		2013 to	Six Months Ended June 30,		2013 to
	2014	**2013**	**2014 %**	**2014**	**2013**	**2014 %**
	(dollars in thousands)		**Change**	**(dollars in thousands)**		**Change**
General and administrative	$ 13,257	$ 10,148	31%	$ 26,427	$ 18,912	40%
Percentage of net revenue	15%	18%		16%	19%	

In the three months ended June 30, 2014, general and administrative expenses increased $3.1 million, or 31%, compared to the three months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $2.2 million, including an increase in stock-based compensation of $0.5 million. Additionally, we invested in our systems and support for the growth of the business through the use of outside consultants, which contributed to the increase by $0.2 million, and had an increase in bad debt expense of $0.3 million. We also experienced an increase in facilities and related expenses of $0.4 million.

In the six months ended June 30, 2014, general and administrative expenses increased $7.5 million, or 40%, compared to the six months ended June 30, 2013. The increase was primarily attributable to an increase in headcount and related expenses of $5.0 million, including an increase in stock-based compensation of $1.6 million. Additionally, we invested in our systems and support for the growth of the business through the use of outside consultants, which contributed to the increase by $0.5 million, and had an increase in bad debt expense of $1.0 million. We also experienced an increase in facilities and related expenses of $1.0 million.

Depreciation and Amortization

Depreciation and amortization expenses primarily consist of depreciation on computer equipment, software, leasehold improvements, capitalized website and internal-use software development costs and amortization of purchased intangibles. 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,		2013 to	Six Months Ended June 30,		2013 to
	2014	**2013**	**2014 %**	**2014**	**2013**	**2014 %**
	(dollars in thousands)		**Change**	**(dollars in thousands)**		**Change**
Depreciation and amortization	$ 4,034	$ 2,637	53%	$ 7,695	$ 5,115	50%
Percentage of net revenue	5%	5%		5 %	5%	

In the three months ended June 30, 2014, depreciation and amortization expense increased $1.4 million, or 53%, compared to the three months ended June 30, 2013. The increase was primarily the result of our investments in expanding our technology infrastructure and capital assets to support our increase in headcount across the organization. Depreciation and amortization related to our fixed assets and capitalized website and internal-use software development costs increased $0.9 million and $0.5 million, respectively.

In the six months ended June 30, 2014, depreciation and amortization expense increased $2.6 million, or 50%, compared to the six months ended June 30, 2013. The increase was primarily the result of our investments in expanding our technology infrastructure and capital assets to support our increase in headcount across the organization. Depreciation and amortization related to our fixed assets and capitalized website and internal-use software development costs increased $1.7 million and $0.8 million, respectively. In addition, amortization related to our intangibles increased $0.1 million primarily due to the intangibles acquired in the Qype and SeatMe acquisitions.

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Restructuring and Integration

	Three Months Ended June 30,		2013 to	Six Months Ended June 30,		2013 to
	2014	2013	2014 %	2014	2013	2014 %
	(dollars in thousands)		Change	(dollars in thousands)		Change
Restructuring and Integration Costs	$	$		$	$ 675	N/A
Percentage of net revenue	%	%		%	1%	

In the quarter ended March 31, 2013, we announced our plan to further reduce the size of the Qype workforce. These actions were made in order to reduce our cost structure, enhance operating efficiencies and strengthen our business to achieve long-term profitable growth. We incurred restructuring and integration costs of $0.7 million in the three months ended March 31, 2013 as a result of this plan. The restructuring was completed during 2013.

Other Expense, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Interest income	$ 202	$ 14	$ 236	$ 30
Transaction gain (loss) on foreign exchange	(128)	(61)	(177)	(223)
Other non-operating income (loss), net	(89)	(19)	(76)	(74)
Other expense, net	$ (15)	$ (66)	$ (17)	$ (267)

In the three months ended June 30, 2014, other expense, net decreased $0.1 million compared to the three months ended June 30, 2013. The net decrease was largely driven by an increase in interest income, related to the purchase of marketable securities during the quarter. This was offset by increases in foreign exchange losses due to unfavorable foreign currency exchange rates during the three months ended June 30, 2014 compared to June 30, 2013.

In the six months ended June 30, 2014, other expense, net decreased $0.3 million compared to the six months ended June 30, 2013. The decrease was largely attributable to an increase in interest income, related to the purchase of marketable securities during the period. Additionally, there was a decrease in foreign exchange losses due to more favorable foreign currency exchange rates during the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

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,		Six Months Ended June 30,	
	2014	2013	2014	2013

	(in thousands)		(in thousands)	
Benefit (Provision) for taxes	$ (369)	$ (232)	$ 1,602	$ (276)
Percentage of net revenue	%	%	1 %	%

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Liquidity and Capital Resources

As of June 30, 2014, we had cash and cash equivalents of $290.4 million. Cash and cash equivalents consist of cash and money market funds. Our cash held internationally as of June 30, 2014 was $6.7 million. We did not have any outstanding bank loans or credit facilities in place as of June 30, 2014. Our investment portfolio is comprised of highly-rated securities, and our investment policy limits the amount of credit exposure to any one issuer. The policy generally requires securities to be investment grade (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 of SeatMe and Qype through proceeds from private and public financings, including our initial public offering (IPO) in March 2012, our follow-on offering in October 2013, cash generated from operations and, to a lesser extent, from the exercise of employee stock options.

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 presented.

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Purchases of property, equipment and software	$ (7,212)	$ (4,966)
Depreciation and amortization	7,695	5,115
Cash flows provided by operating activities	19,989	5,114
Cash flows used in investing activities	(134,148)	(7,720)
Cash flows provided by financing activities	14,746	4,411

Operating Activities

We generated $20.0 million of cash in operating activities in the six months ended June 30, 2014, primarily resulting from our net income of $0.1 million, which included non-cash depreciation and amortization of $7.7 million, non-cash stock-based compensation of $19.5 million and non-cash provision for doubtful accounts of $2.6 million. In addition, operating assets and liabilities changed by $9.6 million, primarily due to the timing of collections on accounts receivable and payments to vendors during the six months ended June 30, 2014.

We generated $5.1 million of cash in operating activities in the six months ended June 30, 2013, primarily resulting from our net loss of $5.7 million, offset by non-cash depreciation and amortization of $5.1 million, non-cash stock-based compensation of $10.9 million and non-cash provision for doubtful accounts of $1.3 million. In addition, operating assets and liabilities changed by $6.6 million, primarily due to the timing of payments to vendors and collections on our accounts receivable during the six months ended June 30, 2013.

Investing Activities

Our primary investing activity in the six months ended June 30, 2014 consisted of purchases of marketable securities, as well as the continued purchases of property and equipment to support the build out of our data centers, leasehold improvements for our headquarters building in San Francisco and other locations and 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 and equipment, as well as leasehold improvements, 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 and equipment, leaseholds and the development of software for the remainder of 2014 and thereafter.

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We used $134.1 million of cash in investing activities during the six months ended June 30, 2014. Cash used in investing activities primarily related to purchases of marketable securities of $122.2 million, as well as an increase in expenditures related to website and internally developed software of $4.3 million, purchases of property, equipment, software and leasehold improvements of $7.2 million to support our growth in the business and an increase in restricted cash of $0.4 million associated with letters of credit in connection with leased office space.

We used $7.7 million of cash in investing activities during the six months ended June 30, 2013. Cash used in investing activities primarily related to an increase in expenditures related to website development of $2.1 million and purchases of property, equipment, software and leasehold improvements of $5.0 million to support our growth in the business. Restricted cash increased by $1.8 million related to office leases. Cash used in investing was offset by $1.2 million of cash released from escrow related to the Qype acquisition, recorded as a measurement period adjustment to the initial fair value of the acquired assets and liabilities during the six months ended June 30, 2013.

Financing Activities

During the six months ended June 30, 2014, we generated $14.7 million in financing activities primarily due to net proceeds of $10.8 million from the issuance of common stock upon the exercise of stock options, and $4.1 million in net proceeds from the sale of stock under our 2012 Employee Stock Purchase Plan.

During the six months ended June 30, 2013, we generated $4.4 million in financing activities primarily due to net proceeds from the issuance of common stock upon the exercise of stock options.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements in 2013 or the first six months of 2014.

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2014 to 2021. 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, 2014, the following table summarizes our contractual obligations and the effect such obligations are expected to have on our liquidity and cash flow in future periods

	Payments Due by Period				
	Total	Less Than 1 Year	1 3 Years	3 5 Years	More Than 5 Years
	(in thousands)				
Operating lease obligations	$ 104,508	$ 16,832	$ 33,181	$ 28,433	$ 26,062

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above. As of June 30, 2014, our total liability for uncertain tax positions was $1.9 million. We are not able to reasonably estimate the timing of future cash flow related to this liability. As a result, this amount is not included in above contractual obligations table.

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 our business. These risks include primarily interest rate fluctuations, foreign currency exchange risks and inflation.

Interest Rate Fluctuation Risk

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 interest rates as of June 30, 2014 would not have a material impact on our cash and cash equivalent portfolio.

Our marketable securities are comprised of fixed-rate debt securities issued by 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 the British pound sterling 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 our 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, would not have a material impact on our results of operations. In the event our foreign sales and expenses continue to 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, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. 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 and 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 U.S. Securities and Exchange Commission s (SEC) 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 our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, 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 period covered by this Quarterly Report 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 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 collusion of two or more people or by management override of the controls. The design of any system of controls also is 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February and March 2010, we were sued in two putative class actions on behalf of local businesses asserting various causes of action based on claims that we manipulated the ratings and reviews on our platform to coerce local businesses to buy our advertising products. These cases were subsequently consolidated in an action asserting claims for violation of the California Business and Professions Code, extortion and attempted extortion based on the conduct they allege and seeking monetary relief in an unspecified amount and injunctive relief. In October 2011, the court dismissed this consolidated action with prejudice. The plaintiffs have appealed to the U.S. Court of Appeals for the Ninth Circuit, which heard the appeal on July 11, 2013. The Ninth Circuit has not yet issued a decision. Accordingly, we are currently unable to reasonably estimate either the probability of incurring a loss or an estimated range of such loss, if any, from this appeal.

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

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.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Risks Related to Our Business and Industry

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. This limited 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 have only 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, such as Qype and SeatMe;
- 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 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 have incurred significant operating losses in the past, and we may not be able to generate sufficient revenue to 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 June 30, 2014, we had an accumulated deficit of approximately $70.3 million. Although our revenues have grown rapidly in the last several years, increasing from $12.1 million in 2008 to $233.0 million in 2013, 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. In addition, 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;
- domestic and international expansion efforts;
- product and feature development;
- our technology infrastructure;
- 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 maintain profitability.

We rely on traffic to our website from search engines like Google and Bing, some of which offer products and services that compete directly with our solutions. If information from and links to our website are not displayed as prominently on search engine result pages as those from competing products and services, 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 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 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 the second quarter of 2014, for example, Google made changes to its algorithms and methodologies that negatively impacted some markets, particularly our international markets, and positively impacted others. We cannot predict the long-term impact of these changes. In some instances, search engine companies 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. Search engines may also remove links to content on our website from their search results in response to takedown requests submitted following a decision from the European Court of Justice regarding an individual s right to be forgotten.

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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 our website is displayed 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 ended June 30, 2014. 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 42% of the businesses that have been reviewed on our platform and approximately 58% of our cumulative reviews through June 30, 2014. 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 automated 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, and our business could suffer.

While we have designed our technology to avoid recommending content that we believe may be biased, unreliable or otherwise unhelpful, we cannot guarantee that our efforts will be effective or adequate. In addition, 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. This may cause consumers and businesses to stop or reduce their use of our platform or our advertising solutions. If the performance of our automated recommendation software 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 and expand our base of users and advertisers, as well as 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 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 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, if consumers do not perceive the user content on our platform to be authentic, they may lose trust in the integrity of the content and our brand may be harmed. This may occur if consumers 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.

Similarly, certain media outlets have previously reported allegations that a significant percentage of the reviews on our platform are not genuine. We dedicate significant resources to the goal of maintaining and enhancing the quality, authenticity and integrity of the reviews on our platform. In particular, our automated recommendation software analyzes all reviews submitted to our platform and highlights what it determines to be the most useful and reliable of them by publishing them directly on business listing pages. Our recommendation software is designed to avoid recommending content that we believe may be biased, unreliable or otherwise unhelpful; for example, our software may not recommend reviews written by users about whom we have limited information, reviews that may be biased because they were solicited from family, friends or favored customers, or unhelpful rants and raves. Our recommendation software operates continually, and the results of its determinations with respect to particular reviews may change over time as it factors in new information.

In addition, we take steps to address reviews that may not be reliable through our consumer alerts program, coordination with consumer protection agencies and law enforcement, sting operations targeting the buying and selling of reviews and, in certain egregious cases, taking legal action against businesses we believe to be engaged in deceptive activities. We also remove content from our platform that violates our terms of service, including, without limitation: fake or defamatory content; content that has been bought, sold or traded; threatening, harassing or lewd content, as well as hate speech and other displays of bigotry; and content that violates the rights of any third party or any applicable law. As of June 30, 2014, approximately 69% of the reviews submitted to our platform were recommended; approximately 24% were not recommended but still accessible on our platform and approximately 7% had been removed. However, we cannot guarantee that each of the 42.5 million reviews on our platform that have been recommended and that have not been removed for violating our terms of service as of June 30, 2014 is useful or reliable. 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 increase the frequency with which they use our platform.

Maintaining and enhancing our brand may 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 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 operations. 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.

***Negative publicity could adversely affect our reputation and brand.**

Negative publicity about our company, including our technology, sales practices, personnel, customer service or litigation or political activities, could diminish confidence in 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. 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 automated recommendation software applies in a nondiscriminatory manner to both advertisers and nonadvertisers, we have made all reviews that are not recommended accessible on our platform. 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 content on our website and mobile app 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. In addition, our website and mobile app also 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. Similarly, the actions of our partners may affect our brand if users do not have a positive experience completing transactions on the Yelp Platform.

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

For the three and six months ended June 30, 2014, substantially all of our revenue was generated by the sale of advertising products. We have incurred significant costs to attract current and future advertisers and expect to incur significant additional costs for the foreseeable future. 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. Many prospective advertisers, such as those in new markets, may not be familiar with our products or may view them as unproven. Many of these businesses are more accustomed to using more traditional methods of advertising, such as newspapers or print yellow pages directories. If we do not deliver ads in an effective manner, or we do not provide accurate analytics and measurement solutions that demonstrate the value of our ads, advertisers may choose not to advertise with us.

Our advertisers typically do not have long-term obligations to purchase our products, and their decisions to renew depend on a number of factors, including the degree of satisfaction with our products and their ability to continue their operations and spending levels. We rely heavily on advertising spend by small and medium-sized local businesses, which have historically experienced high failure rates and often have limited advertising budgets. 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.

We may face greater challenges as we continue to expand our advertiser base in businesses outside the restaurant and shopping categories, which together accounted for approximately 42% of the businesses that have been reviewed on our platform and approximately 58% of our cumulative reviews through June 30, 2014, especially if these businesses believe that consumers perceive the utility of our platform to be limited to finding businesses in the restaurant and shopping categories. The ratings and reviews that businesses receive from our users may also affect advertising decisions by current and prospective advertisers. For instance, favorable ratings and reviews, on the one hand, could be perceived as obviating the need to advertise, and unfavorable ratings and reviews, on the other, could discourage businesses from advertising to an audience they perceive as hostile or cause them to form a negative opinion of our products and user base, which could discourage them from doing business with us.

We must continually add new advertisers both 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, to grow our business. If our advertisers increase their rates of non-renewal or if we experience significant advertiser attrition or contract breach, or if we are unable to attract new advertisers in numbers greater than the number of advertisers that we lose, our client base will decrease and our business, financial condition and results of operations would be harmed.

If we fail to expand effectively into new markets, both domestically and abroad, our revenue and our business will be harmed.

We intend to expand our operations into new markets, both domestically and abroad. We may incur losses or otherwise fail to enter new markets successfully. Our expansion into new markets places us in competitive environments with which we are unfamiliar and involves various risks, including the need to invest significant resources and the possibility that returns on such investments will not be achieved for several years, or at all. In attempting to establish a presence in new markets, we expect, as we have in the past, to incur significant expenses and face various other challenges, such as expanding our sales force and community management personnel to reach those new markets and encountering different and potentially lower levels of user engagement in some or all of these markets. Our current and any future expansion plans will require significant resources and management attention. Furthermore, we have already entered many of the largest markets in the United States and further expansion in smaller markets may not yield similar results or sustain our growth.

We plan to continue expanding our operations abroad where we have limited operating experience and may be subject to increased risks that could affect our financial results.

We plan to continue the international expansion of our operations and our offerings in new languages. Our platform is now available in English and several other languages. However, we may have difficulty modifying our technology and content for use in non-English-speaking markets or fostering new communities in non-English-speaking markets. Our ability to manage our business and conduct our operations internationally requires considerable management attention and resources, and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems and commercial infrastructures. Furthermore, in most international markets, we would not be the first entrant, and our competitors may be better positioned than we are to succeed. Expanding internationally may 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:

- recruiting and retaining qualified, multi-lingual employees, including sales personnel;
- integrating businesses we may acquire internationally, such as Qype;
- increased competition from local websites and guides, and potential preferences by local populations for local providers;
- compliance with applicable foreign laws and regulations, including different privacy, censorship and liability standards and regulations and different intellectual property laws;
- 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;
- 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 established markets;
- the enforceability of our intellectual property rights;
- credit risk and higher levels of payment fraud;
- compliance with anti-bribery laws, including but not limited to compliance with the Foreign Corrupt Practices Act and the U.K. Bribery Act;
- currency exchange rate fluctuations;
- 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 potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate; and
- higher costs of doing business internationally.

Mobile advertising is new and evolving. If our mobile advertising solutions are not compelling or do not operate effectively with mobile operating systems, growth in use of our mobile app and mobile website, particularly if it substitutes for use of our website on personal computers, may adversely affect our results of operations and business.

The number of people who access information about local businesses through mobile devices, including smartphones and handheld tablets or computers, has increased dramatically in the past few years and is expected to continue to increase. Although we currently deliver advertising on our mobile app and mobile website, the mobile advertising market remains a new and evolving market. Given our limited experience in monetizing our mobile products and commitment to prioritizing the quality of user experience over short-term monetization, we may not be able to generate meaningful revenue from our mobile products despite the expected growth in mobile usage. In addition, if consumers use our mobile app and mobile website as substitutes for, rather than in addition to, use of our website on personal computers and our mobile solutions prove ineffective, our advertisers may stop or reduce their advertising with us. Similarly, we may be unable to attract new advertisers if our mobile advertising solutions are not compelling. If our advertising solutions are not effective or we fail to continue to innovate and introduce enhanced mobile solutions, if our solutions alienate our user base, or if our solutions are not widely adopted or are insufficiently profitable, our business may suffer.

Additionally, we are dependent on the interoperability of our mobile products with popular mobile operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade their functionality could adversely affect mobile usage. 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 in integrating our mobile app into mobile devices or if problems arise with our relationships with providers of mobile operating systems or mobile application download stores, such as those of Google, with whose local products we compete, or Apple, our user growth and user engagement could be harmed. In addition, if our applications receive unfavorable treatment compared to the promotion and placement of competing applications, such as the order of our products in the Apple AppStore, or if we face increased costs to distribute our mobile app, our future growth and our results of operations could suffer. Further, in the event that it becomes more difficult for our users to access and use our mobile app, or if users choose to use mobile products that do not offer access to our mobile app, we may be unable to decrease our reliance on traffic from Google and other search engines.

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We expect to face increased competition in the market.

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. Our competitors include, among others, offline media companies and service providers; newspaper, television and other media companies; Internet search engines, such as Google and Bing; and various other online service providers and review websites, including regional review websites that may have strong positions in particular countries.

Our competitors may 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. 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 many of our advertisers and potential advertisers may choose to purchase online advertising services from these competitors and may reduce their purchases of our products. In addition, many of our current and potential competitors have established marketing relationships with and access to larger client bases. Certain competitors could also use strong or dominant positions in one or more markets to gain competitive advantage against us in areas where we operate, including by: integrating review platforms or features into products they control, such as search engines, web browsers or mobile device operating systems; changing their unpaid search result rankings to promote their products; refusing to enter into or renew licenses on which we depend; or limiting or denying our access to advertising measurement or delivery systems.

As the market for local online advertising increases, new competitors, business models and solutions are likely to emerge. We also compete with these companies for the attention of contributors and consumers, and may experience decreases in both if our competitors offer more compelling environments. For all of these reasons, we may be unable to maintain or grow the number of people who use our website and mobile app and the number of businesses that use our advertising solutions and we may face pressure to reduce the price of our advertising solutions, in which case our business, results of operations and financial condition will be harmed.

The traffic to our website and mobile application may decline and our business may suffer if other companies copy information from our platform and publish or aggregate it with other information for their own benefit.

From time to time, other companies copy information from our platform, through website scraping, robots or other means, and publish or aggregate it with other information for their own benefit. For example, in parts of 2010 and 2011, Google incorporated content from our website into its own local product without our permission. Google s users, as a result, may not have visited our website because they found the information they sought on Google. While we do not believe that Google is still incorporating our content within its local products, we have no assurance that Google or other companies will not copy, publish or aggregate content from our platform in the future.

When third parties copy, publish or aggregate content from our platform, it makes them more competitive and decreases the likelihood that consumers will visit our website or use our mobile app to find the information they seek, which could negatively affect our business, results of operations and financial condition. We may not be able to detect such third-party conduct in a timely manner and, even if we could, we may not be able to prevent it. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may be inadequate to protect us against such practices. In addition, we may be required to expend significant financial or other resources to successfully enforce our rights.

The impact of worldwide economic conditions, including the resulting effect on advertising spending by local businesses, may adversely affect our business, operating results and financial condition.

Worldwide economic conditions, such as the sovereign debt and federal government funding issues in the United States, create uncertainty and unpredictability and add risk to our future outlook. Our performance is subject to, among other things, the impact of worldwide economic conditions on levels of advertising spend by small and medium-sized businesses, which may be disproportionately affected by economic downturns. In the event of an economic slowdown or deterioration of worldwide economic conditions, our existing and potential advertising clients may no longer consider investment in our advertising solutions a necessity, or may elect to reduce advertising budgets. Historically, economic downturns have resulted in overall reductions in advertising spending. In particular, web-based advertising solutions may be viewed by some of our existing and potential advertising clients as a lower priority and could cause advertisers to reduce the amounts they spend on advertising, terminate their use of our solutions or default on their payment obligations to us. In addition, economic conditions may adversely impact levels of consumer spending, which could adversely impact the numbers of consumers visiting our website and mobile app. Consumer purchases of discretionary items generally decline during recessionary periods and other periods in which disposable income is adversely affected. If spending at many of the local businesses reviewed on our platform declines, businesses may be less likely to use our advertising products, which could have a material adverse effect on our financial condition and results of operations.

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We face potential liability and expense for legal claims based on the content on our platform.

We face potential liability and expense for legal claims relating to the information that we publish on our website and mobile app, including claims for defamation, libel, negligence and copyright or trademark infringement, among others. For example, businesses in the past have claimed, and may in the future claim, that we are responsible for 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. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be compelled to remove content 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 valuable content from our website or mobile app, our platform may become less useful to consumers and our traffic may decline, which could have a negative impact on our business and financial performance.

This risk may be increased if the immunities afforded to websites that publish user-generated content are limited through new legislation or otherwise. For example, laws relating to the liability of providers of online services for activities of their users and other third parties 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 may also be enhanced in certain jurisdictions outside the United States where our protection from liability for third-party actions may be unclear and where we may be less protected under local laws than we are in the United States.

****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 for certain users, 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, such as the Children s Online Privacy Protection Act, which regulates the way we collect and use information from children. 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, and may be inconsistent between countries. It is also possible that the interpretation and application of these obligations 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 such as TRUSTe). 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.

Similarly, our business could be adversely affected if new legislation or regulations are adopted that are inconsistent with our current business practices and that require us to change these 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 the personal information of their users. The U.S. government, including the White House, the Federal Trade Commission and the Department of Commerce, and many state governments are reviewing the need for greater regulation of the collection of information concerning consumer behavior with respect to online services, including regulation aimed at restricting certain targeted advertising practices and the collection and use of data from mobile services. In addition, the European Union is in the process of promulgating a new general data protection regulation, which may 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. Similarly, such changes could 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 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 affect 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.

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Our growth depends in part on the success of our strategic relationships with third parties, and any failure to maintain these relationships could harm our business.

We rely in part on relationships with various third parties to grow our business, including strategic partners and technology and content providers. Identifying, negotiating and maintaining relationships with third parties require significant time and resources, as does integrating their services and technologies onto our platform. We may also have competing interests and obligations with respect to our partners, which may make it difficult to maintain, grow or maximize the benefit of each partnership. In addition, 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. It is also possible that these third parties may not be able to devote the resources we expect to the relationships or they may terminate their relationships with us. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to grow our business could be impaired, and our operating results could suffer.

****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 October 2012, we acquired Qype to accelerate our international expansion and, in July 2013, we acquired SeatMe to obtain an online reservation 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 suitable 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 or our ability to achieve profitability. 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. We may also fail to accurately forecast the financial impact of an acquisition transaction, including related accounting charges.

In order to realize any gains from any acquisition that is consummated, we must successfully complete the integration of the acquired business, its operations, services and personnel with our organization. In order to realize the expected benefits and synergies of our acquisitions, we must meet a number of significant challenges, including:

- integrating operations, strategies, sites and technologies, and personnel of the acquired company;
- managing the combined business effectively;
- retaining and assimilating the key personnel 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 employees and corporate cultures;
- implementing and retaining uniform standards, controls, procedures, policies and information systems;
- addressing risks related to the business of acquired company that may continue to impact the businesses following the acquisition; and
- potential unknown liabilities associated with an acquired company.

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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. In addition, we may be required to spend additional time or funds on integration that otherwise would be spent on the development and expansion of the combined business. 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 integration of each business, and these benefits may not be achieved within a reasonable period of time.

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 Qype in October 2012 and SeatMe in July 2013, which places substantial demands on management and our operational infrastructure. Most of our employees have been with us for fewer than two years. We intend to make substantial investments in our technology, sales and marketing and community management organizations. As we continue to grow, 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. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could harm our brand, results of operations and business.

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 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. 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 website and mobile app.

It may become increasingly difficult to maintain and improve the availability of our platform, especially during peak usage times, as our solutions become more complex and our user traffic increases. 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 and operations 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 density than rural areas, could cause disruptions in our or our local business 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.

We are, and may in the future be, 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, certain of our users have sued us claiming that they were in fact Yelp employees and should have received minimum wage for their time spent writing reviews. Other users have brought suit alleging that we violated their privacy rights when our mobile app accessed certain data on their mobile devices. Various businesses have also sued us alleging that we manipulate Yelp reviews in order to coerce them and other businesses to pay for Yelp advertising.

Companies in the Internet, technology and media industries own large numbers of patent and other intellectual property rights, and frequently enter into litigation based on allegations of infringement or other violations of such rights. In addition, various non-practicing entities that own patents and other intellectual property rights 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. We do not own any patents, and, therefore, may be unable to deter competitors or others from pursuing patent or other intellectual property infringement claims against us. We presently are involved in numerous patent lawsuits, all of which involve plaintiffs targeting multiple defendants in the same or similar suits.

Other claims against us can be expected to be made 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 certainty. Even if the claims are without merit, the costs associated with defending these types of claims 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 are difficult to predict and may require us to stop offering certain features, purchase licenses or modify our products and features while we develop non-infringing substitutes or may result in significant settlement costs. Even if these matters do not result in litigation or are resolved in our favor or without significant cash settlements, these matters, and the time and resources necessary to litigate or resolve them, could harm our business, results of operations and reputation.

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, as open source licensors generally do not provide warranties or controls on the origin of 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.

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 upon the best interests of the consumers who use our platform. We believe that this approach has been essential to our success in increasing our user growth rate and the frequency with which consumers use our platform and has served the long-term interests of our company and our stockholders. 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, and we believe that continued adherence to this principle will, in the long term, benefit our stockholders. In particular, our approach of putting our consumers first may negatively impact our relationships with our 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 allow the review to remain on the 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.

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

We rely on data about local businesses from third parties, including various yellow pages and other third parties that license such information to us. We also rely on third parties for other aspects of our business, such as mapping functionality and administrative software solutions. If these third parties experience difficulty meeting our requirements or standards, or our licenses are revoked or not renewed, it could make it difficult for us to operate some aspects of our business, which could damage our reputation. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruption, increase their fees or if our relationships with these providers deteriorate, we could suffer increased costs and delays in our ability to provide consumers and advertisers with content or provide similar services until an equivalent provider could be found or we could develop replacement technology or operations.

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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 quarter to quarter and year to year because of a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- Our ability to attract new local business advertisers and retain existing advertisers;
- our ability to accurately forecast revenue and adjusted EBITDA, as well as appropriately estimate and plan our expenses;
- the effects of changes in search engine placement and prominence;
- the effects of increased competition in our business;
- our ability to expand successfully in existing markets, enter new markets and manage our international expansion;
- our ability to maintain and increase traffic to our website and mobile app;
- our ability to manage and integrate successfully any acquisitions of businesses, solutions or technologies, such as Qype and SeatMe;
- 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;
- our ability to protect and grow our intellectual property;
- our ability to maintain an adequate rate of growth and effectively manage that growth;
- our ability to keep pace with changes in technology;
- the success of our sales and marketing efforts;
- costs associated with defending intellectual property infringement and other claims and related judgments or settlements;
- changes in government regulation affecting our business;
- interruptions in service and any related impact on our reputation;
- the attraction and retention of qualified employees and key personnel;
- our ability to choose and effectively manage third-party service providers;
- the impact of fluctuations in currency exchange rates;
- changes in consumer behavior with respect to local businesses;
- fluctuations in spending by our advertisers due to seasonality, such as historically stronger spending in the fourth quarter of each year, or other factors;
- the effects of natural or man-made catastrophic events;
- the effectiveness of our internal controls; and
- changes in our tax rates or exposure to additional tax liabilities.

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.

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. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract them. As we mature, the incentives to attract, retain and motivate employees provided by our equity awards, for example, may not be as effective as in the past, and if we issue significant equity to attract additional employees, the ownership of our existing stockholders may be further diluted and our expenses may significantly increase.

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In addition, the loss of any of our senior management or key employees could materially adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. 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. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be harmed.

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, and 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 nor 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. We are seeking to protect our trademarks and domain names in an increasing number of jurisdictions, a process that is expensive and may not be successful or which we may not pursue in every location. Litigation may be necessary to enforce our intellectual property rights, protect our respective trade secrets or determine the validity and scope of proprietary rights claimed by others. 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 incur significant costs in enforcing our trademarks against those who attempt to imitate our Yelp brand. If we fail to maintain, protect and enhance our intellectual property rights, our business and operating results may be harmed.

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 our website 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 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 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.

****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 may occur on our systems in the future. We may be a particularly compelling target for such attacks as a result of our brand recognition. 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. Because 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 and may originate from less regulated and more remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. User and business owner accounts and profile pages could also be hacked, hijacked, altered or otherwise claimed or controlled by unauthorized persons. For example, we enable businesses to create free online business accounts and claim the business profile pages for each of their business locations. We verify these claims through an automated telephone verification process, which is designed to confirm that the person setting up the account is affiliated with the business by confirming that the person has access to the business s telephone. Our verification system could fail to confirm that the recipient of the call is an authorized representative of the business, or mistakenly allow an unauthorized representative to claim the business s profile page.

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Any or all of these issues could negatively impact our ability to attract new users or could deter current users from returning or reduce the frequency with which consumers and advertisers use our solutions, cause existing or potential advertisers to cancel their contracts or subject us to third-party lawsuits or other action or liability, thereby harming our results of operations. 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. For example, we work with third party vendors to process credit card payments by certain of our users and local businesses and are subject to payment card association operating rules. If our security measures fail to protect this 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 our users and local businesses for their losses, as well as the vendors under our agreements with them; be subject to fines and higher transaction fees; or face regulatory action. Any of these events could cause our users, local businesses and vendors to end their relationships with us, which would harm our business and financial results.

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 federal, 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. For example, the Credit CARD Act requires that gift cards expire no earlier than five years after their issue. Yelp Deals are comprised of two components: (i) the purchase value, which is the amount paid by the purchaser and which does not expire, and (ii) the promotional value, which is the remaining value for which the Yelp Deal can be redeemed during a limited period, which typically ends one year after the date of purchase. If, contrary to our belief, the Credit CARD Act and similar state laws were held to apply to the promotional value component of Yelp Deals, consumers would be entitled to redeem the promotional value component of their Yelp Deals for up to five years after their issue, and we could face liability for redemption periods that are less than five years. Various companies that provide deal products similar to ours have been subject to allegations that their deal products are subject to the Credit CARD Act and various state laws governing gift cards and that such companies have violated these laws as a result of expiration dates and other restrictions they have placed on their deals. 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. For example, although it is the responsibility of merchants to redeem or refund unexpired Yelp Deals and Gift Certificates that they offer through our platform, the law might be interpreted to require that we redeem or refund them. Because merchants alone, and not Yelp, are in a position to track the redemption of Yelp Deals and Gift Certificates, we may not be able to comply with such a requirement without substantial and potentially costly changes to our infrastructure and business practices. 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.

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

We intend to continue to make investments to support our business growth and may require or otherwise seek additional funds to respond to business challenges, including the need to develop new features and products or enhance our existing services, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, 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 holders of our Class A common stock. Any debt financing we secure in the future 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 to respond to business challenges could be significantly impaired, and our business may be harmed.

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The intended tax benefits of our corporate structure and intercompany arrangements depend on the application of the tax laws of various jurisdictions and on how we operate our business.

Our corporate structure and intercompany arrangements, including the manner in which we develop and use our intellectual property and the transfer pricing of our intercompany transactions, are intended to reduce our worldwide effective tax rate. 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 the 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.

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.

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. As we operate in numerous taxing jurisdictions, the application of tax laws can 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. In addition, tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. In particular, there is uncertainty in relation to the U.S. tax legislation not only in terms of 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.

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 which we intend to eventually derive could be undermined if we are unable to adapt the manner in which we operate our business and due to changing tax laws.

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

The current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. 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.

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

Under GAAP, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered include a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include declines in our stock price and market capitalization or future cash flows projections. We recorded a significant amount of goodwill related to our acquisition of Qype in the fourth quarter of 2012 and our acquisition of SeatMe in the third quarter of 2013. A decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill and intangible assets. Any such material charges may have a material negative impact on our financial position and operating results.

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.

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Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, including our founders, directors, executive officers and employees and their affiliates, together beneficially own shares representing approximately 63% of the voting power of our outstanding capital stock as of June 30, 2014. Consequently, the holders of Class B common stock collectively will continue to be 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. Because of the 10-to-1 voting ratio between our Class B and Class A common stock, 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 Class A and Class B common stock. This concentrated control will limit our other stockholders ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected. 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 in the long term, which may include existing founders, officers and directors and their affiliates.

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. Between January 1, 2013 and June 30, 2014, our Class A common stock s daily closing price has ranged from $19.70 to $98.04. 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;
- issuance of research or reports by securities analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- 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.

Furthermore, the stock markets recently have 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. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management s 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 any future gains on their investments.

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Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us 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.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

****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 and 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, 2014, we had 61,529,053 shares of Class A common stock and 10,466,190 shares of Class B common stock outstanding. Although a public market exists for our Class A common stock only, shares of 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).

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.

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 continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management s attention may be diverted from other business concerns, which could harm our business and operating results. Although we have hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

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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 as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards 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 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.

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

Use of Proceeds from Public Offering of Common Stock

On March 2, 2012, we closed our initial public offering, in which we sold 8,172,500 shares of Class A common stock at a price to the public of $15.00 per share. The aggregate offering price for shares sold in the offering was approximately $122.6 million. The offer and sale of all of the shares in the initial public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-178030), which was declared effective by the SEC on February 16, 2012. Our use of proceeds to date has been as described in our final prospectus (the Prospectus) filed with the SEC pursuant to Rule 424(b) under the Securities Act on March 2, 2012, and has included the approximately $24.3 million cash portion of the purchase price of Qype and the approximately $2.2 million cash portion of the purchase price of SeatMe. There has been no material change in the planned use of proceeds from our initial public offering as described in the Prospectus. We have invested the funds received that have not yet been utilized in registered money market funds.

Issuer Purchases of Equity Securities

The table below provides information with respect to repurchases of shares of our Class B common stock. No shares of our Class A common stock were repurchased during this period.

Period	Total Number of Shares Purchased[1]	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 April 30, 2014				
May 1 May 31, 2014	4,892	$ 57.38		
June 1 June 30, 2014				
Total	4,892	$ 57.38		

(1) Represents shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock awards under our 2012 Equity Incentive Plan, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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.

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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: July 31, 2014

/s/ Rob Krolik
Rob Krolik
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Signatory)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
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	Letter Agreement, dated May 22, 2014, by and between Joseph Nachman and the Company.	8-K	001-35444	99.1	5/28/2014	
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.