YELP INC
Form 10-Q
August 03, 2015

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2015
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from to

Commission file number: 001-35444

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

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

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

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

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

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

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

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

As of July 24, 2015, there were 65,797,617 shares of registrant s Class A common stock, par value $0.000001 per share, issued and outstanding and 9,455,216 shares of registrant s Class B common stock, par value $0.000001 per share, issued and outstanding.

YELP INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

Unless the context otherwise indicates, where we refer in this Quarterly Report on Form 10-Q (the Quarterly Report) to our mobile application or mobile app, we refer to all of our applications for mobile-enabled devices; references to our mobile platform refer to both our mobile app and the versions of our website that are optimized for mobile-based browsers. Similarly, references to our website refer to both the U.S. and international versions of our website, as well as the versions of our website that are optimized for mobile-based browsers.

In the fourth quarter of 2014, we acquired Restaurant Kritik, a German review website, and Cityvox SAS, a French review website. Following these acquisitions, we migrated the content and redirected the websites of Restaurant Kritik and Cityvox to the Yelp platform. Accordingly, the traffic, content and local business activity of Restaurant Kritik and Cityvox are included in the key metrics presented in this Quarterly Report as of and for the quarter ended June 30, 2015.

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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 181,460	$ 247,312
Short-term marketable securities	186,673	118,498
Accounts receivable (net of allowance for doubtful accounts of $2,343 and $1,627 at June 30, 2015 and December 31, 2014, respectively)	41,339	35,593
Prepaid expenses and other current assets	22,713	19,355
Total current assets	432,185	420,758
Long-term marketable securities		38,612
Property, equipment and software, net	72,603	62,761
Goodwill	173,296	67,307
Intangibles, net	42,458	5,786
Restricted cash	16,285	17,943
Other assets	4,560	16,483
Total assets	$ 741,387	$ 629,650
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,706	$ 1,398
Accrued liabilities	37,716	29,581
Deferred revenue	2,546	2,994
Total current liabilities	41,968	33,973
Long-term liabilities	13,254	7,527
Total liabilities	55,222	41,500
Commitments and contingencies (Note 10)		
Stockholders equity		
Common stock, $0.000001 par value 500,000,000 shares authorized; 75,232,705 and 72,920,582 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively		
Additional paid-in capital	734,867	627,742
Accumulated other comprehensive loss	(12,130)	(5,609)
Accumulated deficit	(36,572)	(33,983)
Total stockholders equity	686,165	588,150
Total liabilities and stockholders equity	$ 741,387	$ 629,650

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net revenue	$ 133,913	$ 88,787	$ 252,421	$ 165,194
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization shown separately below)	13,057	5,845	21,756	10,922
Sales and marketing	68,014	47,798	131,280	92,919
Product development	26,345	14,726	50,305	28,708
General and administrative	19,280	13,257	39,217	26,427
Depreciation and amortization	7,167	4,034	14,062	7,695
Total costs and expenses	133,863	85,660	256,620	166,671
Income (loss) from operations	50	3,127	(4,199)	(1,477)
Other income (expense), net	329	(15)	891	(17)
Income (loss) before income taxes	379	3,112	(3,308)	(1,494)
Benefit (provision) for income taxes	(1,684)	(369)	719	1,602
Net income (loss) attributable to common stockholders (Class A and B)	$ (1,305)	$ 2,743	$ (2,589)	$ 108
Net income (loss) per share attributable to common stockholders (Class A and Class B)				
Basic	$ (0.02)	$ 0.04	$ (0.03)	$ 0.00
Diluted	$ (0.02)	$ 0.04	$ (0.03)	$ 0.00
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders (Class A and Class B)				
Basic	74,631	71,714	74,009	71,444
Diluted	74,631	77,056	74,009	76,903

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ (1,305)	$ 2,743	$ (2,589)	$ 108
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,344	(338)	(6,521)	(422)
Other comprehensive income (loss)	1,344	(338)	(6,521)	(422)
Comprehensive income (loss)	$ 39	$ 2,405	$ (9,110)	$ (314)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
OPERATING ACTIVITIES:		
Net income (loss)	$ (2,589)	$ 108
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,062	7,695
Provision for doubtful accounts and sales returns	6,076	2,581
Stock-based compensation	29,187	19,539
Loss (gain) on disposal of assets and website development costs	144	(5)
Premium amortization, net, on securities held-to-maturity	481	93
Excess tax benefit from stock-based award activity	(3,952)	(460)
Changes in operating assets and liabilities:		
Accounts receivable	(7,855)	(6,716)
Prepaid expenses and other assets	(7,079)	(5,980)
Accounts payable, accrued expenses, and long-term liabilities	15,616	3,567
Deferred revenue	(426)	(433)
Net cash provided by operating activities	43,665	19,989
INVESTING ACTIVITIES:		
Acquisition, net of cash received	(73,422)	
Purchases of property, equipment and software	(18,059)	(7,212)
Capitalized website and software development costs	(6,012)	(4,327)
Proceeds from sale of property and equipment	109	14
Purchases of intangible assets	(314)	
Maturities of investment securities, held-to-maturity	63,870	
Purchases of investment securities, held-to-maturity	(93,914)	(122,226)
Changes in restricted cash	1,672	(397)
Net cash used in investing activities	(126,070)	(134,148)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee stock options	8,534	10,841
Proceeds from issuance of common stock for Employee Stock Purchase Plan	5,061	4,087
Excess tax benefit from stock-based award activity	3,952	460
Repurchase of common stock	(396)	(642)
Net cash provided by financing activities	17,151	14,746
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(598)	35
CHANGE IN CASH AND CASH EQUIVALENTS	(65,852)	(99,378)
CASH AND CASH EQUIVALENTS Beginning of period	247,312	389,764
CASH AND CASH EQUIVALENTS End of period	$ 181,460	$ 290,386
SUPPLEMENTAL DISCLOSURES OF OTHER CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ (4)	$ 260
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment recorded in accounts payable and accruals	$ 2,046	$ 1,185
Capitalized website and software development costs recorded in accounts payable and accruals	15	25
Goodwill measurement period adjustment for working capital	51	
Issuance of common stock in connection with acquisition	59,158	

See notes to condensed consolidated financial statements.

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

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

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2015 (the Annual Report). The unaudited condensed consolidated balance sheet as of December 31, 2014 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

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

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09), 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 new standard requires that reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for the Company beginning in the first quarter of 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method nor has it determined the impact of the new standard on its consolidated condensed financial statements.

In August 2014, FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40). The new guidance addresses management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. Management s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 31, 2016. Early adoption is permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on its consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"). ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The standard will be effective for the first interim period within annual reporting periods beginning after December 31, 2015. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and related disclosures.

In June 2015, the FASB issued Accounting Standards Update No. 2015-10, "Technical Corrections and Improvements" ("ASU 2015-10"). ASU 2015-10 amends a wide range of Accounting Standards Codification topics to make clarifying changes, correct unintended application of guidance, and make minor changes that are not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. The Company does not anticipate that the adoption of ASU 2015-10 will have a material impact 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.

Use of Estimates

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

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 3 Unobservable inputs for which there are 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, 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 Company classified the contingent consideration liability related to the acquisition of Restaurant Kritik within Level 3, because it was estimated using a discounted cash flow technique with significant inputs that were not observable in the market. The significant inputs not observable in the market in the Level 3 measurement included the Company s probability assessments of completion, appropriately discounted considering the uncertainties associated with the obligation, and were calculated in accordance with the terms of the asset purchase agreement. During the period ended June 30, 2015, the Company adjusted the liability to $0.8 million based on the completion of the associated milestones. Refer to Note 4 regarding the effects of the acquisition on the Company s consolidated financial statements.

The following table represents the Company s financial instruments measured at fair value as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash Equivalents:								
Money market funds	$ 104,017	$	$	$ 104,017	$ 208,593	$	$	$ 208,59
Marketable Securities:								
U.S. government bonds	5,005			5,005	5,005			5,00
Commercial paper		31,973		31,973		31,965		31,96
Corporate bonds		20,082		20,082		29,486		29,48
Agency bonds		129,615		129,615		90,575		90,57
Total cash equivalents and marketable securities	$ 109,022	$ 181,670	$	$ 290,692	$ 213,598	$ 152,026	$	$ 365,62
Current liabilities:								
Contingent consideration liability	$	$	$ 802	$ 802	$	$	$ 835	$ 83

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, 2015 and December 31, 2014 were as follows (in thousands):

	As of June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	$ 31,973	$	$	$ 31,973
Corporate bonds	20,085	1	(4)	20,082
Agency bonds	129,612	12	(9)	129,615
U.S. government bonds	5,003	2		5,005
Total marketable securities	$ 186,673	$ 15	$ (13)	$ 186,675

	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term marketable securities:				
Commercial paper	$ 31,964	$	$	$ 31,964
Corporate bonds	24,397	1	(31)	24,367
Agency bonds	57,130	1	(26)	57,105
U.S. government bonds	5,007		(2)	5,005
	$ 118,498	$ 2	$ (59)	$ 118,441
Long-term marketable securities:				
Corporate bonds	$ 5,120	$	$ (1)	$ 5,119
Agency bonds	33,492		(22)	33,470
	$ 38,612	$	$ (23)	$ 38,589
Total marketable securities	$ 157,110	$ 2	$ (82)	$ 157,030

7

The following table presents gross unrealized losses and fair values for those securities that were in an unrealized loss position as of June 30, 2015 and December 31, 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, 2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 13,069	$ (4)	$	$	$ 13,069	$ (4)
Agency bonds	55,529	(9)			55,529	(9)
Total	$ 68,598	$ (13)	$	$	$ 68,598	$ (13)

	As of December 31, 2014					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 24,439	$ (32)	$	$	$ 24,439	$ (32)
Agency bonds	79,564	(48)			79,564	(48)
U.S. government bonds	5,005	(2)			5,005	(2)
Total	$ 109,008	$ (82)	$	$	$ 109,008	$ (82)

The Company periodically reviews its investment portfolio for other-than-temporary impairment. The Company considers such factors as the duration, severity and reason for the decline in value, and the potential recovery period. The Company also considers whether it is more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis, and whether the amortized cost basis cannot be recovered as a result of credit losses. During the three and six months ended June 30, 2015 and 2014, the Company did not recognize any other-than-temporary impairment loss.

4. ACQUISITIONS

2015 Acquisition

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

The acquisition was accounted for as a business combination in accordance with Accounting Standards Codification Topic 805, Business Combinations (ASC 805), with the results of Eat24 s operations included in the Company s consolidated financial statements from February 9, 2015. The Company s allocation of the purchase price is preliminary as the amounts related to contingent consideration, identifiable intangible assets, the effects of income taxes resulting from the transaction, and the effects of any net working capital adjustments are still being finalized. Any material measurement period adjustments will be recorded retroactively to the acquisition date. The purchase price allocation, subject to finalization during the measurement period, is as follows (in thousands):

		February 9, 2015
Fair value of purchase consideration:		
Cash:		
Distributed to Eat24 stockholders	$	56,624
Held in escrow account		16,500
Payable on behalf of Eat24 stockholders		1,876
Total cash		75,000
Class A common stock:		
Distributed to Eat24 stockholders		46,143
Held in escrow account		13,015
Total purchase consideration	$	134,158
Fair value of net assets acquired:		
Cash and cash equivalents	$	1,578
Intangibles		39,600
Goodwill		110,927
Other assets		6,031
Total assets acquired		158,136
Deferred tax liability		(15,207)
Other liabilities		(8,771)
Total liabilities assumed		(23,978)
Net assets acquired	$	134,158

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

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

The intangible assets are being amortized on a straight-line basis, which reflects the pattern in which the economic benefits of the intangible assets are being utilized. The goodwill results from the Company s opportunity to drive daily engagement in its restaurant vertical and potentially expand Eat24 s offering to the approximately 1 million U.S. restaurants listed on the Company s platform. None of the goodwill is deductible for tax purposes.

For the three months ended June 30, 2015, the Company recorded no acquisition-related transaction costs and for the six-months ended June 30, 2015, the Company recorded approximately $0.2 million in acquisition-related transaction costs, which were included in general and administrative expense in the accompanying consolidated statement of operations.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and Eat24, as though the companies had been combined as of January 1, 2014, and includes the accounting effects resulting from the acquisition, including transaction, integration costs, amortization charges from acquired intangible assets, and changes in depreciation due to differing asset values and depreciation lives. The unaudited pro forma financial information, as presented below, is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place as of January 1, 2014 (in thousands, except per share data):

	Pro Forma			
	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Revenue	$ 133,915	94,653	$ 255,668	176,513
Net income (loss)	$ (1,304)	2,646	$ (3,705)	(872)
Basic net income (loss) per share attributable to common stockholders	$ (0.02)	0.04	$ (0.05)	(0.01)
Diluted net income (loss) per share attributable to common stockholders	$ (0.02)	0.03	$ (0.05)	(0.01)

The consolidated statements of operations for the three and six months ended June 30, 2015 include $5.3 million and $10.1 million of revenue, respectively, attributable to Eat24.

2014 Acquisitions

In October 2014, the Company, through its wholly-owned subsidiary, Yelp Ireland Ltd., completed the acquisition of all of the outstanding equity interests in Cityvox SAS. Also in October 2014, the Company, through its wholly-owned subsidiaries Yelp Ireland Ltd. and Qype GmbH, acquired the assets comprising the business conducted under the name Restaurant Kritik from Kabukiman Ltd. The aggregate purchase price of these businesses was $15.3 million, net of $0.1 million cash acquired; the purchase price did not include stock in either transaction. Each of these acquisitions has been accounted for as a business combination in accordance with ASC 805, under the acquisition method. Accordingly, the aggregate purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition dates, and is subject to adjustment based on purchase price adjustment provisions contained in the acquisition agreements. The results of operations of the acquired companies have been included in the Company s consolidated financial statements from the respective acquisition dates. Net revenues, earnings since the acquisition and pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate. During the quarter ended December 31, 2014, the Company recorded acquisition-related transaction costs of $0.6 million, which were included in general and administrative expense.

Under the Restaurant Kritik asset purchase agreement, the Company agreed to pay an additional $0.9 million in consideration if the migration of Restaurant Kritik s content to Yelp is completed within one year of the acquisition date. The estimated fair value of the contingent consideration was approximately $0.8 million as of the acquisition date and $0.8 million as of June 30, 2015, and is included in current liabilities on the Company s consolidated balance sheet.

The following table presents the aggregate purchase price allocations of these individually immaterial acquisitions recorded in the Company s condensed consolidated balance sheets as of their acquisition dates (in thousands):

Net tangible assets	$ (277)
Goodwill	13,995
Intangible assets	1,546
Total purchase price (excluding contingent consideration)	15,264
Contingent consideration	826
Total purchase price	$ 16,090

Estimated useful lives as of the acquisition dates of the intangible assets acquired are as follows:

Intangible Asset Type	Useful Life
Content	5 years
Developed technology	0.5 years
Trade name	2 years

Weighted average	4.3 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 represents the excess value over both tangible and intangible assets acquired. The goodwill in these transactions is primarily attributable to traffic and the opportunity for expansion. None of the goodwill is deductible for tax purposes.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Cash and cash equivalents		
Cash	$ 77,443	$ 38,719
Money market funds	104,017	208,593
Total cash and cash equivalents	$ 181,460	$ 247,312

The lease agreements for certain of the Company s offices require the Company to maintain letters of credit issued to the landlords of each facility. Each letter of credit is subject to renewal annually until the applicable lease expires and is collateralized by restricted cash. As of June 30, 2015 and December 31, 2014, the Company had letters of credit totaling $16.3 million and $17.9 million, respectively, related to such leases.

6. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Property, equipment and software, net as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Computer equipment	$ 22,247	$ 19,111
Software	831	802
Capitalized website and internal-use software development costs	34,997	27,602
Furniture and fixtures	9,029	6,621
Leasehold improvements	41,361	36,991
Telecommunication	2,644	2,610
Total	111,109	93,737
Less accumulated depreciation	(38,506)	(30,976)
Property, equipment and software, net	$ 72,603	$ 62,761

Depreciation expense was approximately $5.3 million and $3.1 million for the three months ended June 30, 2015 and 2014, respectively, and $10.9 million and $5.9 million for the six months ended June 30, 2015 and 2014, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

The Company s goodwill is the result of its acquisitions of other businesses, and represents the excess of purchase consideration over the fair value of assets and liabilities acquired.

The changes in the carrying amount of goodwill during the six months ended June 30, 2015 were as follows (in thousands):

Balance as of December 31, 2014	$ 67,307
Goodwill measurement period adjustment	51
Goodwill acquired	110,927
Effect of currency translation	(4,989)
Balance as of June 30, 2015	$ 173,296

Intangible assets at June 30, 2015 and December 31, 2014 consist of the following (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
June 30, 2015:				
Restaurant and user relationships	$ 29,400	$ (1,235)	$ 28,165	9.6 years
Developed and acquired technology	9,305	(1,602)	7,703	4.5 years
Content	4,037	(1,724)	2,313	3.2 years
Data licenses and domains	2,291	(600)	1,691	4.2 years
Trade name and other	3,356	(770)	2,586	3.5 years
Total	$ 48,389	$ (5,931)	$ 42,458	

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life
December 31, 2014:				
Developed and acquired technology	$ 1,963	$ (861)	$ 1,102	4.2 years
Advertiser relationships	1,853	(1,853)		0.0 years
Content	4,299	(1,393)	2,906	3.6 years
Data licenses and domains	1,977	(326)	1,651	4.5 years
Trade name and other	596	(469)	127	1.4 years
Total	$ 10,688	$ (4,902)	$ 5,786	

Amortization expense was $1.8 million and $0.6 million for the three months ended June 30, 2015 and 2014, respectively, and $3.0 million and $1.3 million for the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, the estimated future amortization of purchased intangible assets for (i) the remaining six months of 2015, (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
2015 (from July 1, 2015)	$ 3,414
2016	6,807
2017	6,660
2018	6,181
2019	5,299
2020 and thereafter	14,097
Total amortization	$ 42,458

8. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2015 and December 31, 2014 consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Restaurant payable	$ 9,363	$
Accrued vacation	5,685	3,972
Accrued commissions	4,028	4,198
Accrued hosting	1,436	1,478
Accrued income, withholding and business taxes	1,971	1,354
Fixed asset purchase commitments	1,886	6,329
Accrued payroll tax	1,650	1,251
Merchant revenue share liability	1,219	1,218
Accrued employee related expenses	1,194	1,209
Accrued employee stock purchase plan liability	791	907
Deferred rent	691	1,229
Other accrued expenses	7,802	6,436
Total	$ 37,716	$ 29,581

9. OTHER INCOME (EXPENSE), NET

Other income (expense), net for the three and six months ended June 30, 2015 and 2014 consist of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income	$ 131	$ 202	$ 431	$ 236
Transaction gain (loss) on foreign exchange	263	(128)	92	(177)
Other non-operating income (loss), net	(65)	(89)	368	(76)
Other income (expense), net	$ 329	$ (15)	891	$ (17)

10. COMMITMENTS AND CONTINGENCIES

Office Facility Leases The Company leases its office facilities under operating lease agreements that expire from 2015 to 2025. Certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period. Rental expense was $7.6 million and $3.7 million for the three months ended June 30, 2015 and 2014, respectively, and $14.5 million and $7.3 million for the six months ended June 30, 2015 and 2014, respectively.

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

In August 2014, two putative class action lawsuits alleging violations of federal securities laws were filed in the U.S. District Court for the Northern District of California, naming as defendants the Company and certain of its officers. The lawsuits allege violations of the Securities Exchange Act of 1934, as amended, by the Company and its officers for allegedly making materially false and misleading statements regarding the Company's business and operations between October 29, 2013 and April 3, 2014. These cases were subsequently consolidated and, in January 2015, the plaintiffs filed a consolidated complaint seeking unspecified monetary damages and other relief. Following the court s dismissal of the consolidated complaint on April 21, 2015, the plaintiffs filed a first amended complaint on May 21, 2015. On June 26, 2015, the Company and the other named defendants filed a motion to dismiss the first amended complaint, and a hearing on this motion has been scheduled for September 10, 2015.

On April 23, 2015, a putative class action lawsuit was filed by former Eat24 employees in the Superior Court of California for San Francisco County, naming as defendants the Company and Eat24. The lawsuit asserts that the defendants failed to permit meal and rest periods for certain current and former employees working as Eat24 customer support specialists, and alleges violations of the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages in an unspecified amount and injunctive relief. On May 25, 2015, plaintiffs filed a first amended complaint asserting an additional cause of action for penalties under the Private Attorneys General Act.

On June 24, 2015, a former Eat24 sales employee filed a lawsuit, on behalf of herself and a putative class of current and former Eat24 sales employees, against Eat24 in the Superior Court of California for San Francisco County. The lawsuit alleges that Eat24 failed to pay required wages, including overtime wages, allow meal and rest periods and maintain proper records, and asserts causes of action under the California Labor Code, applicable Industrial Welfare Commission Wage Orders and the California Business and Professions Code. The plaintiffs seek monetary damages and penalties in unspecified amounts, as well as injunctive relief.

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

11. STOCKHOLDERS EQUITY

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

	June 30, 2015		December 31, 2014	
	Shares Authorized	Shares Issued and Outstanding	Shares Authorized	Shares Issued and Outstanding
Stockholders equity:				
Class A common stock, $0.000001 par value	200,000,000	65,753,489	200,000,000	63,062,071
Class B common stock, $0.000001 par value	100,000,000	9,479,216	100,000,000	9,858,511
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.

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 shares 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 are generally exercisable for up to 10 years. A summary of stock option activity for the six months ended June 30, 2015 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, 2015	9,037,935	$ 19.64	7.26	$ 324,160
Granted	316,450	52.09		
Exercised	(619,037)	13.79		
Canceled	(172,968)	40.62		
Outstanding June 30, 2015	8,562,380	$ 20.84	6.86	$ 204,722
Options vested and expected to vest as of June 30, 2015	8,338,298	$ 20.44	6.83	$ 201,870
Options vested and exercisable as of June 30, 2015	5,142,755	$ 15.10	6.29	$ 147,623

Aggregate intrinsic value represents the difference between the closing price of the Company s Class A common stock and the exercise price of outstanding, in-the-money options. The total intrinsic value of options exercised was approximately $11.0 million and $15.3 million for the three months ended June 30, 2015 and 2014, respectively, and $21.2 million and $67.3 million for the six months ended June 30, 2015 and 2014, respectively. The weighted-average grant date fair value of options granted was $20.64 and $41.30 per share for the three months ended June 30, 2015 and 2014, respectively, and $26.65 and $44.73 per share for the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, total unrecognized compensation costs, adjusted for estimated forfeitures, related to unvested stock options was approximately $47.0 million, which is expected to be recognized over a weighted-average time period of 1.79 years.

RSUs and RSAs

The cost of RSUs and RSAs is determined using the fair value of the Company s common stock on the date of grant. RSUs and RSAs generally vest 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, 2015 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, 2015	1,131,849	$ 64.96	30,970	$ 9.48
Granted	1,461,327	49.09		
Released	(134,009)	59.57	(19,062)	9.12
Canceled	(201,377)	61.25	(1,250)	11.40
Unvested June 30, 2015	2,257,790	$ 55.33	10,658	$ 9.90

As of June 30, 2015, the Company had approximately $107.3 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 3.32 years.

15

Employee Stock Purchase Plan

The 2012 Employee Stock Purchase Plan (ESPP) allows eligible employees to purchase shares of the Company s Class A common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations, during designated offering periods. At the end of each offering period, employees are able to purchase shares at 85% of the fair market value of the Company s Class A common stock on the last day of the offering period. There were 162,373 shares purchased by employees under the ESPP at a weighted-average purchase price of $31.17 per share during the three and six months ended June 30, 2015. There were 133,905 shares purchased by employees under the ESPP at a weighted-average purchase price of $30.52 per share during the three and six months ended June 30, 2014. The Company recognized stock-based compensation expense related to the ESPP of $1.3 million and $1.1 million of during the three months ended June 30, 2015 and 2014, respectively, and $2.7 million and $2.2 million during the six months ended June 30, 2015 and 2014, 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,	
	2015	**2014**	**2015**	**2014**
Cost of revenue	$ 222	$ 119	$ 346	$ 269
Sales and marketing	5,654	3,728	10,591	7,125
Product development	6,065	3,456	11,170	6,498
General and administrative	3,575	2,780	7,080	5,647
Total stock-based compensation	$ 15,516	$ 10,083	$ 29,187	$ 19,539

The Company capitalized stock-based compensation as website development costs of $0.8 million and $0.5 million in the three months ended June 30, 2015 and 2014, respectively, and $1.6 million and $0.8 million in the six months ended June 30, 2015 and 2014, respectively.

12. NET INCOME (LOSS) PER SHARE

Basic and diluted net income (loss) per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Shares of Class A and Class B common stock are the only outstanding equity in the Company. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to 10 votes per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder, and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions, and in connection with certain other conversion events.

Basic net income 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 shares issuable upon the vesting of RSUs, and, to a lesser extent, unvested shares subject to RSAs and purchases related to the ESPP. The dilutive effect of these potential shares of common stock is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income 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.

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,			
	2015		2014	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings	$ (1,138)	$ (167)	$ 2,341	$ 402
Denominator:				
Weighted-average shares outstanding	65,107	9,524	61,208	10,506
Basic net income (loss) per share attributable to common stockholders	$ (0.02)	$ (0.02)	$ 0.04	$ 0.04
Diluted net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ (1,138)	$ (167)	$ 2,341	$ 402
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	$ (1,138)	$ (167)	$ 2,743	$ 481
Denominator:				
Number of shares used in basic calculation	65,107	9,524	61,208	10,506
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	65,107	9,524	77,056	13,513
Diluted net income (loss) per share attributable to common stockholders	$ (0.02)	$ (0.02)	$ 0.04	$ 0.04

	Six Months Ended June 30,			
	2015		2014	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings	$ (2,252)	$ (337)	$ 92	$ 16
Denominator:				
Weighted-average common shares outstanding	64,363	9,646	60,576	10,868
Basic net income (loss) per share attributable to common stockholders	$ (0.03)	$ (0.03)	$ 0.00	$ 0.00
Diluted net income (loss) per share attributable to common stockholders:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ (2,252)	$ (337)	$ 92	$ 16
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	$ (2,252)	$ (337)	$ 108	$ 20
Denominator:				
Number of shares used in basic calculation	64,363	9,646	60,576	10,868
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	64,363	9,646	76,903	13,916
Diluted net income (loss) per share attributable to common stockholders	$ (0.03)	$ (0.03)	$ 0.00	$ 0.00

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,	
	2015	2014	2015	2014
Stock options	8,562	411	8,562	86
Restricted stock units	2,258		2,258	
Restricted stock awards	11		11	
Employee stock purchase plan	22		22	

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 $1.7 million and $0.4 million for the three months ended June 30, 2015 and 2014, respectively, and an income tax benefit of $0.7 million and $1.6 million for the six months ended June 30, 2015 and 2014, respectively. The tax benefit for the six months ended June 30, 2015 is due to $0.7 million of discrete benefits. 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 primary difference between the effective tax rate and the federal statutory tax rate relates to the valuation allowances on certain of the Company s net operating losses, foreign tax rate differences, meals and entertainment, tax credits, and non-deductible stock-based compensation expense. As of June 30, 2015, the total amount of gross unrecognized tax benefits was $3.6 million, $0.1 million of which is subject to a full valuation allowance and would not affect the Company s effective tax rate if recognized. As of June 30, 2015, the Company had an immaterial amount related to the accrual of interest and penalties. During the three months ended June 30, 2015, the Company s gross unrecognized tax benefits increased by $0.2 million, all of which would affect the Company s effective tax rate if recognized.

The Company does not have any tax positions as of June 30, 2015 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.

During the three months ended June 30, 2015 the Company began tracking revenue for the transactions product line consisting of Eat24, Platform transactions, and the sale of Yelp Deals and Gift Certificates. The Company has presented transactions revenue separately in the tables and discussion for prior periods for purposes of comparison.

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,	
	2015	**2014**	**2015**	**2014**
Net revenue by product:				
Local advertising	$ 107,882	$ 75,685	$ 206,452	$ 140,880
Transactions	11,304	1,228	17,910	2,492
Brand advertising	8,303	9,055	14,930	16,510
Other services	6,424	2,819	13,129	5,312
Total net revenue	$ 133,913	$ 88,787	$ 252,421	$ 165,194

During the three and six months ended June 30, 2015 and 2014, 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, 2015	December 31, 2014
United States	$ 71,483	$ 73,344
All Other Countries	5,680	5,900
Total long-lived assets	$ 77,163	$ 79,244

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

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

Accelerate Network Effect. We plan to invest in marketing and product development aimed at both attracting more, and increasing the usage of, consumers as we look to leverage our brand and benefit from accelerating network dynamics in Yelp communities. For example, in May 2015, we launched our first television and digital advertising campaign to increase consumer awareness of our brand, and plan to continue testing various advertising channels over the remainder of the year. We believe that expanding our content will also attract new consumers as well as increase the number of visits and searches per user, and so we will continue to expand our community engagement efforts and explore new ways to enable contributors to share content.

Enhance Monetization. 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 several initiatives to enhance our monetization opportunities. One such initiative has been, and will continue to be, to aggressively grow our sales force in order to reach more businesses. We will also continue expanding the Yelp Platform, business owner tools and other partnerships to encourage businesses to advertise on Yelp. For example, in the second quarter of 2015, we partnered with HTC to provide tailored recommendations directly to the lock screen of HTC s One M9 device and to integrate Yelp content and business recommendations into HTC s BlinkFeed application, which is pre-loaded on all new HTC phones.

Our overall strategy is to invest for long-term growth. During the remainder of 2015, we expect to continue to invest heavily in our sales and marketing efforts to grow domestically and internationally, and to continue the integration of Eat24Hours.com, Inc., a leading web and app-based food ordering service (Eat24), which we acquired in February 2015. In addition, we plan to phase out our brand advertising products over the remainder of 2015 and redeploy the associated internal resources, including our brand sales team, elsewhere within our organization. Due to certain negative trends in the broader market for brand advertising products in particular, the shift toward programmatic advertising, which may have the effect of reducing the market price of cost-per-impression advertising, and increased advertiser demand for products such as video ads that are disruptive to the consumer experience we believe this decision will provide us with a long-term strategic advantage by allowing us to focus on our core strength of local advertising and continue providing a great consumer experience. As of June 30, 2015, we had 3,254 employees, which represents an increase of 39% compared to June 30, 2014.

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 on 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 were removed for violation of our terms of service.

As of June 30, 2015, approximately 77.4 million reviews were available on business profile pages, including approximately 18.4 million reviews that were not recommended, after accounting for 5.7 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 indicated:

	As of June 30,	
	2015	**2014**
	(in thousands)	
Reviews	83,102	61,342

Desktop Unique Visitors

We define desktop unique visitors as the average number of monthly desktop unique visitors who have visited our non-mobile optimized website (our desktop website) over a given three-month period. We calculate monthly desktop unique visitors as the number of users, as measured by Google Analytics, who have visited our desktop website at least once in a given month. Google Analytics, a product from Google Inc. that provides digital marketing intelligence, measures users based on unique cookie identifiers. Because the number of desktop unique visitors is therefore based on unique cookies, an individual who accesses our desktop website from multiple devices with different cookies may be counted as multiple desktop unique visitors, and multiple individuals who access our desktop website from a shared device with a single cookie may be counted as a single desktop unique visitor. The following table presents our desktop unique visitors for the periods indicated:

	Three Months Ended June 30,	
	2015	**2014**
	(in thousands)	
Desktop Unique Visitors	79,175	81,884

We anticipate that use of our mobile platform will be the driver of our growth for the foreseeable future and that usage of our non-mobile optimized website through desktop computers will continue to decline worldwide.

Mobile Unique Visitors

We define mobile unique visitors as the average number of monthly mobile unique visitors over a given three-month period. We define monthly mobile unique visitors to be the sum of (i) the number of users who have visited our mobile-optimized website at least once in a given month and (ii) the number of unique mobile devices using our mobile app in a given month. Under this method of calculation, an individual who accesses both our mobile-optimized website and our mobile app, or accesses either our mobile-optimized website or our mobile app from multiple mobile devices, will be counted as multiple mobile unique visitors. Multiple individuals who access either our mobile-optimized website or mobile app from a shared device will be counted as a single mobile unique visitor. The following table presents our mobile unique visitors for the periods indicated:

	Three Months Ended June 30,

	2015	2014
	(in thousands)	
Mobile Unique Visitors	82,812	67,886

Of the mobile unique visitors for the quarter ended June 30, 2015, approximately 18.1 million were unique mobile devices using our mobile app, compared to 12.0 million in the quarter ended June 30, 2014.

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,	
	2015	2014
	(in thousands)	
Claimed Local Business Locations	2,349	1,751

Local Advertising Accounts

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

	Three Months Ended June 30,	
	2015	2014
	(in thousands)	
Local Advertising Accounts	97	69

Non-GAAP Financial Measures

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). However, to provide investors with additional information regarding our financial results, we have disclosed in this Quarterly Report adjusted EBITDA and non-GAAP net income, which are non-GAAP financial measures. We have provided a reconciliation below of both adjusted EBITDA and non-GAAP net income to net income (loss), the most directly comparable GAAP financial measure in each case.

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

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

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA and non-GAAP net income do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA and non-GAAP net income do not consider the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and

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

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

Adjusted EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net income (loss)	$ (1,305)	$ 2,743	$ (2,589)	$ 108
(Benefit) provision for income taxes	1,684	369	(719)	(1,602)
Other (income) expense, net	(329)	15	(891)	17
Depreciation and amortization	7,167	4,034	14,062	7,695
Stock-based compensation	15,516	10,083	29,187	19,539
Adjusted EBITDA	$ 22,733	$ 17,244	$ 39,050	$ 25,757

Non-GAAP Net Income (Loss)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Reconciliation of Non-GAAP Net Income to GAAP Net Income (Loss):				
Net income (loss)	$ (1,305)	$ 2,743	$ (2,589)	$ 108
Stock-based compensation	15,516	10,083	29,187	19,539
Amortization of intangible assets	1,803	629	3,034	1,255
Tax effect of stock-based compensation and amortization of intangibles	(6,660)	(4,039)	(12,376)	(7,899)
Valuation allowance release (net of tax)				1,958
Non-GAAP net income	$ 9,354	$ 9,416	$ 17,256	$ 14,961

Results of Operations

The following table sets forth our results of operations for the periods indicated 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 2015 or any future period.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	(as percentage of net revenue)							
Consolidated Statements of Operations Data:								
Net revenue by product:								
Local advertising	81%		85%		82%		85%	
Transactions	8		2		7		2	
Brand advertising	6		10		6		10	
Other services	5		3		5		3	
Total net revenue	100%		100%		100%		100%	
Costs and expenses:								
Cost of revenue (exclusive of depreciation and amortization shown separately below)	10	%	7	%	9	%	7	%
Sales and marketing	51		54		52		56	
Product development	20		17		20		17	
General and administrative	14		15		16		16	
Depreciation and amortization	5		5		6		5	
Total costs and expenses	100		96		102		101	
Income (loss) from operations			4		(2	)	(1	)
Other income (expense), net								
Income (loss) before income taxes			4		(1	)	(1	)
Benefit (provision) for income taxes	(1	)					1	
Net income (loss)	(1	)%	3	%	(1	)%		%

Three and Six Months Ended June 30, 2015 and 2014

Net Revenue

We generate revenue from local advertising, transactions, brand advertising and other services. 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 mobile app. We also generate local advertising revenue from our SeatMe restaurant reservation product, a monthly subscription service.

Transactions. We generate revenue from various transactions with consumers, including through Eat24, Platform transactions and the sale of Yelp Deals and Gift Certificates. In prior periods, we included revenue from transactions within other services revenue; going forward, we will present transactions separately to provide additional insight into this part of our business. We have also presented transactions revenue separately in the tables and discussion below for prior periods for purposes of comparison. Eat24 generates revenue through arrangements with restaurants in which restaurants pay a fixed fee commission percentage on orders placed through Eat24 s platform. We record revenue associated with Eat24 platform transactions on a net basis. Our platform partnerships are revenue-sharing arrangements that provide consumers with the ability to complete food delivery transactions, make hotel bookings and book spa and salon appointments 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 a deal. Gift Certificates allow merchants to sell full-priced gift certificates directly to consumers through their business profile pages. We earn a fee based on the amount of the Gift Certificate sold, which we record on a net basis and include in revenue upon a consumer s purchase of the Gift Certificate.

Brand Advertising. 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. We plan to phase out our brand advertising products by the end of 2015.

Other Services. We generate other revenue through partner arrangements and monetization of remnant advertising inventory through third-party ad networks. Our partner arrangements include allowing third-party data providers to update business listing information on behalf of businesses and resale of our local advertising products by the various partners.

	Three Months Ended June 30,		2014 to 2015	Six Months Ended June 30,		2014 to 2015
	2015	2014	% Change	2015	2014	% Change
	(dollars in thousands)			(dollars in thousands)		
Net revenue by product:						
Local advertising	$ 107,882	$ 75,685	43%	$ 206,452	$ 140,880	47%
Transactions	11,304	1,228	821	17,910	2,492	619
Brand advertising	8,303	9,055	(8)	14,930	16,510	(10)
Other services	6,424	2,819	128	13,129	5,312	147
Total net revenue	$ 133,913	$ 88,787	51%	$ 252,421	$ 165,194	53%
Net revenue by product:						
Local advertising	81%	85%		82%	85%	
Transactions	8	2		7	2	
Brand advertising	6	10		6	10	
Other services	5	3		5	3	
Total net revenue	100%	100%		100%	100%	

Total net revenue increased $45.1 million, or 51%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $87.2 million, or 53%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Our local advertising revenue increased $32.2 million, or 43%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $65.6 million, or 47%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in both periods was primarily due to a significant increase in the number of customers purchasing local advertising plans as we expanded our sales force to reach more local businesses. This growth was driven primarily by purchases of cost-per-click advertising, which increased from 20% to 46% of local advertising revenue in the three months ended June 30, 2015 compared to the same period in 2014, and from 19% to 43% of local advertising revenue in the six months ended June 30, 2015 compared to the same period in 2014. In the three- and six-months ended June 30, 2015, a majority of both ad impressions and clicks were delivered on mobile.

Our transactions revenue increased $10.1 million, or 821%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $15.4 million, or 619%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in both periods was primarily the result of revenue from Eat24, which we acquired in February 2015.

Our brand advertising revenue decreased $0.8 million, or 8%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $1.6 million, or 10%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The decrease in both periods was primarily due to a decrease in the number of brand advertisers. We expect our brand advertising revenue to be volatile as it continues to decline due to trends in the broader online advertising industry and our planned phase-out of brand advertising products over the remainder of 2015.

Our other services revenue increased by $3.6 million, or 128%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $7.8 million, or 147%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase in both periods was primarily the result of an increase in revenue from partnership arrangements and remnant advertising inventory.

Cost of Revenue

Our cost of revenue consists primarily of network costs, credit card processing fees and web hosting, as well as salaries, benefits and stock-based compensation expense for our infrastructure teams related to operating our website. It also includes costs associated with Eat24, video production expenses and creative design for brand advertising.

	Three Months Ended June 30,		2014 to 2015	Six Months Ended June 30,		2014 to 2015
	2015	2014	%	2015	2014	%
	(dollars in thousands)		Change	(dollars in thousands)		Change
Cost of revenue	$ 13,057	$ 5,845	123%	$ 21,756	$ 10,922	99%
Percentage of net revenue	10%	7%		9%	7%	

Cost of revenue increased $7.2 million, or 123%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $10.8 million, or 99%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases in the three and six months ended June 30, 2015 were primarily attributable to increases of $3.6 million and $5.2 million, respectively, 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. The increase was partially offset by a decrease of $0.1 million in set up costs, including video production, for local advertising account pages during the three months ended June 30, 2015, which costs were flat during the six months ended June 30, 2014, due to flat demand by local businesses for video on their business pages. Expenses related to creative design for brand and local advertising increased $0.6 million and $1.0 million in the three- and six-month periods ended June 30, 2015, respectively. In addition, merchant fees related to credit card transactions increased $2.2 million and $3.9 million in the three- and six-month periods ended June 30, 2015, respectively, due primarily to the acquisition of Eat 24 in February 2015. Headcount and employee related expenses increased by $0.2 million during the three months ended June 30, 2015 and remained flat during the six months ended June 30, 2015, with the overall increases in employee related expenses offset by an increase in the proportion of employees dedicated to capitalized website infrastructure projects. Costs associated with Eat24, which we acquired in February 2015, increased by $0.7 million for the three- and six-months ended June 30, 2015, respectively.

Sales and Marketing

Our sales and marketing expenses primarily consist of salaries, benefits, stock-based compensation expense, travel expense and incentive compensation expense 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. Our focus to date has been on organic and viral growth driven by the community development efforts of our community management team, which is responsible for growing and fostering local communities, as well as coordinating events to raise awareness of our brand. As a result, we have historically incurred minimal sales and marketing expenses to acquire organic traffic to our platform. However, we launched our first television and digital advertising campaign in the second quarter of 2015 and plan to continue to test various advertising channels during the remainder of 2015.

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 as we expand our domestic and international footprint, increase the number of local advertising accounts and continue to build our brand. The substantial majority of these expenses will be related to hiring sales employees and Community Managers. We expect sales and marketing expenses to increase and to be our largest expense for the foreseeable future.

	Three Months Ended June 30,		**2014 to 2015**	**Six Months Ended June 30,**		**2014 to 2015**
	2015	**2014**	**%**	**2015**	**2014**	**%**
	(dollars in thousands)		**Change**	**(dollars in thousands)**		**Change**
Sales and marketing	$ 68,014	$ 47,798	42%	$ 131,280	$ 92,919	41%
Percentage of net revenue	51%	54%		52%	56%	

Sales and marketing expenses increased $20.2 million, or 42%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $38.4 million, or 41%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases in the three- and six-months ended June 30, 2015 were primarily attributable to increases in headcount and related expenses of $9.6 million and $19.1 million, respectively, including increases in stock-based compensation expense of $1.9 million and $3.5 million, respectively, 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. In addition, we experienced increases in facilities related costs of $7.1 million and $13.8 million in the three and six month periods ended June 30, 2015. As a result of new marketing campaigns, domestic and international marketing and advertising costs increased by $3.4 million and $7.1 million in the three and six month periods ended June 30, 2015, respectively. Commission expenses increased by $0.1 million during the three months ended June 30, 2015, and decreased by $1.6 million during the six months ended June 30, 2015 primarily due to the decrease in brand revenue.

Product Development

Our product development expenses primarily consist of salaries, benefits and stock-based compensation expense for our engineers, product management and information technology personnel. Product development expenses also include outside services and consulting, allocated facilities 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 expense to increase for the foreseeable future.

	Three Months Ended June 30,		2014 to 2015	Six Months Ended June 30,		2014 to 2015
	2015	2014	% Change	2015	2014	% Change
	(dollars in thousands)			(dollars in thousands)		
Product development	$ 26,345	$ 14,726	79%	$ 50,305	$ 28,708	75%
Percentage of net revenue	20%	17%		20%	17%	

Product development expenses increased $11.6 million, or 79%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $21.6 million, or 75%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases in the three and six months ended June 30, 2015 were primarily attributable to increases in headcount and related expenses of $8.9 million and $16.0 million, respectively, including increases in stock-based compensation expense of $2.9 million and $5.6 million, respectively. In addition, we experienced increases in facilities and related expenses of $2.0 million and $4.0 million in the three- and six-month periods, respectively, as a result of the increase in headcount. Use of outside consultants also increased by $0.7 million and $1.6 million in the three- and six-month periods ended June 30, 2015, respectively, as we continued to invest in adding features and functionality to our website and mobile app.

General and Administrative

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

	Three Months Ended June 30,		2014 to 2015	Six Months Ended June 30,		2014 to 2015
	2015	2014	% Change	2015	2014	% Change
	(dollars in thousands)			(dollars in thousands)		
General and administrative	$ 19,280	$ 13,257	45%	$ 39,217	$ 26,427	48%
Percentage of net revenue	14%	15%		16%	16%	

General and administrative expenses increased $6.0 million, or 45%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $12.8 million, or 48%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases in the three and six months ended June 30, 2015 were primarily attributable to increases in headcount and related expenses of $2.7 million and $5.2 million, respectively, including increases in stock-based compensation expense of $0.8 million and $1.4 million, respectively. Additionally, we invested in our systems and support for the growth of the business through the use of outside consultants, which contributed to the increases in the three and six month periods ended June 30, 2015 by $1.1 million and $2.8 million, respectively. We also experienced increases in facilities and related expenses in the three- and six-month periods ended June 30, 2015 of $1.0 million and $1.8 million, respectively, and increases in bad debt expense of $1.2 million and $3.0 million, respectively.

Depreciation and Amortization

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

	Three Months Ended June 30,		2014 to 2015	Six Months Ended June 30,		2014 to 2015
	2015	2014	%	2015	2014	%

	(dollars in thousands)		Change	(dollars in thousands)		Change
Depreciation and amortization	$ 7,167	$ 4,034	78%	$ 14,062	$ 7,695	83%
Percentage of net revenue	5%	5%		6%	5%	

Depreciation and amortization expenses increased $3.1 million, or 78%, in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $6.4 million, or 83%, in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases were 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 software development costs increased $2.0 million and $4.6 million in the three and six months ended June 30, 2015. In addition, amortization related to our intangible assets increased by $1.1 million and $1.8 million in the three- and six-month periods, respectively, primarily due to intangibles acquired in the Eat24 acquisition.

Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Interest income	$ 131	$ 202	$ 431	$ 236
Transaction gain (loss) on foreign exchange	263	(128)	92	(177)
Other non-operating income (loss), net	(65)	(89)	368	(76)
Other income (expense), net	$ 329	$ (15)	$ 891	$ (17)

Other income (expense), net increased by $0.3 million in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and $0.9 million in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increases were driven primarily by foreign exchange gains due to favorable foreign currency exchange rate changes during the three- and six-months ended June 30, 3015 compared to the three- and six-months ended June 30, 2014. In addition, during the six-months ended June 30, 2015, other non-operating income increased due to the release of cash in escrow relating to the Qype acquisition, completed in 2012.

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,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Benefit (Provision) for taxes	$ (1,684)	$ (369)	$ 719	$ 1,602
Percentage of net revenue	(1)%	%	%	1%

For the three months ended June 30, 2015, the Company recognized a tax provision of $2.0 million as a result of a reduction of tax benefits expected to be recognized for the year due to certain items such as non-deductible meals and entertainment and stock-based compensation expense. This was offset by $0.3 million of discrete benefits related to disqualifying dispositions of incentive stock options and shares purchased under our 2012 Employee Stock Purchase Plan (ESPP).

For the six months ended June 30, 2015, we recognized a tax benefit that primarily consisted of U.S. federal, state and foreign income tax benefits on year-to-date pre-tax loss, and discrete benefits on year-to-date pre-tax loss, and discrete benefits related to disqualifying dispositions of incentive stock options and shares purchased under our ESPP.

Liquidity and Capital Resources

As of June 30, 2015, we had cash and cash equivalents of $181.5 million. Cash and cash equivalents consist of both cash and money market funds. Our cash held internationally as of June 30, 2015 was $6.5 million. We did not have any outstanding bank loans or credit facilities in place as of June 30, 2015. Our investment portfolio is comprised of highly-rated marketable securities, and our investment policy limits the amount of credit exposure to any one issuer. The policy generally requires securities to be investment grade (i.e. rated A or higher by bond rating firms) with the objective of minimizing the potential risk of principal loss. To date, we have been able to finance our operations and our acquisitions through proceeds from private and public financings, including our initial public offering in March 2012, our follow-on offering in October 2013, cash generated from operations and, to a lesser extent, cash provided by the exercise of employee stock options and purchases under our ESPP.

28

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,	
	2015	2014
	(in thousands)	
Condensed Consolidated Statements of Cash Flows Data:		
Purchases of property, equipment and software	$ (18,059)	$ (7,212)
Depreciation and amortization	14,062	7,695
Cash flows provided by operating activities	43,665	19,989
Cash flows used in investing activities	(126,070)	(134,148)
Cash flows provided by financing activities	17,151	14,746

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

- increase in accounts receivable of $7.9 million due to an increase in billings for local advertising plans, as well as the timing of payments from these customers;
- increase in accounts payable, accrued expenses and other liabilities of $15.6 million related to the growth in our business, increase in Eat24 restaurant payable, accrued vacation and employee-related expenses, and the timing of invoices and payments to vendors; and
- increase in prepaids and other assets of $7.1 million relating to the increase in prepaid licenses and deferred tax benefits.

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 expense 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.

Investing Activities. Our primary investing activities in the six months ended June 30, 2015 consisted of acquisitions, purchases of marketable securities, purchases of property and equipment to support the ongoing build out of our data centers, leasehold improvements for our headquarters in San Francisco and other locations, the purchase of technology hardware to support our growth in headcount and software to support website and mobile app development, website operations and our corporate infrastructure. Purchases of property 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 during the remainder of 2015.

We used $126.1 million of cash in investing activities during the six months ended June 30, 2015. Cash used in investing activities primarily related to the $73.4 million cash portion of the purchase price of Eat24, purchases of marketable securities of $93.9 million, an increase in expenditures related to website and internally developed software of $6.0 million, purchases of intangible data licenses of $0.3 million and purchases of property, equipment, software and leasehold improvements of $18.1 million to support our growth in the business. Cash used in investing was offset by $63.9 million of maturities of investment securities held-to-maturity and the release of restrictions on cash of $1.7 million.

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.

Financing Activities. During the six months ended June 30, 2015 and 2014, we generated $17.2 million and $14.7 million, respectively, in financing activities, primarily due to $8.5 million and $10.8 million in net proceeds from the issuance of common stock upon the exercise of stock options, $5.1 million and $4.1 million in net proceeds from the sale of stock under our ESPP, and $4.0 million and $0.5 million in excess tax benefit from stock-based award activity, respectively.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements in 2014 or the first six months of 2015.

Contractual Obligations

We lease various office facilities, including our corporate headquarters in San Francisco, California, under operating lease agreements that expire from 2015 to 2025. The terms of the lease agreements provide for rental payments on a graduated basis. We recognize rent expense on a straight-line basis over the lease periods. We do not have any debt or material capital lease obligations, and all of our property, equipment and software have been purchased with cash. As of June 30, 2015, we had no material long-term purchase obligations outstanding with any vendors or third parties. As of June 30, 2015, the following table summarizes our future minimum payments under non-cancelable operating leases for equipment and office facilities:

	Payments Due by Period				
	Total	Less Than 1 Year	1 3 Years	3 5 Years	More Than 5 Years
	(in thousands)				
Operating lease obligations	$ 304,933	$ 30,620	$ 107,230	$ 73,778	$ 93,305

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, 2015, our total liability for uncertain tax positions was $3.6 million. We are not reasonably able to estimate the timing of future cash flow related to this liability. As a result, this amount is not included in the contractual obligations table above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Fluctuation

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

Our cash and cash equivalents consist of cash and money market funds. We do not have any long-term borrowings. Because our cash and cash equivalents have a relatively short maturity, their fair value is relatively insensitive to interest rate changes. We believe a hypothetical 10% increase in the interest rates as of June 30, 2015 would not have a material impact on our cash and cash equivalents portfolio.

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

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally 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 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 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 or results of operations.