

YELP INC
Form 10-K
February 27, 2015

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

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the Fiscal Year Ended December 31, 2014

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

(State or other jurisdiction of incorporation or organization)

20-1854266

(I.R.S. Employer Identification No.)

140 New Montgomery Street, 9th Floor
San Francisco, California 94105
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class

Class A Common Stock, par value \$0.000001 per share

Name of Each Exchange on Which Registered

New York Stock Exchange LLC

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$4,716,654,432 as of June 30, 2014, the last day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's Class A common stock on the New York Stock Exchange LLC reported for June 30, 2014. Excludes an aggregate of 195,660 shares of the registrant's Class A common stock and an aggregate of 0,288,701 shares of the registrant's Class B common stock held by officers, directors, affiliated stockholders and The Yelp Foundation. For purposes of determining whether a stockholder was an affiliate of the registrant at June 30, 2014, the registrant assumed that a stockholder was an affiliate of the registrant if such stockholder (i) beneficially owned 10% or more of the registrant's capital stock, as determined based on public filings, and/or (ii) was an executive officer or director, or was affiliated with an executive officer or director, of the registrant at June 30, 2014. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 20, 2015, there were 64,890,244 shares of registrant's Class A Common Stock, par value \$0.000001 per share, issued and outstanding and 9,592,748 shares of registrant's Class B Common Stock, par value \$0.000001 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the U.S. Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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

Yelp, Yelp Inc., the Yelp logo, Eat24, SeatMe and other trade names, trademarks or service marks of Yelp appearing in this Annual Report are the property of Yelp. Trade names, trademarks and service marks of other companies appearing in this Annual Report are the property of their respective holders.

Unless the content otherwise indicates, where we refer in this Annual Report to our mobile application or mobile app, we refer to all of our applications for mobile-enabled devices; references to our mobile platform refer to both our mobile app and the versions of our website dedicated to 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 dedicated to mobile-based browsers.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, might, plan, project, seek, should, target, will, would and similar expressions or phrases that 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 discussed in the section titled *Risk Factors* included under Part I, Item 1A below. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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PART I

Item 1. Business.

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. With a total of approximately 71.2 million cumulative reviews of almost every type of local business in 29 countries as of December 31, 2014, we are one of the world's leading local business review sites.

Our platform provides value to consumers and businesses alike by connecting consumers with great local businesses at the critical moment when they are deciding where to spend their money. The key strengths of our platform include:

Discovery Our platform is transforming the way people discover local businesses. Each day, millions of consumers visit our website or use our mobile app to find great local businesses to meet their everyday needs. Our strong brand and the quality of the content on our platform have enabled us to attract this large audience with minimal organic traffic acquisition costs.

Engagement Yelp provides a platform for consumers to share their everyday local business experiences, through reviews, tips, photos and videos, and engage directly with businesses, through reviews and our Message the Business feature. Our platform also provides businesses of all sizes with a variety of free and paid services that help them engage with consumers. Businesses can register a business account for free and claim the Yelp business page for each of their locations, allowing them to enhance the page with additional information about their business and respond to reviews, among other features.

Advertising. Businesses that want to reach our large audience of consumers can also pay for premium services to promote themselves through targeted search advertising, discounted offers and further enhancements to their business page. We also offer display advertising and brand sponsorships for national brands that want to improve their local presence. We generate revenue primarily from the sale of advertising on our website and mobile app to these businesses. During the year ended December 31, 2014, we generated net revenue of \$377.5 million, representing 62% growth over 2013, a net profit of \$36.5 million and an adjusted EBITDA of \$70.9 million. For information on how we define and calculate adjusted EBITDA and a reconciliation of adjusted EBITDA to net profit, see *Selected Consolidated Financial and Other Data* in this Annual Report.

Transactions In 2013, we introduced the Yelp Platform, which allows consumers to transact with local businesses in new ways directly on Yelp. In addition to providing consumers with a continuous experience from discovery to completion of transactions such as ordering food through a local delivery service and booking hotel rooms, the Yelp Platform creates an additional point of consumer engagement for local businesses.

At the heart of our business are the vibrant communities of contributors across the world that contribute the content on our platform. These contributors provide rich, firsthand information about local businesses in the form of reviews and ratings, tips, photos and videos. Each review, tip, photo and video expands the breadth and depth of the content on our platform, which drives a powerful network effect: the expanded content draws in more consumers and more prospective contributors. This increase in content and consumer traffic in turn improves our value proposition to local businesses as they seek easy-to-use and effective advertising solutions. For this reason, we foster and support communities of contributors and make the consumer experience our highest priority.

Of the approximately 71.2 million cumulative reviews our contributors had submitted through December 31, 2014, approximately 50.0 million were recommended and available on business profile pages; approximately 16.3 million were not recommended and available on secondary pages; and approximately 4.9 million had been removed from our platform. Although they do not factor into a business's overall star rating, we provide access to reviews that are not recommended because they provide additional perspectives and information on reviewed businesses, as well as transparency of the efficacy of our automated recommendation software.

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The reviews contributed to our platform cover a wide set of local business categories, including restaurants, shopping, beauty and fitness, arts, entertainment and events, home and local services, health, nightlife, travel and hotel, auto and other categories. We highlight below the breakdown by industry of local businesses that have received reviews on our platform and the breakdown by industry of reviews contributed to our platform through December 31, 2014.

Reviewed Businesses*

Reviews*

* The charts above include information based upon all contributed reviews and include some businesses that have only received reviews that are not recommended or have been removed.

We believe that the concentration of reviews in the restaurant and shopping categories in particular is primarily due to the frequency with which individuals visit specific businesses or engage in certain activities versus others. For example, an individual may eat at a restaurant three times in one week or go shopping once a week, but the same individual is unlikely to visit a mechanic, get a haircut or use a home or local service with the same frequency. The top five industry categories accounted for an aggregate of 76% of our local advertising revenue for the quarter ended December 31, 2014, broken down as follows: Home & Local Services, 26%; Restaurants, 15%; Beauty & Fitness, 13%; Health, 11%; and Shopping, 11%.

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Our Products

Local Advertising

We provide both free and paid business listing products to businesses of all sizes. In addition, we enable businesses to deliver targeted search advertising to large local audiences through our website and mobile app. We recognize revenue from these products as local advertising revenue.

Free Online Business Account We enable businesses to create a free online business account and claim the page for each of their business locations. With their free business accounts, businesses can view trends (e.g. statistics and charts of the performance of their pages on our platform), use the Revenue Estimator tool (e.g. to quantify the revenue opportunity Yelp provides), message customers (e.g. to reply to reviews either publicly or privately), update information (e.g. address, hours of operation) and offer Yelp Deals and Gift Certificates (as described below).

Enhanced Profile Our enhanced profile solution eliminates search advertising from a business's profile page and allows the business to incorporate a video clip or photo slide show on the page. Businesses can also promote a desired transaction of their choosing such as scheduling an appointment or printing a coupon directly on their business listing pages with our Call to Action feature. This feature takes consumers directly from a business's listing page to the business's own website to complete the action.

Branded Profile For businesses with ten or more locations, our branded profile solution offers the ability to incorporate a video clip or photo slide show, as well as a Call to Action Button, on each location's business listing page.

Search and Other Ads We allow businesses to promote themselves as a sponsored search result on our platform and on the listing pages of related businesses. We sell ads on either a per-impression or per-click basis.

Online Reservations We provide restaurants, nightlife and certain other venues with the ability to offer online reservations directly from their Yelp business listing pages through our SeatMe feature, which also offers front-of-house management tools. We also offer Yelp Reservations, a free tool with basic reservation functionality for businesses in the restaurant and nightlife categories.

Brand Advertising

We offer advertising solutions for national brands that want to improve their local presence in the form of display advertisements and brand sponsorships. Our national advertisers include leading brands in the food and restaurant, automobile, financial services, logistics, consumer goods and health and fitness industries. We recognize revenue from these products as brand advertising revenue.

Traditional Display Advertising We offer both graphic and text display advertisements on our website and mobile app. We typically sell these ads on a per-impression basis. We offer businesses display advertising opportunities on our mobile app through display ads that are optimized for the mobile experience, on our home page and on individual web pages.

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Brand Sponsorships

Our fixed-price brand sponsorships provide businesses with exclusivity over a section or advertisement placement on Yelp for a fixed period of time. Brand sponsorships are generally associated with a particular platform – desktop, mobile web or mobile app – and are short in duration.

Other Services

In addition to our business listing and advertising products, we also offer several features and consumer-interactive tools to facilitate transactions between consumers and the local businesses they find on Yelp. We recognize revenue from these sources as other services revenue.

Yelp Platform

The Yelp Platform allows consumers to transact directly on Yelp. Through partnerships with companies including Eat24 (which we acquired in February 2015), Booker, Hipmunk and CellarPass, consumers are currently able to complete food delivery transactions, book spa and salon appointments, and make hotel bookings and winery reservations, all without leaving Yelp.

Yelp Deals

Our Yelp Deals product allows local business owners to create promotional discounted deals for their products and services, which are marketed to consumers through our platform. Yelp Deals typically have a fee structure based solely on transaction volume with no upfront costs, and we typically earn a fee based on the discounted price of each deal sold. We process all customer payments and remit to the business the revenue share of any Yelp Deal purchased.

Gift Certificates

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

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

	Year Ended December 31,		
	2014	2013	2012
Percentage of total net revenue by product:			
Local advertising	85%	83%	79%
Brand advertising	9	12	15
Other services	6	5	6
Total	100%	100%	100%

Our Strategy

Our mission is to connect people with great local businesses. We focus on the following key strategies to grow our business, audience of consumers and advertiser base:

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Accelerate Network Effect

Expand Content. We believe that as the amount of content on our platform grows, our platform will become more widely known and relevant to broader audiences, thus attracting new consumers to use our service. Accordingly, we will continue to explore ways to expand our content and further enable contributors to share their local experiences through detailed reviews, photos, tips and other forms of content contribution across our platform. For example, in the fourth quarter of 2014, we acquired Restaurant Kritik, a German review website, and Cityvox, a French review website. We plan to migrate the content from those sites to the Yelp platform in 2015, thereby increasing the depth and breadth of our European content. In 2014, we also entered into a strategic partnership with YP – the company formerly known as Yellow Pages pursuant to which YP business owner profile data will appear on our platform.

Increase Traffic. As we continue to grow our contributor and consumer footprint within Yelp communities, we expect to benefit from accelerating network effect dynamics, further driving the growth of reviews, consumers and local business activity. In the first quarter of 2014, we entered into a partnership with Yahoo! to use Yelp content to power Yahoo Search in the United States, which we believe will increase our brand recognition and enable us to reach a larger audience. In addition, we expect to redirect traffic from the Restaurant Kritik and Cityvox websites following our planned migration of the content from those sites in 2015. We also plan to continue to invest in the development of our mobile platform to take advantage of the growing number of consumers accessing Yelp through their mobile devices.

Increase Engagement. By continuing to expand our community engagement efforts and providing a more feature-rich experience, we believe we can increase the number of visits and searches per user. In 2014, we added a number of new features aimed at increasing user engagement, including mobile review translations, our Message the Business feature, which allows consumers to contact local businesses directly, and the ability for consumers to upload short videos. In 2014, we also introduced Community Ambassadors – a part-time position similar to Community Managers – to foster and support contributors in certain of our smaller communities.

Enhance Monetization

Attract More Businesses. As of December 31, 2014, we were recognizing revenue from approximately 93.7 thousand local businesses accounts; with approximately 62.4 million local businesses on our platform as of that date, we believe there is significant opportunity to increase the number of local businesses advertising on Yelp. In particular, we believe that the continued expansion of the Yelp Platform, new business owner products and comprehensive tools to measure the effectiveness of our products will encourage businesses to advertise on our platform. For example, in 2014, we launched a Yelp for Business Owners app, designed to make it easier for business owners to engage consumers, and Yelp Reservations, a free tool that allows businesses in the restaurant and nightlife categories to start taking online reservations.

Expand Our Sales Efforts. We plan to continue to grow our sales force and explore sales partnerships so we can reach more businesses. During 2014, we continued to invest aggressively in sales resources. We believe this ongoing investment in our sales force will drive an increase in local businesses advertising on Yelp. In addition, we will continue to explore partnerships, such as our YP partnership, for the sale of our products.

Expand Our Portfolio of Revenue-Generating Products. We plan to continue to grow and develop advertising and e-commerce products and partner arrangements that provide incremental value to our advertisers and business partners to encourage them to increase their advertising budgets allocated towards our platform. In 2014, we continued to expand the Yelp Platform to provide consumers with a continuous experience from discovery to completion of transactions across new verticals. For example, we added the ability for consumers to book spa and salon appointments through Booker, make hotel bookings through Hipmunk and make winery reservations through CellarPass. However, as we explore opportunities to monetize our products, we remain dedicated to adhering to high standards of user experience. We will not incorporate advertising or other products or solutions that we believe may excessively degrade the user experience and potentially alienate users, even if they might result in increased short-term monetization.

Expand Our Reach. We also plan to continue to innovate and introduce our content and solutions on new platforms and distribution channels such as automobile navigation systems, web-enabled televisions and voice-enabled mobile devices. For example, in 2014, we brought Yelp content to wearable devices, such as Intel's MICA intelligent bracelet. In addition, we continue to have relationships with several companies such as Microsoft Corporation and Apple Inc., under which we make our content and solutions available on their website and consumer devices, respectively.

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Marketing

Community Management

We have a team of Community Managers and Community Ambassadors based across the United States and in 28 countries internationally, whose primary goals are to support and grow their local communities of contributors, raise brand awareness and engage with their surrounding communities through:

planning and executing fun and engaging events for the community, such as parties, outings and activities at restaurants, museums, hotels and other local places of interest;

getting to know community members and helping them get to know one another as a way to foster an offline community experience that can be transferred online;

promoting Yelp, including guest appearances on local television and radio, and at local events such as concerts and street fairs; and

writing weekly e-mail newsletters to share information with the community about local businesses, events and activities.

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

There are currently active Yelp communities in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, the Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Community Development

The Yelp communities that we have established to date have generally followed a similar development path: a pre-launch content development phase, followed by the hiring of a Community Manager, leading to review growth and consumer activity, which, at scale, supports our sales efforts to local businesses.

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

Before launching in any country, we license business listing information from third-party data providers and create individual pages for each business location in the entire country. During this pre-launch preparation phase, we sometimes hire temporary local employees, called scouts, to provide additional rich content, such as reviews, photos and hours of operation. To bolster the integrity of the content they provide, we closely monitor their contributions to the platform, prohibit them from reviewing businesses with which they have a conflict of interest and identify them in their public profiles as paid contributors. At launch, consumers can read and write reviews about any business on our platform and contribute information about businesses that are not already listed.

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After launch, we focus on attracting a community of contributors, consumers and local businesses to our platform by hiring a Community Manager to raise brand awareness and foster local engagement as described above. At scale, our platform reaches a critical mass of reviews, consumers and claimed local business accounts, and we begin an active sales effort with local businesses. Thereafter, our largest expense is related to sales efforts to attract local business advertising customers. In Yelp communities that have attained this level of development, we expect to achieve economies of scale and operating cost leverage.

To further illustrate the development of Yelp communities as they scale, we highlight below our review and revenue metrics for three cohorts of Yelp communities in the United States: the Yelp communities that we launched in 2005-2006; the Yelp communities that we launched in 2007-2008; and the Yelp communities that we launched in 2009-2010.

	Number of Yelp Communities ⁽¹⁾	Average Cumulative Reviews as of December 31, 2014 ⁽²⁾	Year-Over- Year Growth in Average Cumulative Reviews ⁽³⁾	Average Local Advertising Revenue in Q4 2014 ⁽⁴⁾	Year-Over- Year Growth in Average Local Advertising Revenue ⁽⁵⁾
U.S. Market Cohort					
2005 2006 Cohort	6	4,728	31%	\$ 6,532	52%
2007 2008 Cohort	14	1,026	34%	\$ 1,802	63%
2009 2010 Cohort	18	344	43%	\$ 470	78%

- (1) A Yelp community, which we previously referred to as a Yelp market, is defined as a city or region in which we have hired a Community Manager.
- (2) Average cumulative reviews is defined as the total cumulative reviews of the cohort as of December 31, 2014 (in thousands), including the reviews that were not recommended or had been removed from our platform, divided by the number of Yelp communities in the cohort.
- (3) Year-over-year growth in average cumulative reviews compares the average cumulative reviews as of December 31, 2014 with the average cumulative reviews as of December 31, 2013.
- (4) Average local advertising revenue is defined as the total local advertising revenue from businesses in the cohort for the quarter ended December 31, 2014 (in thousands), divided by the number of Yelp communities in the cohort.
- (5) Year-over-year growth in average local advertising revenue compares local advertising revenue for the quarter ended December 31, 2014 with local advertising revenue for the quarter ended December 31, 2013.

In general, the Yelp communities in our earlier U.S. community cohorts are more populous than those in later cohorts, and we have already entered many of the largest cities in the United States. For these and other reasons, launching additional communities in the United States may not yield results similar to those of our existing U.S. communities.

Advertising

We have not historically spent significantly on marketing programs, but have focused instead on organic and viral growth driven by our community development efforts as described above. However, we believe there may be significant opportunity to increase our traffic and brand awareness through targeted advertising programs and we began selectively testing advertising to consumers through various online and offline channels in the second half of 2014. We plan to continue our selective advertising efforts in 2015. Our marketing expenses may increase if we significantly expand these efforts to attract additional consumers.

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Sales

We sell our products directly through our sales force, indirectly through partners and online through our website. Our sales force consisted of 1,547 employees as of December 31, 2014 and is located in San Francisco, California; Scottsdale, Arizona; New York, New York; Dublin, Ireland; and Hamburg, Germany. A new sales office in Chicago, Illinois is expected to open in the first quarter of 2015.

Direct Sales. A large majority of our sales force is dedicated to selling our local advertising products. A smaller component of our sales force is responsible for selling display advertisements and brand sponsorships to national advertisers. Local sales representatives are primarily responsible for generating qualified sales leads by identifying and contacting local businesses through direct engagement, direct marketing campaigns and weekly e-mails to claimed local businesses. Although we see opportunity to deepen our relationships with existing customers, to date our sales force has focused on increasing revenue by adding new local advertising accounts. Sales representatives are typically compensated on the basis of revenue booked over a given period.

Sales Partnerships. In 2014, we entered into a partnership with YP under which YP sells certain of our local advertising products as part of a package with its own advertising products to its advertiser base. The products covered by this arrangement include our enhanced profile and Call to Action products. We continue to explore additional partnerships for the sale or bundling of our products.

Self-Service Ads. Our online, or self-service, sales channel allows businesses to purchase local advertising solutions directly from our website. Businesses can purchase performance-based cost-per-click sponsored search advertising directly through this channel.

Technology

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

Search and Ranking Technology. We leverage the data stored on our platform and our proprietary indexing and ranking techniques to provide our users with contextual, relevant and up-to-date results to their search queries. For example, a consumer desiring environmentally friendly carpet cleaners does not have to call individual cleaners to inquire about their use of chemical-based cleaning solutions. Instead, the consumer can search for environmentally-friendly carpet cleaners on Yelp and discover cleaners with the best service and green cleaning products that serve a specific neighborhood.

Recommendation Software. We employ our proprietary automated recommendation software to analyze and screen all reviews submitted to our platform. We believe our recommendation technology is one of the key contributors to the quality and integrity of the reviews on our platform and the success of our service. See *Consumer Protection Efforts* below for additional details regarding our recommendation software.

Mobile Solutions. As mobile device usage has grown over the past several years, we have invested significant resources into the development of a comprehensive mobile platform for consumers supporting the major smartphone operating systems available today, including iOS, Android and Windows Mobile. Over time, we have enhanced the functionality of our mobile platform, such that it provides similar and, in some areas, greater functionality than our website. Some of the innovations we introduced through our mobile platform include check-ins, tips, comments, Nearby and Monocle, our augmented reality feature. Mobile devices accounted for approximately 65% of all searches on our platform in the quarter ended December 31, 2014, and approximately 43% of our unique visitors in the quarter ended December 31, 2014 were to our mobile website. In December 2014, we also launched a mobile app for business owners, designed to make it easier for them to engage with their customers and manage their Yelp profiles. The Yelp for Business Owners app is currently available for iOS and Android.

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Advertising Technologies. We use proprietary ad targeting and delivery technologies designed to provide relevant local advertisements. Our proprietary ad delivery system leverages our unique repository of data to provide useful ads to users and high value leads to advertisers.

Infrastructure. Our web and mobile platforms are currently hosted from multiple locations. The primary and secondary locations are within shared data center environments in California and Virginia. We also host parts of our infrastructure through Amazon Web Services, as well as with third-party leased server providers. Our web and mobile platforms are designed to have high availability, from the Internet connectivity providers we choose, to the servers, databases and networking hardware that we deploy. We design our systems such that the failure of any individual component is not expected to affect the overall availability of our platform. We also leverage other third-party Internet-based (cloud) services such as rich-content storage, map-related services, ad serving and bulk processing.

Network Security. Computer viruses, malware, phishing attacks, denial-of-service and other attacks and similar disruptions from unauthorized use of computer systems have become more prevalent in our industry, have occurred on our systems in the past, and we expect them to occur periodically on our systems in the future. For this reason, our platform includes a host of encryption, antivirus, firewall and patch-management technologies designed to help protect and maintain the systems located at data centers as well as other systems and computers across our business.

Consumer Protection Efforts

Our success depends on our ability to maintain consumer trust in our solutions and in the quality and integrity of the user content and other information found on our platform. We dedicate significant resources to the goal of maintaining and enhancing the quality, authenticity and integrity of the reviews on our platform, primarily through the following methods:

Automated Recommendation Software. We use proprietary software to analyze the reliability and utility of each review submitted to our platform. The software applies the same objective standards to each review based on a wide range of data associated with each review and reviewer regardless of the business being reviewed. The results of this analysis can change over time as the software factors in new information, which may result in reviews that were previously recommended becoming not recommended, and reviews that were previously not recommended being restored to recommended status. Reviews that the software deems to be the most useful and reliable are published directly on business listing pages, though neither we nor the software purport to establish whether or not any individual review is authentic. As of December 31, 2014, our software was recommending approximately 70% of the reviews submitted to our platform. Reviews that are not recommended are published on secondary pages and do not factor into a business's overall star rating. As of December 31, 2014, 23% of the reviews submitted to our platform were not recommended but still accessible on our platform.

Sting Operations. We routinely conduct sting operations to identify businesses and individuals who offer or receive cash, discounts or other benefits in exchange for reviews. For example, we may respond to advertisements offering to pay for reviews that are posted on Craigslist, Facebook and other platforms. We also receive and investigate tips from our users about potential paid reviews. If we identify or confirm any such issues through our investigations and operations, we typically pursue one or more of the courses of action described below (each of which we may also employ on a stand-alone basis).

Consumer Alerts Program. We issue consumer alert warnings on business listing pages from time to time when we encounter suspicious activity that we believe is indicative of attempts to deceive or mislead consumers. For example, we may issue a consumer alert if we encounter a business attempting to purchase favorable reviews or a large number of favorable reviews submitted from the same Internet Protocol address. Consumer alerts generally remain in effect for 90 days, or longer if the deceptive practices continue.

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Coordination with Law Enforcement. We regularly cooperate with law enforcement and consumer protection agencies to investigate and identify businesses and individuals who may be engaged in false advertising or deceptive business practices relating to reviews. For example, in 2013, we assisted the New York Attorney General with Operation Clean Turf, an undercover investigation targeting review manipulation that resulted in 19 companies agreeing to pay more than \$350,000 in fines to the State of New York.

Legal Action. Our terms of service prohibit the buying and selling of reviews, as well as writing fake reviews. In egregious cases, we take legal action against businesses we believe to be engaged in deceptive practices based on these prohibitions.

Removal of Reviews. We regularly remove reviews from our platform that we believe violate our terms of service, including, without limitation: fake or defamatory reviews; content that has been bought, sold or traded; threatening, harassing or lewd content, as well as hate speech and other displays of bigotry; and content that violates the rights of any third party or any applicable law. Users can access information about reviews that we have removed for a particular business by clicking on a link on the business's listing page. As of December 31, 2014, 7% of the reviews submitted to our platform had been removed.

Intellectual Property

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

In addition to these contractual arrangements, we also rely on a combination of trade secrets, copyrights, trademarks, service marks and domain names to protect our intellectual property. We pursue the registration of our copyrights, trademarks, service marks and domain names in the United States and in certain locations internationally. Our registration efforts have focused on gaining protection of our trademarks for Yelp and the Yelp burst logo, among others. These marks are material to our business and essential to our brand identity as they enable others to easily identify us as the source of the services offered under these marks.

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

Companies in the Internet, technology and media industries own large numbers of patents and other intellectual property rights, and frequently request license agreements, or threaten or enter into litigation based on allegations of infringement or other violations of such rights. We do not own any patents and, therefore, may be unable to deter competitors or others from pursuing patent or other intellectual property infringement claims against us. From time to time, we receive notice letters from patent holders alleging that certain of our products and services infringe their patent rights. We are also currently subject to, and expect to face in the future, allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties, including our competitors and non-practicing entities. As we face increasing competition and as our business grows, we will likely face more claims of infringement.

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Competition

The market for information regarding local businesses and advertising is intensely competitive and rapidly changing. We compete for consumer traffic with traditional, offline local business guides and directories as well as other online providers of local and web search. We also compete for a share of local businesses' overall advertising budgets with traditional, offline media companies and other Internet marketing providers. Our competitors include the following types of businesses:

Offline. Competitors include offline media companies and service providers, many of which have existing relationships with local businesses. Services provided by competitors range from yellow pages listings to direct mail campaigns to advertising and listing services in local newspapers, magazines, television and radio.

Online. Competitors also include Internet search engines, such as Google, Yahoo! and Bing, review and social media websites as well as various other online service providers. These include regional websites that may have strong positions in particular markets. Our competitors may enjoy competitive advantages, such as greater name recognition, longer operating histories, substantially greater market share, established marketing relationships with, and access to, large existing user bases and substantially greater financial, technical and other resources. These companies may use these advantages to offer products similar to ours at a lower price, develop different products to compete with our current solutions and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements. Certain competitors could also use strong or dominant positions in one or more markets to gain competitive advantage against us in markets in which we operate.

We compete on the basis of a number of factors. We compete for consumer traffic on the basis of factors including: the reliability of our content; the breadth, depth and timeliness of information; and the strength and recognition of our brand. We compete for local businesses' advertising budgets on the basis of factors including: the size of our consumer audience; the effectiveness of our advertising solutions; our pricing structure; and recognition of our brand.

Government Regulation

As a company conducting business on the Internet, we are subject to a variety of laws in the United States and abroad that involve matters central to our business, including laws regarding privacy and data retention, distribution of user-generated content, consumer protection and data protection, among others. For example:

Privacy. Because we receive, store and process personal information and other user data, including credit card information in certain cases, we are subject to numerous federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other user data.

Liability for Third-Party Action. We rely on laws limiting the liability of providers of online services for activities of their users and other third parties.

Advertising. We are subject to a variety of laws, regulations and guidelines that regulate the way we distinguish paid search results and other types of advertising from unpaid search results.

Information Security and Data Protection. The laws in several states require companies to implement specific information security controls to protect certain types of information. Likewise, all but a few states have laws in place requiring companies to notify users if there is a security breach that compromises certain categories of their information.

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Many of these laws and regulations are still evolving and could be interpreted in ways that harm our business. The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate. They may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For example, regulatory frameworks for privacy issues are currently in flux worldwide, and are likely to remain so for the foreseeable future. Similarly, laws providing immunity to websites that publish user-generated content are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement and other theories based on the nature and content of the materials searched, the ads posted or the content provided by users. Changes in existing laws or regulations or their interpretations, as well as new legislation or regulations, could increase our administrative costs and make it more difficult for consumers to use our platform, resulting in less traffic and revenue. Such changes could also make it more difficult for us to provide effective advertising tools to businesses on our platform, resulting in fewer advertisers and less revenue.

As our business grows and evolves and our solutions are used in a greater number of countries, we will also become subject to laws and regulations in additional jurisdictions. Foreign data protection, privacy and other laws and regulations can be more restrictive than those in the United States. Any failure on our part to comply with these laws may subject us to significant liabilities.

Our Culture and Employees

We take great pride in our company culture and consider it to be one of our competitive strengths. Our culture is at the foundation of our success, and it continues to help drive our business forward as a pivotal part of our everyday operations. It allows us to attract and retain a talented group of employees, create an energetic work environment and continue to innovate in a highly competitive market. As of December 31, 2014, we had 2,711 full-time employees globally.

Our culture extends beyond our offices and into the local communities in which people use Yelp. Our community management team's responsibilities include supporting the sharing of experiences by consumers in the local markets that they serve and increasing brand awareness. We organize events several times a year to recognize our most important contributors, facilitating face-to-face interactions, building the Yelp brand and fostering the sense of true community in which we believe so strongly. We also engage with small businesses. For example, in 2010, we created the Yelp Small Business Advisory Council as a way to interact with and get feedback from our core community of local business owners. We have also worked with the U.S. Small Business Administration and other partners to educate small business owners across the United States on best practices for online marketing.

In addition, The Yelp Foundation, a non-profit organization established by our board of directors in November 2011, or the Foundation, directly supports consumers and local businesses in the communities in which we operate. In the quarter ended December 31, 2011, our board of directors approved the contribution and issuance to the Foundation of 520,000 shares of our common stock, of which the Foundation had sold 100,000 shares as of December 31, 2014. The Foundation uses the proceeds from the sale of its shares of our common stock to make grants to local non-pr